

*College Accounting, 13e (Slater)*

**Chapter 2 Debits and Credits: Analyzing and Recording Business Transactions**

**2.1 Learning Objective 2-1**

1) Accounts Payable had a normal starting balance of \$500. There were debit postings of \$200 and credit postings of \$100 during the month. The ending balance is:

- A) \$400 credit.
- B) \$800 debit.
- C) \$400 debit.
- D) \$800 credit.

Answer: A

Diff: 2

LO: 2-1

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

2) The beginning balance in the Computers account was \$3,000. The company purchased an additional \$1000 worth of computers. The ending balance in the account is:

- A) debit of \$2,000.
- B) credit of \$3,000.
- C) debit of \$4,000.
- D) credit of \$2,000.

Answer: C

Diff: 1

LO: 2-1

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

3) An accounting device used to record increases and decreases in individual assets, liabilities, capital, revenue, expenses, and withdrawals is a(n):

- A) chart of accounts.
- B) account.
- C) trial balance.
- D) footing.

Answer: B

Diff: 2

LO: 2-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

4) A formal account that has columns for date, explanation, posting reference, debit, and credit is called the:

- A) T account.
- B) standard account form.
- C) ledger.
- D) chart of accounts.

Answer: B

Diff: 2

LO: 2-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

5) A ledger:

- A) includes all company accounts and their balances.
- B) can replace the financial statements.
- C) is the same as a chart of accounts.
- D) is known as a worksheet.

Answer: A

Diff: 1

LO: 2-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

6) The left side of any account is the:

- A) debit side.
- B) credit side.
- C) ending balance.
- D) beginning balance.

Answer: A

Diff: 1

LO: 2-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

7) The right side of any account is the:

- A) debit side.
- B) credit side.
- C) ending balance.
- D) beginning balance.

Answer: B

Diff: 1

LO: 2-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

8) An account is said to have a debit balance if:

- A) the footing of the debits exceeds the footing of the credits.
- B) there are more entries on the debit side than on the credit side.
- C) its normal balance is debit without regard to the amounts or number of entries on the debit side.
- D) the last entry of the accounting period was posted on the debit side.

Answer: A

Diff: 2

LO: 2-1

AACSB: Analytical Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

9) The ledger is:

- A) a group of accounts that records data from business transactions.
- B) a tool used to insure that all accounts have normal balances.
- C) a chronological record of the day's transactions.
- D) a tool used to ensure that debits equal credits.

Answer: A

Diff: 1

LO: 2-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

10) The credit side is always the left side of the account.

Answer: FALSE

Diff: 1

LO: 2-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

11) A T account is used for demonstration purposes.

Answer: TRUE

Diff: 2

LO: 2-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

12) Explain the difference between expenses and withdrawals.

Answer: A withdrawal is used for recording the owner's withdrawal of company assets for personal use, and not related to the business. Expenses are costs the company incurs in carrying on operations in its effort to create revenue.

Diff: 2

LO: 2-1

AACSB: Written and Oral Communication

Learning Outcome: Define accounting terms, accounting concepts and principles

## 2.2 Learning Objective 2-2

1) A compound entry is:

- A) a transaction involving more than one debit and/or credit.
- B) used to prepare the trial balance.
- C) included on the balance sheet.
- D) found on the income statement.

Answer: A

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

2) The side that increases the account balance, by the rules of debit and credit, is said to be the:

- A) debit side.
- B) credit side.
- C) normal balance.
- D) None of these answers is correct.

Answer: C

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

3) The Accounts Payable account is:

- A) a capital, and it has a normal debit balance.
- B) an expense, and it has a normal credit balance.
- C) a liability, and it has a normal debit balance.
- D) a liability, and it has a normal credit balance.

Answer: D

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

4) An account that would be increased by a credit is:

- A) Cash.
- B) Prepaid Expense.
- C) Utilities Expense.
- D) Accounts Payable.

Answer: D

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

- 5) A debit may signify a(n):
- A) increase in asset accounts.
  - B) increase in liability accounts.
  - C) increase in the revenue account.
  - D) decrease in expense accounts.

Answer: A

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

- 6) A credit may signify a(n):
- A) increase in assets.
  - B) decrease in liabilities.
  - C) increase in revenue.
  - D) increase in withdrawals.

Answer: C

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

- 7) Which of the following types of accounts has a normal credit balance?

- A) Withdrawals
- B) Assets
- C) Expenses
- D) Revenues

Answer: D

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

- 8) Which of the following types of accounts has a normal debit balance?

- A) Withdrawals
- B) Assets
- C) Expenses
- D) All of these answers are correct.

Answer: D

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

9) When recording transactions in two or more accounts and the totals of the debits and credits are equal, it is called:

- A) debiting.
- B) crediting.
- C) balancing.
- D) double-entry bookkeeping.

Answer: D

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

10) Which of the following groups of accounts have a normal debit balance?

- A) Revenue, liabilities, and capital
- B) Assets, capital, and withdrawals
- C) Liabilities, expenses, and assets
- D) Assets, expenses, and withdrawals

Answer: D

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

11) Which of the following accounts would be increased by a debit?

- A) Cash
- B) Accounts Payable
- C) Capital
- D) Service Revenue

Answer: A

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

12) What is a proper entry to show the owner making an investment in the company?

- A) A credit to Cash and a debit to Capital
- B) A debit to Cash and a credit to Capital
- C) A debit to Cash and a credit to Revenue
- D) A credit to Cash and a debit to Revenue

Answer: B

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

13) Which of the following entries would be used to record the billing of fees earned?

- A) Debit Accounts Receivable and credit Rental Fees
- B) Credit Cash and credit Rental Fees
- C) Debit Accounts Payable and credit Rental Fees
- D) Debit Cash and debit Rental Fees

Answer: A

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

14) Which of the statements of the rules of debit and credit is true?

- A) Decrease Accounts Receivable with a credit and the normal balance is a credit.
- B) Increase Accounts Payable with a credit and the normal balance is a credit.
- C) Increase Revenue with a debit and the normal balance is a debit.
- D) Decrease Cash with a debit and the normal balance is a debit.

Answer: B

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

15) Which of the following entries records the investment of cash by John, owner of a sole proprietorship?

- A) Debit John, Capital; credit Cash
- B) Debit Cash; credit Revenue
- C) Debit John, Withdrawals; credit Cash
- D) Debit Cash; credit John, Capital

Answer: D

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

16) Dennis, owner of Dennis's Golf Center, withdrew \$900 in cash from the business. Record the transaction by:

- A) debiting Dennis, Withdrawals, \$900; crediting Cash, \$900.
- B) debiting Accounts Receivable, \$900; crediting Cash, \$900.
- C) debiting Expense, \$900; crediting Cash, \$900.
- D) debiting Dennis, Withdrawals, \$900; crediting Dennis, Capital, \$900.

Answer: A

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

17) The entry to record Tom's payment of a home telephone bill is:

- A) debit Accounts Payable; credit Telephone Expense.
- B) debit Tom, Withdrawals; credit Cash.
- C) debit Telephone Expense; credit Cash.
- D) debit Tom, Withdrawals; credit Accounts Payable.

Answer: B

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

18) Extreme Home bought painting equipment on account for \$3,000. The entry would include:

- A) debit to Supplies Expense, \$3,000; credit to Cash, \$3,000.
- B) debit to Equipment, \$3,000; credit to Cash, \$3,000
- C) debit to Equipment, \$3,000; credit to Accounts Payable, \$3,000.
- D) debit to Supplies Expense, \$3,000; credit to Accounts Payable, \$3,000.

Answer: C

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

19) The owner of BobCats R Us paid his personal MasterCard bill using a company check. The correct entry to record the transaction is:

- A) credit Cash; debit Capital.
- B) credit Cash; debit Supplies Expense.
- C) credit Cash; debit Withdrawals.
- D) credit Cash; debit Accounts Receivable.

Answer: C

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

20) Carrie flew to San Francisco on a business trip that will be reimbursed by her employer. The purchase price of the ticket was \$500 and it was bought on account. The entry to record the transaction is:

- A) debit Accounts Payable, \$500; credit Travel Expense, \$500.
- B) debit Capital, \$500; credit Accounts Payable, \$500.
- C) debit Travel Expense, \$500; credit Accounts Payable, \$500.
- D) debit Travel Expense, \$500; credit Cash, \$500.

Answer: C

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements



21) The Accounts Receivable account has total debit postings of \$2,000 and credit postings of \$1,200. The balance of the account is:

- A) \$800 debit.
- B) \$800 credit.
- C) \$2,600 credit.
- D) \$2,600 debit.

Answer: A

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

22) The Salaries Payable account has total debit postings of \$800 and credit postings of \$1,500. The ending balance of the account is:

- A) \$2,300 debit.
- B) \$700 credit.
- C) \$2,300 credit.
- D) \$700 debit.

Answer: B

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

23) Office Supplies had a normal starting balance of \$75. There were debit postings of \$80 and credit postings of \$60 during the month. The ending balance of the account is:

- A) \$55 debit.
- B) \$55 credit.
- C) \$95 debit.
- D) \$95 credit.

Answer: C

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

24) Cash has a normal balance of \$1,100. After collecting \$800, the balance in the account is:

- A) debit \$300.
- B) debit \$1,900.
- C) credit \$300.
- D) credit \$1,900.

Answer: B

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

25) The beginning balance in Cash was \$4,000. Additional cash of \$2,000 was received. Checks were written totaling \$2,500. The ending balance in cash is:

- A) \$2,000.
- B) \$6,000.
- C) \$4,500.
- D) \$3,500.

Answer: D

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

26) A credit to an asset account was posted as a credit to the Capital account. This error would cause:

- A) assets to be overstated.
- B) liabilities to be overstated.
- C) capital to be understated.
- D) Both A and C are correct.

Answer: A

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

27) A credit to a liability account was posted as a credit to an expense account. This error would cause:

- A) assets to be overstated.
- B) liabilities to be overstated.
- C) expenses to be overstated.
- D) liabilities to be understated.

Answer: D

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

28) A debit to an expense account was posted as a debit to a revenue account. This error would cause:

- A) assets to be overstated.
- B) liabilities to be overstated.
- C) revenue to be understated.
- D) None of the above is correct.

Answer: C

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

29) A credit to an asset account was posted as a credit to a revenue account. This error would cause:

- A) assets to be overstated.
- B) revenue to be overstated.
- C) expenses to be overstated.
- D) Both A and B are correct.

Answer: D

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

30) A debit to a liability account was posted as a debit to the Capital account. This error would cause:

- A) assets to be overstated.
- B) liabilities to be overstated.
- C) capital to be overstated.
- D) None of the above is correct.

Answer: B

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

31) A debit to an asset account was posted as a debit to an expense account. This error would cause:

- A) liabilities to be overstated.
- B) expenses to be overstated.
- C) assets to be understated.
- D) Both B and C are correct.

Answer: D

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

32) A debit to a liability account was posted as a debit to a revenue account. This error would cause:

- A) revenues to be understated.
- B) liabilities to be understated.
- C) revenue to be overstated.
- D) None of the above is correct.

Answer: A

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

33) A debit to an asset account was posted as a debit to a liability account. This error would cause:

- A) assets to be understated.
- B) liabilities to be overstated.
- C) capital to be understated.
- D) None of the above is correct.

Answer: A

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

34) The chart of accounts:

- A) is a numbered list of all of the business's accounts.
- B) allows accounts to be located quickly.
- C) can be expanded as the business grows.
- D) All of the above are correct.

Answer: D

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

35) A credit to an asset account was posted as a credit to a liability account. This error would cause:

- A) assets to be understated.
- B) liabilities to be overstated.
- C) capital to be understated.
- D) None of the above is correct.

Answer: B

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

36) The business incurred an expense and paid it immediately. To record this:

- A) an expense is debited and a liability is credited.
- B) an expense is debited and an asset is credited.
- C) an asset is debited and asset is credited.
- D) None of these is correct.

Answer: B

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

37) The business provided services to a credit customer. To record this:

- A) an asset is debited and a liability is credited.
- B) an asset is debited and a revenue is credited.
- C) an expense is debited and Capital is credited.
- D) None of these is correct.

Answer: B

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

38) The owner invested personal equipment in the business. To record this transaction:

- A) debit Equipment and credit Revenue.
- B) debit Accounts Payable and credit Equipment.
- C) debit Equipment and credit Capital.
- D) credit Equipment and debit Capital.

Answer: C

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

39) Which of the following errors would cause the trial balance to be out of balance?

- A) An entry is posted twice.
- B) An entry is not posted at all.
- C) A debit is entered as \$500 and the credit is entered at \$5,000.
- D) None of these answers is correct.

Answer: C

Diff: 3

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

40) The business bought supplies with cash. To record this:

- A) an expense is debited and a liability is credited.
- B) an asset is debited and an asset is credited.
- C) an asset is debited and a liability is credited.
- D) None of these is correct.

Answer: B

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

41) A liability would be credited and an expense debited if:

- A) the business paid a creditor.
- B) the business incurred an expense and did not pay the expense immediately.
- C) the business bought supplies on account.
- D) the business bought supplies for cash.

Answer: B

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

42) One asset would be debited and another credited if:

- A) the business provided services to a cash customer.
- B) the business paid a creditor.
- C) the business bought supplies paying cash.
- D) the business provided services to a credit customer.

Answer: C

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

43) An asset would be debited and a liability credited if:

- A) the business bought supplies for cash.
- B) the business incurred an expense and paid it.
- C) the business bought equipment on account.
- D) None of these is correct.

Answer: C

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

44) What would be the effect on the accounts if the business provided services to a customer on account?

- A) An asset would be debited and an expense credited.
- B) Capital would be debited and Revenue credited.
- C) An asset would be debited and Revenue credited.
- D) An asset would be debited and Capital credited.

Answer: C

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

45) What would be the effect on the accounts if the business provided services to a customer collecting cash?

- A) An asset would be debited and an expense debited.
- B) Capital would be credited and Revenue credited.
- C) An asset would be debited and Revenue credited.
- D) An asset would be debited and Capital credited.

Answer: C

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

46) What would be the effect on the accounts if the owner withdrew cash?

- A) An asset would be credited and an expense credited.
- B) Withdrawals would be debited and an asset credited.
- C) An asset would be debited and a revenue credited.
- D) An expense would be debited and Capital credited.

Answer: B

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

47) What would be the effect on the accounts if the business purchased office supplies for cash?

- A) An asset would be debited and an expense debited.
- B) Expense would be debited and Revenue credited.
- C) An asset would be debited and Revenue credited.
- D) An asset would be debited and an asset credited.

Answer: D

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

48) What would be the effect on the accounts if the business received the telephone bill but did not pay it immediately?

- A) An expense would be debited and a liability credited.
- B) Capital would be debited and Revenue credited.
- C) An expense would be debited and an asset credited.
- D) An asset would be debited and Capital credited.

Answer: A

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

49) An account that would be increased by a debit is:

- A) Cash.
- B) Fees Earned.
- C) Capital.
- D) Accounts Payable.

Answer: A

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

50) Which of the following groups of accounts have a normal credit balance?

- A) Revenue, liabilities, and capital
- B) Assets, capital, and withdrawals
- C) Liabilities, expenses, and assets
- D) Assets, expenses, and withdrawals

Answer: A

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

51) A chart of accounts:

- A) is set up in alphabetical order.
- B) is a list of customer accounts.
- C) is a listing of all the accounts used by a company.
- D) All of the above are correct.

Answer: C

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

52) Accounts receivable decrease on the debit side of the account.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

53) In accrual basis accounting, revenues are only recorded when cash is received.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles



54) Cash is credited when the business makes a payment for supplies.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

55) Debits must always equal credits in a transaction or journal entry.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

56) The debit side of all accounts decreases the balance and the credit side increases all accounts.

Answer: FALSE

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

57) The debit side is always the left side of the account.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

58) A transaction that involves more than one credit or more than one debit is called a compound entry.

Answer: TRUE

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

59) The side of an account that increases the balance is always the same as the normal balance side.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

60) Double-entry accounting requires transactions to affect two or more accounts, and the total of the debits and credits must equal.

Answer: TRUE

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

61) Two accounts are affected in every transaction.

Answer: TRUE

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

62) Withdrawals increase on the credit side of the account.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

63) After deciding which accounts are affected, the next step in analyzing a transaction is to determine to which categories the accounts belong.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

64) Equipment is an example of a capital account.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

65) A compound entry is when more than one transaction occurs.

Answer: FALSE

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

66) When the owner invests personal equipment in the business, cash is decreased.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

67) Accounts Receivable indicates amounts owed to us by our clients or creditors.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

68) Accounts Payable indicates monies owed to us by our clients or customers.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

69) Expenses are recorded when incurred.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

70) Accounts Payable is an asset account that is increased on the credit side.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

71) The Accounts Receivable account is increased by a debit.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

72) Why is Revenue increased on the Credit side? (Explain as it pertains to the expanded accounting equation and its relationship to Owner's Equity.)

Answer: Revenue is an increase to owner's equity; Capital is increased on the credit side.

Diff: 1

LO: 2-2

AACSB: Written and Oral Communication

Learning Outcome: Define accounting terms, accounting concepts and principles

73) Selected accounts from the ledger of Thomas Company appear below. For each account, indicate the following:

a. In the first column at right, indicate the type of each account using the following abbreviations:

Asset - A      Revenue - R      None of the above - N      Liability - L      Expense - E

b. In the second column, indicate the normal balance of the account by inserting a Dr. or Cr.

Account	Type of Account	Normal Balance
1. Office Supplies	_____	_____
2. Accounts Receivable	_____	_____
3. Fees Earned	_____	_____
4. Thomas, Withdrawals	_____	_____
5. Accounts Payable	_____	_____
6. Salaries Expense	_____	_____
7. Thomas, Capital	_____	_____
8. Accounts Receivable	_____	_____
9. Equipment	_____	_____
10. Telephone Expense	_____	_____

Answer:

Account	Type of Account	Normal Balance
1. Office Supplies	A	Dr
2. Accounts Receivable	A	Dr
3. Fees Earned	R	Cr
4. Thomas, Withdrawals	N	Dr
5. Accounts Payable	L	Cr
6. Salaries Expense	E	Dr
7. Thomas, Capital	N	Cr
8. Accounts Receivable	A	Dr
9. Equipment	A	Dr
10. Telephone Expense	E	Dr

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

74) Identify the normal balance for each of the following accounts by placing a Dr. (debit) or a Cr. (credit) in the space provided.

- \_\_\_\_\_ 1. Computer
- \_\_\_\_\_ 2. M. Bryant, Withdrawals
- \_\_\_\_\_ 3. M. Bryant, Capital
- \_\_\_\_\_ 4. Legal Fees Earned
- \_\_\_\_\_ 5. Cash
- \_\_\_\_\_ 6. Accounts Receivable
- \_\_\_\_\_ 7. Accounts Payable
- \_\_\_\_\_ 8. Rent Expense
- \_\_\_\_\_ 9. Office Equipment
- \_\_\_\_\_ 10. Supplies

Answer:

- 1. Dr.
- 2. Dr.
- 3. Cr.
- 4. Cr.
- 5. Dr.
- 6. Dr.
- 7. Cr.
- 8. Dr.
- 9. Dr.
- 10. Dr.

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

75) Identify whether a debit or credit would be correct for each of the following account changes. Use a Dr. (debit) or Cr. (credit) in the space provided.

- \_\_\_\_\_ 1. Increase Delivery Van
- \_\_\_\_\_ 2. Increase Accounts Receivable
- \_\_\_\_\_ 3. Increase Accounts Payable
- \_\_\_\_\_ 4. Increase Salaries Expense
- \_\_\_\_\_ 5. Increase Service Fees Earned
- \_\_\_\_\_ 6. Decrease Cash
- \_\_\_\_\_ 7. Increase S. McCrae, Capital
- \_\_\_\_\_ 8. Increase S. McCrae, Withdrawals
- \_\_\_\_\_ 9. Increase Rent Expense
- \_\_\_\_\_ 10. Increase Equipment

Answer:

- 1. Dr.
- 2. Dr.
- 3. Cr.
- 4. Dr.
- 5. Cr.
- 6. Cr.
- 7. Cr.
- 8. Dr.
- 9. Dr.
- 10. Dr.

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

76) Below is a chart of accounts. Following is a series of transactions. Indicate for each transaction the accounts that should be debited and credited by inserting the proper account number in the space provided.

111 Cash	312 R. Andrews, Withdrawals
112 Accounts Receivable	411 Service Fees Earned
121 Office Equipment	511 Salaries Expense
211 Accounts Payable	512 Rent Expense
311 R. Andrews, Capital	513 Advertising Expense

Debit	Credit	Transaction
_____	_____	1. Purchased office equipment with cash.
_____	_____	2. Paid salaries for the week.
_____	_____	3. Invested additional cash in the business.
_____	_____	4. Received cash on account.
_____	_____	5. Billed a client on account for services performed.
_____	_____	6. Paid accounts payable.
_____	_____	7. Collected accounts receivable.
_____	_____	8. Withdrew cash for personal use.
_____	_____	9. Paid advertising expense.
_____	_____	10. Paid rent expense for the month.

Answer:

1. 121 111
2. 511 111
3. 111 311
4. 111 112
5. 112 411
6. 211 111
7. 111 112
8. 312 111
9. 513 111
10. 512 111

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

77) A chart of accounts is below. Following is a series of transactions. Indicate for each transaction the accounts that should be debited and credited by inserting the proper account number in the space provided.

111 Cash	312 C. Webster, Withdrawals
112 Accounts Receivable	411 Delivery Fees Earned
121 Delivery Equipment	511 Salaries Expense
211 Accounts Payable	512 Rent Expense
311 C. Webster, Capital	513 Advertising Expense
	514 Gas Expense

Debit	Credit	Transaction
_____	_____	1. Invested cash in the business.
_____	_____	2. Received cash for delivery services performed.
_____	_____	3. Billed a customer for services performed.
_____	_____	4. Paid accounts payable.
_____	_____	5. Collected accounts receivable.
_____	_____	6. Withdrew cash for personal use.
_____	_____	7. Paid advertising expense.
_____	_____	8. Paid rent expense for the month.
_____	_____	9. Purchased delivery equipment on account.
_____	_____	10. Paid salaries for the week.

Answer:

1. 111    311
2. 111    411
3. 112    411
4. 211    111
5. 111    112
6. 312    111
7. 513    111
8. 512    111
9. 121    211
10. 511    111

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements



78) The following transactions occurred during June for Campus Cycle Shop. Record the transactions below in the T accounts. Place the letter of the transaction next to the entry. Foot and calculate the ending balances of the T accounts where appropriate.

- a. Tyler invested \$6500 in the bike service from his personal savings account.
- b. Bought office equipment for cash, \$900.
- c. Performed bike service for a customer on account, \$1,000.
- d. Company cell phone bill received, but not paid, \$80.
- e. Collected \$500 from customer in transaction c.
- f. Tyler withdrew \$300 for personal use.

Cash	111

Accounts Receivable	112

Office Equipment	112

Accounts Payable	211

Tyler, Capital	311

Tyler, Withdrawals	312

Bike Fees Earned	411

Telephone Expense	512

Answer:

Cash	111
a. 6,500	b. 900
<u>e. 500</u>	<u>f. 300</u>
5,800	

Accounts Receivable	112
<u>c. 1,000</u>	<u>e. 500</u>
500	

Office Equipment	112
b. 900	

Accounts Payable	211
	d. 80

Tyler, Capital	311
a. 6,500	

Tyler, Withdrawals	312
f. 300	

Bike Fees Earned	411
c. 1,000	

Telephone Expense	512
d. 80	

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

For each of the following, identify in Column 1 the category to which the account belongs, in Column 2 the normal balance for the account, and in Column 3 the financial statement that the account appears upon.

79)

	Column 1	Column 2	Column 3
Postage Expense			

Answer:

	Column 1	Column 2	Column 3
Postage Expense	expense	debit	income statement

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

80)

	Column 1	Column 2	Column 3
Equipment			

Answer:

	Column 1	Column 2	Column 3
Equipment	asset	debit	balance sheet

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

81)

	Column 1	Column 2	Column 3
Building			

Answer:

	Column 1	Column 2	Column 3
Building	asset	debit	balance sheet

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

82)

	Column 1	Column 2	Column 3
Cleaning Expense			

Answer:

	Column 1	Column 2	Column 3
Cleaning Expense	expense	debit	income statement

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

83)

	Column 1	Column 2	Column 3
Cleaning Fees Earned			

Answer:

	Column 1	Column 2	Column 3
Cleaning Fees Earned	revenue	credit	income statement

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

84)

	Column 1	Column 2	Column 3
Salaries Expense			

Answer:

	Column 1	Column 2	Column 3
Salaries Expense	expense	debit	income statement

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

85)

	Column 1	Column 2	Column 3
Installation Fees Earned			

Answer:

	Column 1	Column 2	Column 3
Installation Fees Earned	revenue	credit	income statement

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

86)

	Column 1	Column 2	Column 3
Lawn Care Fees Earned			

Answer:

	Column 1	Column 2	Column 3
Lawn Care Fees Earned	revenue	credit	income statement

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

87)

	Column 1	Column 2	Column 3
Supplies			

Answer:

	Column 1	Column 2	Column 3
Supplies	asset	debit	balance sheet

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

## 2.3 Learning Objective 2-3

1) Which of the following is NOT a financial statement?

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

Answer: D

Diff: 1

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

2) A list of all the accounts from the ledger with their ending balances is called a:

- A) normal balance.
- B) trial balance.
- C) chart of accounts.
- D) bank statement.

Answer: B

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

3) Which of the following is prepared first?

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

Answer: D

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

4) Given the following list of accounts with normal balances, what are the trial balance totals of the debits and credits?

Cash	\$1,100
Accounts Receivable	800
Capital	1,900
Accounts Payable	500
Service Fees Earned	1,000
Rent Expense	1,500

- A) \$3400 debit, \$3400 credit
- B) \$3,900 debit, \$3,900 credit
- C) \$2,000 debit, \$2,000 credit
- D) \$1,200 debit, \$1,200 credit

Answer: A

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

5) Given the following list of accounts with normal balances, what are the trial balance totals of the debits and credits?

Cash	\$1,000
Equipment	500
Accounts Payable	350
Capital	900
Service Fees Earned	1,000
Salaries Expense	750

- A) \$3,250 debit, \$3,250 credit
- B) \$1,125 debit, \$1,125 credit
- C) \$4,500 debit, \$4,500 credit
- D) \$2,250 debit, \$2,250 credit

Answer: D

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

6) Which type of account would NOT be reported on the income statement?

- A) Revenue
- B) Expenses
- C) Liabilities
- D) None of these answers is correct.

Answer: C

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

7) Prepaid expense would appear on which financial statement?

- A) Balance Sheet
- B) Income Statement
- C) Owner's Equity Statement
- D) None of these answers is correct.

Answer: A

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

8) The left column of a financial statement is often used to:

- A) show debits.
- B) show credits.
- C) show totals.
- D) subtotal numbers.

Answer: D

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

9) The beginning balance in the Capital account would appear on which financial statement?

- A) Statement of Owner's Equity
- B) Balance Sheet
- C) Income Statement
- D) None of these answers is correct.

Answer: A

Diff: 3

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

10) The income statement contains:

- A) liabilities.
- B) revenues.
- C) assets.
- D) Both B and C are correct.

Answer: B

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

11) On which financial statement would you find the ending balance in the Capital account?

- A) Income Statement
- B) Balance Sheet
- C) Statement of Owner's Equity
- D) Both B and C are correct.

Answer: D

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

12) Which of the following is prepared last?

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

Answer: A

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

13) Net income or net loss for a period is calculated by the following formula:

- A) total revenues - total liabilities.
- B) total revenues - total expenses - total withdrawals + assets.
- C) total revenues - total expenses.
- D) total revenues - total expenses + capital.

Answer: C

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles



14) Which type of account would NOT be reported on the balance sheet?

- A) Expense
- B) Cash
- C) Accounts Payable
- D) Equipment

Answer: A

Diff: 1

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

15) What is X-cel Company's net income or net loss if it had Revenue of \$1,800, Salary Expense of \$500, Utility Expense of \$250, and Withdrawals of \$5,000 during October?

- A) \$50 net income
- B) \$1,050 net loss
- C) \$1,050 net income
- D) \$50 net loss

Answer: C

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

16) The income statement is a financial statement.

Answer: TRUE

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

17) The financial statements contain debit and credit columns.

Answer: FALSE

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

18) Withdrawals and expenses are reported on the income statement.

Answer: FALSE

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

19) Accounts Payable appears on the income statement.

Answer: FALSE

Diff: 1

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

20) Wages Expense appears on the balance sheet.

Answer: FALSE

Diff: 1

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

21) Determine the ending owner's equity of a business having a beginning owner's equity of \$8,500, additional investments of \$600, withdrawals of \$1,000, and net income of \$1,200.

\$ \_\_\_\_\_

Answer: \$9,300 [ $\$8,500 + \$600 - \$1,000 + 1,200$ ]

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

22) Determine the beginning owner's equity of a business having an ending owner's equity of \$3,500, additional investments of \$600, withdrawals of \$500, and net loss of \$750.

\$ \_\_\_\_\_

Answer: \$4,150 [ $\$3,500 - \$600 + \$500 + \$750$ ]

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

23) Determine the beginning owner's equity of a business having beginning assets of \$9,000 and ending liabilities of \$3,000. During the year the liabilities decreased by \$1,000.

\$ \_\_\_\_\_

Answer: \$5,000 [ $\$9,000 - (\$3,000 + \$1,000)$ ]

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

24) Number the following types of accounts (1-6) as they would appear on the Trial Balance.

\_\_\_\_\_ Assets  
 \_\_\_\_\_ Capital  
 \_\_\_\_\_ Revenue  
 \_\_\_\_\_ Liabilities  
 \_\_\_\_\_ Withdrawals  
 \_\_\_\_\_ Expenses

Answer:

\_\_\_\_\_ 1 Assets  
 \_\_\_\_\_ 3 Capital  
 \_\_\_\_\_ 5 Revenue  
 \_\_\_\_\_ 2 Liabilities  
 \_\_\_\_\_ 4 Withdrawals  
 \_\_\_\_\_ 6 Expenses

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

25) The following is a list of accounts and their balances for Myra's Company for the month ended May 31, 20xx. Prepare a trial balance in good form.

Cash	\$1,710	Myra, Withdrawals	\$980
Accounts Payable	1,000	Accounts Receivable	1,200
Office Equipment	1,760	Service Fees Earned	1,835
Myra, Capital	3,465	Rent Expense	650

Answer:

Myra's Company  
 Trial Balance  
 May 31, 20xx

	Debit	Credit
Cash	1,710	
Accounts Receivable	1,200	
Office Equipment	1,760	
Accounts Payable		1,000
Myra, Capital		3,465
Myra, Withdrawals	980	
Service Fees Earned		1,835
Rent Expense	<u>650</u>	<u>      </u>
Totals	<u>6,300</u>	<u>6,300</u>

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

26) The following is a list of accounts and their balances for Benson Company for the month ended June 30, 20xx. Prepare a trial balance in good form.

Cash	\$1,870	Benson, Withdrawals	\$ 500
Accounts Payable	1,270	Accounts Receivable	1,100
Office Equipment	900	Service Fees Earned	2,230
Benson, Capital	1,500	Salaries Expense	630

Answer:

Benson Company  
Trial Balance  
June 30, 20xx

	Debit	Credit
Cash	1,870	
Accounts Receivable	1,100	
Office Equipment	900	
Accounts Payable		1,270
Benson, Capital		1,500
Benson, Withdrawals	500	
Service Fees Earned		2,230
Salaries Expense	<u>630</u>	<u>      </u>
Totals	<u>5,000</u>	<u>5,000</u>

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements