

Financial Accounting, 2e (Kemp/Waybright)
Chapter 2 Analyzing and Recording Business Transactions

2.1 Questions

1) Account titles such as Marketing Expense and Depreciation Expense would be numbered starting with a 3.

Answer: FALSE

Diff: 1

LO: 2-1

EOC Ref: S2-4

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

2) A listing of all accounts in numerical order is called a chart of accounts.

Answer: TRUE

Diff: 1

LO: 2-1

EOC Ref: S2-4

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

3) An account numbered 321 would be considered a stockholders' equity account as it begins with a 3.

Answer: TRUE

Diff: 1

LO: 2-1

EOC Ref: S2-4

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

4) The stockholders' equity section would include the accounts such as retained earnings and revenues.

Answer: TRUE

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

5) Items of value that a company owns are called stockholders' equity.

Answer: FALSE

Diff: 1

LO: 2-1

EOC Ref: Vocabulary

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

6) Obligations that are owed to others due to past transactions are categorized as:

A) stockholders' equity.

B) expenses.

C) assets.

D) liabilities.

Answer: D

Diff: 1

LO: 2-1

EOC Ref: Vocabulary

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

7) Monies owed to a company on a written promise to pay a fixed amount of money by a certain date would be called a(n):

A) note payable.

B) note receivable.

C) account payable.

D) account receivable.

Answer: A

Diff: 1

LO: 2-1

EOC Ref: S2-2

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

8) Items such as salaries and interest that have been incurred, but not yet paid, are called:

A) accrued assets.

B) accrued liabilities.

C) accrued revenues.

D) accrued notes.

Answer: B

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

9) The order in which accounts appear in the chart of accounts is:

- A) liabilities, assets, revenues, stockholders' equity, expenses.
- B) stockholders' equity, expenses, revenue, liabilities, assets.
- C) assets, stockholders' equity, revenues, expenses, liabilities.
- D) assets, liabilities, stockholders' equity, revenues, expenses.

Answer: D

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

10) An account starting with a number 1 would indicate:

- A) an asset.
- B) stockholders' equity.
- C) a revenue.
- D) a liability.

Answer: A

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

11) All payables are listed as:

- A) assets.
- B) liabilities.
- C) stockholders' equity.
- D) revenue.

Answer: B

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

12) Accounts that start with the numbers 6-9 would probably be:

- A) other revenues and expenses.
- B) other assets and liabilities.
- C) other stockholders' equity.
- D) other assets and revenues.

Answer: A

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

13) A type of company asset in which a customer owes the company money would be a:

- A) dividend.
- B) receivable.
- C) payable.
- D) sale.

Answer: B

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

14) Expenses paid in advance such as rent and insurance are classified as prepaid expenses. Into what category are they placed?

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

Answer: D

Diff: 2

LO: 2-1

EOC Ref: S2-2

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

15) Dividends are paid with cash to shareholders. Dividends are in what category of the chart of accounts?

- A) Revenue
- B) Assets
- C) Stockholders' equity
- D) Liabilities

Answer: C

Diff: 2

LO: 2-1

EOC Ref: S2-2

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

16) Accounts starting with the number 4 would represent:

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

Answer: C

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

17) Marketing expenditures account 511 would belong to what category of accounts?

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

Answer: B

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

18) Land, Cash, Office Equipment and Accounts Receivable belong to what category of accounts?

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

Answer: D

Diff: 1

LO: 2-1

EOC Ref: S2-4

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

19) Dividends, revenues, and expenses all:

- A) start with the same chart of account number.
- B) start with different chart of accounts numbers.
- C) appear in the chart of accounts under assets.
- D) appear in the chart of accounts under liabilities.

Answer: B

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

20) Which of the following would start with a 1 in the chart of accounts?

- A) Land and Buildings
- B) Depreciation Expense and Marketing Expense
- C) Merchandise Sales and Rent Revenue
- D) Common Stock and Cash

Answer: A

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

21) Which of the following would start with a 2 in the chart of accounts?

- A) Income Taxes Payable and Salaries Payable
- B) Common Stock and Dividends
- C) Cash and Accounts Receivable
- D) Sales and Service Revenue

Answer: A

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

22) A promissory note owed to another company would most likely appear in which of the following accounts?

- A) Accounts Receivable
- B) Accounts Payable
- C) Notes Receivable
- D) Notes Payable

Answer: D

Diff: 1

LO: 2-1

EOC Ref: S2-11

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

23) A chart of accounts does NOT include:

- A) stockholders' equity.
- B) assets.
- C) names of customers.
- D) liabilities.

Answer: C

Diff: 1

LO: 2-1

EOC Ref: S2-4

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

24) Which of the following is an expense account?

- A) Prepaid Insurance
- B) Advertising
- C) Accounts Payable
- D) Cash

Answer: B

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

25) Which of the following is NOT a revenue account?

- A) Salaries
- B) Sales
- C) Fees Earned
- D) Professional Fees

Answer: A

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

26) Payment of a telephone bill which was not previously recorded represents a(n):

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

Answer: D

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

27) Obligations owed by a company to banks, for instance, are called:

- A) notes receivable.
- B) notes payable.
- C) accounts receivable.
- D) accounts payable.

Answer: B

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

28) Net income and dividends are part of:

- A) liabilities.
- B) stockholders' equity.
- C) assets.
- D) net income.

Answer: B

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

29) Which is NOT a part of stockholders' equity?

- A) Revenues
- B) Expenses
- C) Accounts Receivable
- D) Dividends

Answer: C

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

30) Collection of money from a cash customer represents a(n):

- A) liability.
- B) expense.
- C) revenue.
- D) stock.

Answer: C

Diff: 1

LO: 2-1

EOC Ref: S2-2

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

31) How does an account receivable differ from a note receivable?

- A) A note receivable is an asset while an account receivable is not.
- B) An account receivable is a written pledge while a note receivable is not.
- C) An account receivable is always an amount due from the company's customers while a note receivable is always an amount due from a bank.
- D) Notes receivable are written pledges while accounts receivable are not.

Answer: D

Diff: 1

LO: 2-1

EOC Ref: E2-16A

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

32) Which of the following is TRUE regarding the accounts supplies payable and supplies expense?

- A) These account titles both mean the same thing and are used interchangeably.
- B) Supplies payable represents the cost of supplies bought on account but not yet paid for, while supplies expense represents the cost of the supplies which have been paid for.
- C) Supplies payable represents the cost of supplies bought on account but not yet paid for, while supplies expense represents the cost of supplies used to deliver goods or services to customers.
- D) Supplies expense represents the cost of supplies bought on account but not yet paid for, while supplies payable represents the cost of supplies used to deliver goods or services to customers.

Answer: C

Diff: 2

LO: 2-1

EOC Ref: S2-1

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

2.2 Questions

1) Double-entry accounting requires that every business transaction impact at least two different accounts.

Answer: TRUE

Diff: 1

LO: 2-2

EOC Ref: S2-3

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

2) A T-account is a way to visualize the increases and decreases to the value of an account.

Answer: TRUE

Diff: 1

LO: 2-2

EOC Ref: S2-6

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

3) The debit (left) side of an account always indicates an increase in the value of the account.

Answer: FALSE

Diff: 1

LO: 2-2

EOC Ref: S2-6

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

4) The credit (right) side of an account shows an increase or decrease depending upon the type of account.

Answer: TRUE

Diff: 1

LO: 2-2

EOC Ref: S2-6

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

5) Accounts that increase on the credit side are assets, dividends and expenses (ADE).

Answer: FALSE

Diff: 1

LO: 2-2

EOC Ref: S2-6

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

6) Accounts that increase on the credit side are liabilities, common stock, revenues and retained earnings (LCR).

Answer: TRUE

Diff: 1

LO: 2-2

EOC Ref: S2-6

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

7) Normal balance refers to the positive increase of an account and identifies the side of the account (Debit or Credit) to which this positive balance is recorded.

Answer: TRUE

Diff: 1

LO: 2-2

EOC Ref: S2-6

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

8) Accounts payable, taxes payable, and notes payable:

A) increase on the debit side, decrease on the credit side and are assets.

B) decrease on the debit side, increase on the credit side and are liabilities.

C) increase on the debit side, decrease on the credit side and are expenses.

D) decrease on the debit side, increase on the credit side and are revenues.

Answer: B

Diff: 2

LO: 2-2

EOC Ref: S2-8

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

9) The stockholders' equity accounts dividends, revenues and expenses have normal balances of:

- A) credit, debit, and debit, respectively.
- B) debit, credit, and credit, respectively.
- C) debit, credit, and debit, respectively.
- D) credit, credit, and credit, respectively.

Answer: C

Diff: 1

LO: 2-2

EOC Ref: S2-8

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

10) Cash, Common Stock, and Advertising Expense have normal balances of:

- A) credit, credit, and credit, respectively.
- B) debit, credit, and debit, respectively.
- C) debit, debit, and credit, respectively.
- D) credit, debit, and debit, respectively.

Answer: B

Diff: 1

LO: 2-2

EOC Ref: S2-8

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

11) Dividends, Accounts Receivable, and Buildings have normal balances of:

- A) credit, debit, and debit, respectively.
- B) debit, debit, and credit, respectively.
- C) credit, credit, and credit, respectively.
- D) debit, debit, and debit, respectively.

Answer: D

Diff: 1

LO: 2-2

EOC Ref: S2-8

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

12) Revenues, Accounts Receivable, and Common Stock have normal balances of:

- A) credit, debit, and credit, respectively.
- B) debit, debit, and credit, respectively.
- C) credit, credit, and credit, respectively.
- D) debit, debit, and debit, respectively.

Answer: A

Diff: 1

LO: 2-2

EOC Ref: S2-8

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

13) Office Furniture, Wages Payable and Dividends have normal balances of:

- A) credit, credit, and credit, respectively.
- B) debit, credit, and debit, respectively.
- C) debit, debit, and credit, respectively.
- D) credit, debit, and debit, respectively.

Answer: B

Diff: 1

LO: 2-2

EOC Ref: S2-8

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

14) Which of the following is an unofficial tool of accounting?

- A) Account
- B) T-account
- C) Debit
- D) Credit

Answer: B

Diff: 1

LO: 2-2

EOC Ref: Vocabulary

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

15) T-accounts aid in separating:

- A) increases and decreases in an account.
- B) the equality of the credits.
- C) the equality of debits and credits in the accounting equation.
- D) the balances of all of the accounts.

Answer: A

Diff: 1

LO: 2-2

EOC Ref: S2-7

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

16) The total amount of debits must equal the total amount of credits. This is a rule of:

- A) T-accounts.
- B) the chart of accounts.
- C) double-entry accounting.
- D) normal balances.

Answer: C

Diff: 1

LO: 2-2

EOC Ref: Vocabulary

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

17) A T-account has a \$759 credit balance. This account is most likely NOT:

- A) Accounts Payable.
- B) Sales Revenue.
- C) Accounts Receivable.
- D) Common Stock.

Answer: C

Diff: 2

LO: 2-2

EOC Ref: S2-6

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

18) A T-account has a \$509 debit balance. This account is most likely NOT:

- A) Common Stock.
- B) Land.
- C) Advertising Expense.
- D) Dividends.

Answer: A

Diff: 2

LO: 2-2

EOC Ref: S2-6

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

19) A T-account has a \$382 debit balance. This account is most likely:

- A) Income Taxes Payable.
- B) Common Stock.
- C) Cash.
- D) Magazine Sales.

Answer: C

Diff: 2

LO: 2-2

EOC Ref: S2-6

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

20) A T-account has a \$299 credit balance. This account is most likely NOT:

- A) Accounts Receivable.
- B) Bicycle Repair Revenue.
- C) Wages Payable.
- D) Common Stock.

Answer: A

Diff: 2

LO: 2-2

EOC Ref: S2-6

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

21) A T-account has a \$922 credit balance. This account is most likely:

- A) Office Equipment.
- B) Rent Expense.
- C) Dividends.
- D) Sales Revenue.

Answer: D

Diff: 2

LO: 2-2

EOC Ref: S2-6

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

22) A T-account has a \$388 credit balance. This account is most likely:

- A) an expense.
- B) a dividend account.
- C) an asset.
- D) a stock account.

Answer: D

Diff: 2

LO: 2-2

EOC Ref: S2-6

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

23) Debit means:

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

Answer: D

Diff: 1

LO: 2-2

EOC Ref: S2-5

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

24) Credit means:

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

Answer: C

Diff: 1

LO: 2-2

EOC Ref: S2-5

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

25) An example of accounts with normal debit balances would be:

- A) liabilities.
- B) expenses.
- C) revenues.
- D) stockholders' equity.

Answer: B

Diff: 1

LO: 2-2

EOC Ref: S2-8

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

26) An example of accounts with normal credit balances would be:

- A) revenues.
- B) assets.
- C) expenses.
- D) dividends.

Answer: A

Diff: 1

LO: 2-2

EOC Ref: S2-8

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

27) A T-account has which of the following three major parts?

- A) A debit side, a credit side, and a balance
- B) A debit side, a credit side, and a total column
- C) A title, a current date, and a balance
- D) A title, a debit side, and a credit side

Answer: D

Diff: 2

LO: 2-2

EOC Ref: S2-6

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

28) The fact that each transaction has a dual effect on the accounting equation provides the basis for what is called:

- A) single-entry accounting.
- B) double-entry accounting.
- C) compound-entry accounting.
- D) multiple-entry accounting.

Answer: B

Diff: 1

LO: 2-2

EOC Ref: S2-3

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

29) An investment of cash in a business:

- A) represents an obligation of the business.
- B) decreases stockholders' equity.
- C) increases cash.
- D) appears in a liability account.

Answer: C

Diff: 1

LO: 2-2

EOC Ref: S2-8

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

30) ARCO pays wages in the amount of \$13,579. This transaction includes a:

- A) debit to Cash.
- B) credit to Wages Expense.
- C) credit to Cash.
- D) credit to Revenue.

Answer: C

Diff: 1

LO: 2-2

EOC Ref: S2-8

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

31) The difference between the total debits and total credits of an account is called a:

- A) trial balance.
- B) sub-total.
- C) ruling.
- D) balance.

Answer: D

Diff: 2

LO: 2-2

EOC Ref: S2-7

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

32) When the bank takes money out of a company's account, why does the bank say that they have debited that account?

- A) The bank has increased the company's assets and assets increase with debits.
- B) The bank has decreased its' liability to the company and liabilities decrease with debits.
- C) The bank has decreased the company's assets and assets decrease with debits.
- D) The bank has increased its' liability to the company and liabilities increase with debits.

Answer: B

Diff: 2

LO: 2-2

EOC Ref: S2-6

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

33) A company has a fifty million dollar debit balance in its' cash account. Given this information, which of the following is a TRUE statement?

A) It is not normal for a business to have this much cash, therefore this is NOT a normal account balance.

B) It is NOT ever normal for the cash account to have a debit balance.

C) Normal account balances differ from company to company; therefore it is impossible to evaluate the given statement without more information.

D) It is ALWAYS normal for the cash account to have a debit balance.

Answer: D

Diff: 2

LO: 2-2

EOC Ref: S2-6

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

2.3 Questions

1) The general journal was developed to organize transactions by account.

Answer: FALSE

Diff: 1

LO: 2-3

EOC Ref: Vocabulary

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

2) The general journal is used to record the events (transactions) of a business.

Answer: TRUE

Diff: 1

LO: 2-3

EOC Ref: Vocabulary

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

3) The act of recording a transaction is called "journalizing."

Answer: TRUE

Diff: 1

LO: 2-3

EOC Ref: Vocabulary

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

4) Journalizing is the transfer of information from the general journal to the general ledger.

Answer: FALSE

Diff: 1

LO: 2-3

EOC Ref: Vocabulary

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

5) The posting reference column of the general journal will include the number of the account to which the information is being posted.

Answer: TRUE

Diff: 1

LO: 2-3

EOC Ref: P2-33A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

6) The posting reference column of the general ledger shows the sources of the transferred information.

Answer: TRUE

Diff: 1

LO: 2-3

EOC Ref: P2-33A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

7) Transactions are recorded in order of the dollar amount of the transaction.

Answer: FALSE

Diff: 1

LO: 2-3

EOC Ref: P2-33A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

8) Chronological order dictates the order in which transactions are journalized.

Answer: TRUE

Diff: 1

LO: 2-3

EOC Ref: P2-33A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

9) The account "Cash" began with a zero balance and then had the following changes: increase of \$250, decrease of \$75, increase of \$113 and a decrease of \$35. The final balance is a:

- A) debit balance of \$253.
- B) credit balance of \$253.
- C) debit balance of \$363.
- D) credit balance of \$110.

Answer: A

Diff: 2

LO: 2-3

EOC Ref: S2-7

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

10) The account "Notes Payable" began with a zero balance and then had the following changes: increase of \$500, increase of \$200, decrease of \$550, and an increase of \$250. The final balance is a:

- A) credit balance of \$550.
- B) debit balance of \$950.
- C) credit balance of \$400.
- D) debit balance of \$400.

Answer: C

Diff: 2

LO: 2-3

EOC Ref: S2-7

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

11) The first step in analyzing a transaction is to determine:

- A) if the account balance will increase or decrease.
- B) the accounts that are involved.
- C) the type of accounts that are involved.
- D) which accounts are to be debited and credited.

Answer: B

Diff: 1

LO: 2-3

EOC Ref: S2-9

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

12) The second step in analyzing a transaction is to determine:

- A) if the account balance will increase or decrease.
- B) the accounts that are involved.
- C) the type of accounts that are involved.
- D) which accounts are to debited and credited.

Answer: C

Diff: 1

LO: 2-3

EOC Ref: S2-9

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

13) The third step in analyzing a transaction is to determine:

- A) if the account balance will increase or decrease.
- B) the accounts that are involved.
- C) the type of accounts that are involved.
- D) which accounts are to debited and credited.

Answer: A

Diff: 1

LO: 2-3

EOC Ref: S2-9

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

14) The fourth step in analyzing a transaction is to determine:

- A) if the account balance will increase or decrease.
- B) the accounts that are involved.
- C) the type of accounts that are involved.
- D) which accounts are to debited and credited.

Answer: D

Diff: 1

LO: 2-3

EOC Ref: S2-9

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

- 15) The general ledger is arranged in the:
- A) numerical order of the chart of accounts.
 - B) alphabetical order of the account names.
 - C) order with normal debit balance accounts first.
 - D) order with normal credit balance accounts first.

Answer: A

Diff: 1

LO: 2-3

EOC Ref: S2-3

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

- 16) The first step in recording a transaction in the general journal is to record the:

- A) explanation of the entry.
- B) account(s) to be credited and the amount(s).
- C) date of the entry.
- D) account(s) to be debited and the amount(s).

Answer: C

Diff: 1

LO: 2-3

EOC Ref: S2-10

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

- 17) The second step in recording a transaction in the general journal is to record the:

- A) explanation of the entry.
- B) account(s) to be credited and the amount(s).
- C) date of the entry.
- D) account(s) to be debited and the amount(s).

Answer: D

Diff: 1

LO: 2-3

EOC Ref: S2-10

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

18) The third step in recording a transaction in the general journal is to record the:

- A) explanation of the entry.
- B) account(s) to be credited and the amount(s).
- C) date of the entry.
- D) account(s) to be debited and the amount(s).

Answer: B

Diff: 1

LO: 2-3

EOC Ref: S2-10

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

19) The fourth step in recording a transaction in the general journal is to record the:

- A) explanation of the entry.
- B) account(s) to be credited and the amount(s).
- C) date of the entry.
- D) account(s) to be debited and the amount(s).

Answer: A

Diff: 1

LO: 2-3

EOC Ref: S2-10

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

20) Once you post the transaction to the general ledger, you must go back to the general journal and fill in:

- A) the date.
- B) the amount debited or credited.
- C) the posting reference column with the account number of the posting.
- D) the account name that was involved in the transaction.

Answer: C

Diff: 1

LO: 2-3

EOC Ref: E2-21A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

21) Jill invested \$25,000 in her business, Nails by Jill. The journal entry would include a:

- A) debit to Cash for \$25,000 and a credit to Sales for \$25,000.
- B) debit to Cash for \$25,000 and a credit to Common Stock for \$25,000.
- C) credit to Cash for \$25,000 and a debit to Common Stock for \$25,000.
- D) debit to Cash for \$25,000 and a credit to Dividends for \$25,000.

Answer: B

Diff: 2

LO: 2-3

EOC Ref: E2-17A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

22) Office equipment was purchased for \$2,400 on account from Office Express. The journal entry would include a:

- A) debit to Office Equipment and a credit to Cash.
- B) credit to Cash and a debit to Office Equipment Expense.
- C) debit to Office Equipment and a credit to Accounts Payable.
- D) debit to Accounts Payable and a credit to Cash.

Answer: C

Diff: 2

LO: 2-3

EOC Ref: E2-19A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

23) Salaries of \$675 were paid in cash. The journal entry would include a:

- A) debit to Salaries Expense and a credit to Cash.
- B) credit to Salaries Expense and a debit to Cash.
- C) debit to Accounts Payable and a credit to Cash.
- D) debit to Accounts Payable and a credit to Salary Expense.

Answer: A

Diff: 1

LO: 2-3

EOC Ref: E2-19A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

24) Xenon, Inc. collected \$600 from one of its customers for payment on their account. The journal entry would include a:

- A) debit to Accounts Receivable and a credit to Cash.
- B) debit to Cash and a credit to Accounts Payable.
- C) debit to Cash and a credit to Accounts Receivable.
- D) debit to Cash and a credit to Sales Revenue.

Answer: C

Diff: 1

LO: 2-3

EOC Ref: E2-19A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

25) Able and Sons, Inc. purchases a building for \$35,000 cash. The journal entry would include a:

- A) debit to Building and a credit to Cash.
- B) debit to Common Stock and a credit to Building.
- C) debit to Building and a credit to Accounts Payable.
- D) debit to Building and a credit to Common Stock.

Answer: A

Diff: 1

LO: 2-3

EOC Ref: E2-19A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

26) Which of the following has a four column format?

- A) Income statement
- B) Balance sheet
- C) General ledger sheet
- D) General journal

Answer: C

Diff: 1

LO: 2-3

EOC Ref: E2-19A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

27) Mackay, Inc. paid one of its creditors \$678 on their balance due. The journal entry would require a:

- A) debit to Cash and a credit to Accounts Payable.
- B) debit to Cash and a credit to Accounts Receivable.
- C) credit to Cash and a debit to Accounts Receivable.
- D) debit to Accounts Payable and credit to Cash.

Answer: D

Diff: 1

LO: 2-3

EOC Ref: E2-19A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

28) Apex Corporation purchased \$350 of office supplies on account and treated the supplies as a prepaid expense. The journal entry would require a:

- A) debit to Office Supplies Expense and a credit to Cash.
- B) debit to Office Supplies and a credit to Cash.
- C) debit to Office Supplies and a credit to Accounts Payable.
- D) debit to Office Supplies Expense and a credit to Office Supplies.

Answer: C

Diff: 1

LO: 2-3

EOC Ref: E2-19A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

29) Binford Corporation purchased a \$600 two-year insurance policy for cash. The journal entry would require a:

- A) debit to Prepaid Insurance and a credit to Cash.
- B) debit to Insurance Expense and credit to Cash.
- C) debit to Insurance Expense and a credit to Accounts Payable.
- D) debit to Insurance Expense and a credit to Retained Earnings.

Answer: A

Diff: 1

LO: 2-3

EOC Ref: E2-19A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

30) Allied, Inc. sold season tickets for \$7,000 on account. The journal entry would be to:

- A) debit Cash and credit season Ticket Sales Revenue.
- B) debit Accounts Receivable and credit season Ticket Sales Revenue.
- C) debit Cash and credit Accounts Payable.
- D) debit Cash and credit Accounts Receivable.

Answer: B

Diff: 1

LO: 2-3

EOC Ref: E2-19A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

31) The _____ keeps a running balance of an individual account.

- A) general journal
- B) balance sheet
- C) general ledger
- D) posting reference

Answer: C

Diff: 1

LO: 2-3

EOC Ref: Vocabulary

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

32) The _____ indicates where the information originated and to where the information was transferred.

- A) general journal
- B) balance sheet
- C) general ledger
- D) posting reference

Answer: D

Diff: 1

LO: 2-3

EOC Ref: Vocabulary

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

33) One of the customers of Rodriguez Roofing, Inc. paid \$223 on her bill. The journal entry that Rodriguez Roofing, Inc. would record is:

- A) debit Accounts Receivable and credit Sales.
- B) debit Cash and credit Sales.
- C) debit Accounts Receivable and credit Cash.
- D) debit Cash and credit Accounts Receivable.

Answer: D

Diff: 1

LO: 2-3

EOC Ref: E2-27B

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

34) The information from the general journal is transferred to the:

- A) balance sheet.
- B) income statement.
- C) general ledger.
- D) statement of retained earnings.

Answer: C

Diff: 1

LO: 2-3

EOC Ref: S2-3

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

35) Journalizing does NOT include:

- A) debiting account(s) that are affected.
- B) crediting account(s) that are affected.
- C) posting the debits and credits to the accounts.
- D) entering the date of the transaction.

Answer: C

Diff: 2

LO: 2-3

EOC Ref: E2-27B

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

36) The posting reference column of the general journal provides a cross-reference between the:

- A) ledger and accounts.
- B) journal and ledger.
- C) ledger and financial statements.
- D) journal and financial statements.

Answer: B

Diff: 2

LO: 2-3

EOC Ref: E2-19A

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

37) Instead of T-accounts, businesses more than likely use a:

- A) chart of accounts.
- B) balance sheet.
- C) general ledger.
- D) general journal.

Answer: C

Diff: 1

LO: 2-3

EOC Ref: P2-33A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

38) Every entry in the general journal should include all of the following EXCEPT:

- A) the title of each account affected.
- B) the amounts of debits and credits.
- C) a brief description of the transaction.
- D) the balance of the accounts affected.

Answer: D

Diff: 1

LO: 2-3

EOC Ref: E2-27B

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

39) The account "Salaries Expense" began with a zero balance and then had the following changes: increase of \$450, decrease of \$175, increase of \$600, and an increase of \$350. The final balance is a:

- A) credit balance of \$1,225.
- B) debit balance of \$1,225.
- C) credit balance of \$1,575.
- D) debit balance of \$1,575.

Answer: B

Diff: 1

LO: 2-3

EOC Ref: E2-27B

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

40) Where is the best place for a company's accountant to find the information necessary to review the activity in the cash account?

- A) General journal
- B) General ledger
- C) Trial balance
- D) Bank statement

Answer: B

Diff: 1

LO: 2-3

EOC Ref: S2-14

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

2.4 Questions

1) A trial balance is a list of the accounts and their balances taken from the general journal.

Answer: FALSE

Diff: 1

LO: 2-4

EOC Ref: Vocabulary

AACSB: Communication

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Research

2) The trial balance is an official financial statement.

Answer: FALSE

Diff: 1

LO: 2-4

EOC Ref: E2-19A

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

3) A trial balance contains the name of the company, the words "trial balance" and the date of the statement.

Answer: TRUE

Diff: 1

LO: 2-4

EOC Ref: S2-12

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

4) The required accounting period for a trial balance is one year.

Answer: FALSE

Diff: 1

LO: 2-4

EOC Ref: S2-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

5) If debits equal credits on the trial balance, it means that the trial balance is correct.

Answer: FALSE

Diff: 1

LO: 2-4

EOC Ref: S2-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

6) Once the trial balance is correct, the next step is to prepare the financial statements, beginning with the income statement.

Answer: TRUE

Diff: 1

LO: 2-4

EOC Ref: S2-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

7) An entry could have been posted twice and the trial balance might still balance.

Answer: TRUE

Diff: 1

LO: 2-4

EOC Ref: E2-22A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

8) If a total debits and total credits on a trial balance do not equal, redo the addition of the debit and credit columns.

Answer: TRUE

Diff: 1

LO: 2-4

EOC Ref: E2-22A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

9) A trial balance will determine if:

A) an entry was recorded twice.

B) an entry was posted twice.

C) debits equal credits.

D) the right accounts were debited or credited.

Answer: C

Diff: 1

LO: 2-4

EOC Ref: E2-22A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

10) A cash payment was made to pay for delivery expenses, but was mistakenly charged to Advertising Expense. What effect will this have on the trial balance?

A) Advertising Expense will be understated.

B) Delivery Expense will be overstated.

C) The trial balance will still balance.

D) Cash will be overstated.

Answer: C

Diff: 2

LO: 2-4

EOC Ref: E2-22A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

11) On the trial balance, which account balances should be listed in the debit column?

- A) Assets, revenues, and dividends
- B) Liabilities, revenues, and Common Stock
- C) Assets, Dividends, and expenses
- D) Liabilities, revenues, and Dividends

Answer: C

Diff: 2

LO: 2-4

EOC Ref: S2-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

12) On the trial balance, which account balances should be listed in the credit column?

- A) Liabilities, Retained Earnings, and revenues
- B) Assets, Retained Earnings, and expenses
- C) Liabilities, Common Stock, and expenses
- D) Assets, Dividends, and expenses

Answer: A

Diff: 2

LO: 2-4

EOC Ref: S2-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

13) Which would be best at proving the accounts balance?

- A) General journal
- B) General ledger
- C) Trial balance
- D) Income statement

Answer: C

Diff: 1

LO: 2-4

EOC Ref: S2-12

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

14) Motor Work, Inc.'s trial balance contains the following balances:

Cash \$367	Accounts payable \$267	Revenue \$632
Accounts receivable \$429	Expenses \$103	

What is the amount of total debits for this trial balance?

- A) \$ 899
- B) \$ 735
- C) \$1798
- D) \$ 796

Answer: A

Diff: 3

LO: 2-4

EOC Ref: E2-19A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

15) Only the _____ accounts from the trial balance will be used to prepare the income statement.

- A) asset and liabilities
- B) liabilities and retained earnings
- C) revenue and expense
- D) stockholders' equity and asset

Answer: C

Diff: 1

LO: 2-4

EOC Ref: E2-19A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

16) The columns on a trial balance represent:

- A) revenues and expenses.
- B) debits and credits.
- C) common stock and dividends.
- D) subtotals and totals.

Answer: B

Diff: 1

LO: 2-4

EOC Ref: E2-19A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

17) The trial balance:

- A) lists only the accounts, with their balances, which are used to prepare the balance sheet.
- B) lists only the accounts, with their balances, which are used to prepare the income statement.
- C) lists account names but no balances.
- D) lists all accounts, with their balances, on a given date.

Answer: D

Diff: 1

LO: 2-4

EOC Ref: E2-19A

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

18) A \$375 purchase of supplies on account was recorded by debiting Supplies for \$375 and crediting Cash for \$375. The entry needed to correct this error is:

- A) Debit Accounts Payable for \$375 and credit Cash for \$375.
- B) Debit Accounts Receivable for \$375 and credit Cash for \$375.
- C) Debit Cash for \$375 and credit Accounts Payable for \$375.
- D) Debit Cash for \$375 and credit Accounts Receivable for \$375.

Answer: C

Diff: 2

LO: 2-4

EOC Ref: E2-22A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement and Reporting

19) Which of the financial statements covers a period of time?

- A) Income statement
- B) Balance sheet
- C) Statement of retained earnings
- D) Both A and C

Answer: D

Diff: 1

LO: 2-4

EOC Ref: E2-21A

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

20) The sequence of steps used to record and report business transactions is referred to as:

- A) transaction analysis.
- B) the accounting cycle.
- C) journalizing.
- D) the accounting period.

Answer: B

Diff: 1

LO: 2-4

EOC Ref: S2-3

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling