

File: Chapter 002 The Accounting Cycle: During the Period

True/False

[Question]

1. External transactions are transactions the firm conducts with a separate economic entity, such as selling products to a customer, purchasing supplies from a vendor, paying salaries to an employee, and borrowing money from a bank.

Answer: True

Learning Objective: 02-01

Difficulty: Easy

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Remember

Topic: External Transactions

[Question]

2. Internal transactions are events that affect the financial position of the company but do not include an exchange with a separate economic entity. Examples are using supplies on hand and earning revenues after having received cash in advance from a customer.

Answer: True

Learning Objective: 02-01

Difficulty: Easy

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Remember

Topic: Internal Transactions

[Question]

3. A list of all account names used to record transactions of a company is referred to as a T-account.

Answer: False

Feedback: This is referred to as a chart of accounts.

Learning Objective: 02-01

Difficulty: Easy

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Remember

Topic: Chart of Accounts

[Question]

4. After recording each transaction, total assets must equal total liabilities plus stockholders' equity.

Answer: True

Learning Objective: 02-02

Difficulty: Easy

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Remember

Topic: Effect of Transactions on Accounting Equation

[Question]

5. If a transaction causes total assets of the company to increase by \$2,000, then liabilities plus stockholders' equity also increases by \$2,000.

Answer: True

Learning Objective: 02-02

Difficulty: Hard

AACSB: Analytic

AICPA: FN Measurement

Blooms: Apply

Topic: Effect of Transactions on Accounting Equation

[Question]

6. If a transaction causes total assets of the company to increase by \$5,000 and total liabilities to increase by \$3,000, then stockholders' equity increases by \$8,000.

Answer: False

Feedback: $\text{Assets } (\$5,000) = \text{Liabilities } (\$3,000) + \text{Stockholders' Equity } (\$2,000)$.

Learning Objective: 02-02

Difficulty: Hard

AACSB: Analytic

AICPA: FN Measurement

Blooms: Apply

Topic: Effect of Transactions on Accounting Equation

[Question]

7. Borrowing cash from the bank causes assets to increase and liabilities to increase.

Answer: True

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

8. Purchasing equipment using cash causes assets to increase.

Answer: False

Feedback: One asset goes up; another asset goes down. There is no change to total assets.

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking
AICPA: FN Measurement
Blooms: Understand
Topic: Effect of Transactions on Accounting Equation

[Question]

9. Providing services to customers for cash causes stockholders' equity to increase.

Answer: True

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

10. Incurring employees' salaries but not paying them causes no change to stockholders' equity.

Answer: False

Feedback: Salaries expense would reduce stockholders' equity.

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

11. Paying dividends to its stockholders causes a company's stockholders' equity to decrease.

Answer: True

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

12. Selling common stock for cash causes assets to increase and stockholders' equity to decrease.

Answer: False

Feedback: Stockholders' equity increases.

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

13. Purchasing office supplies on account causes assets to increase and liabilities to increase.

Answer: True

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

14. Providing services to customers on account causes assets to increase and stockholders' equity to increase.

Answer: True

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

15. Receiving cash in advance from a customer for services to be provided in the future causes assets to increase and stockholders' equity to increase.

Answer: False

Feedback: Assets increase and liabilities increase.

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

16. Paying for one year of rent in advance does not affect the accounting equation.

Answer: True

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

17. Purchasing supplies on account increases the balance of the Accounts Receivable account.

Answer: False

Feedback: The balance of Accounts Payable increases.

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

18. Amounts owed from customers are recorded in the Accounts Receivable account.

Answer: True

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

19. The two components of stockholders' equity are Debits and Credits.

Answer: False

Feedback: The two components of stockholders' equity are Common Stock and Retained Earnings.

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Expanded Accounting Equation

[Question]

20. Revenues have the effect of increasing retained earnings.

Answer: True

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Expanded Accounting Equation

[Question]

21. Expenses have the effect of decreasing retained earnings.

Answer: True

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking
AICPA: FN Measurement
Blooms: Understand
Topic: Expanded Accounting Equation

[Question]

22. Receiving cash in advance from customers increases the Service Revenue account.

Answer: False

Feedback: Receiving cash in advance from customers increases the Unearned Revenue account.

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

23. Unearned Revenue is a liability account.

Answer: True

Learning Objective: 02-02

Difficulty: Easy

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Remember

Topic: Account Types

[Question]

24. Liability accounts increase with a debit and decrease with a credit.

Answer: False

Feedback: Liability accounts increase with a credit and decrease with a debit.

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

25. Liability accounts increase with a credit and decrease with a debit.

Answer: True

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

26. Common Stock increases with a credit and decreases with a debit.

Answer: True

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

27. Revenue accounts increase with a debit and decrease with a credit.

Answer: False

Feedback: Revenue accounts increase with a credit and decrease with a debit.

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

28. Expense accounts increase with a debit and decrease with a credit.

Answer: True

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

29. The Dividends account increases with a credit and decreases with a debit.

Answer: False

Feedback: The Dividends account increases with a debit and decreases with a credit.

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

30. A debit to an account balance always results in the balance increasing.

Answer: False

Feedback: A debit increases assets, dividends, and expenses, but decreases liabilities, stockholders' equity, and revenues.

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

31. A credit to an account balance always results in the balance decreasing.

Answer: False

Feedback: A credit decreases assets, dividends, and expenses, but increases liabilities, stockholders' equity, and revenues.

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

32. A journal provides a chronological record of all transactions affecting a firm.

Answer: True

Learning Objective: 02-04

Difficulty: Easy

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Remember

Topic: Recording Transactions

[Question]

33. For each transaction, there must be at least one debit amount and one credit amount.

Answer: True

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

34. For each transaction, the total debit amounts must equal the total credit amounts.

Answer: True

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking
AICPA: FN Measurement
Blooms: Understand
Topic: Recording Transactions

[Question]

35. Selling common stock for cash is recorded with a debit to common stock.

Answer: False

Feedback: Selling common stock for cash is recorded with a credit to common stock.

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

36. Borrowing cash from the bank is recorded with a debit to cash.

Answer: True

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

37. Purchasing office supplies is recorded with a credit to office supplies.

Answer: False

Feedback: Purchasing office supplies is recorded with a debit to office supplies.

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

38. Paying employees' salaries for the current period is recorded with a debit to Salaries Expense.

Answer: True

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

39. Providing services to customers is recorded with a debit to Service Revenue.

Answer: False

Feedback: Providing services to customers is recorded with a credit to Service Revenue.

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

40. The general ledger includes all accounts used to record the company's transactions.

Answer: True

Learning Objective: 02-05

Difficulty: Easy

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Remember

Topic: Posting Transactions

[Question]

41. The process of transferring the debit and credit information from the journal to individual accounts in the general ledger is called journalizing.

Answer: False

Feedback: The process is called posting.

Learning Objective: 02-05

Difficulty: Easy

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Remember

Topic: Posting Transactions

[Question]

42. After posting transactions to the general ledger accounts, the sum of the accounts with debit balances should equal the sum of the accounts with credit balances.

Answer: True

Learning Objective: 02-06

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: Trial Balance

[Question]

43. A trial balance is a list of all accounts and their balances at a particular date, showing that assets equal liabilities.

Answer: False

Feedback: The trial balance shows that total debits equal total credits.

Learning Objective: 02-06

Difficulty: Easy

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Remember

Topic: Trial Balance

[Question]

44. If total debits equal total credits in the trial balance, then all balances are correct.

Answer: False

Feedback: A trial balance could contain offsetting errors where the balance of one account is misstated in one direction but the balance of another account (with the same type of debit or credit balance) is misstated in the other direction.

Learning Objective: 02-06

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: Trial Balance

Multiple Choice

[Question]

45. Which of the following is not part of measuring external transactions?

- a. Using source documents to analyze accounts affected.
- b. Recording transactions.
- c. Making payments on all amounts owed.
- d. Analyzing transactions for their effect on the accounting equation.

Answer: c

Learning Objective: 02-01

Difficulty: Easy

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Remember

Topic: Measuring External Transactions

[Question]

46. External events include all of the following *except*:

- a. Paying employees' salaries.

- b. Purchasing equipment.
- c. Using office supplies.
- d. Collecting an account receivable.

Answer: c

Learning Objective: 02-01

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: External Transactions

[Question]

47. The full set of procedures used to accomplish the FN Measurement/communication process of financial accounting is referred to as the:

- a. Trial balance
- b. Accounting cycle
- c. Chart of accounts
- d. General ledger

Answer: b

Learning Objective: 02-01

Difficulty: Easy

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Remember

Topic: Accounting Cycle

[Question]

48. Which step in the process of measuring external transactions involves assessing the equality of total debits and total credits?

- a. Use source documents to determine accounts affected by the transaction.
- b. Prepare a trial balance.
- c. Analyze the impact of the transaction on the accounting equation.
- d. Post the transaction to the T-account in the general ledger.

Answer: b

Learning Objective: 02-01

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: Measuring External Transactions

[Question]

49. For each transaction recorded in an accounting system, the basic equation that must be maintained at all times is:

- a. $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$.
- b. $\text{Cash Increases} = \text{Cash Decreases}$.

c. Revenues = Expenses + Dividends.

d. Assets = Liabilities.

Answer: a

Learning Objective: 02-02

Difficulty: Easy

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Remember

Topic: Effect of Transactions on Accounting Equation

[Question]

50. The following amounts are reported in the ledger of Mariah Company:

Assets	\$80,000
Liabilities	36,000
Retained Earnings	12,000

What is the balance in the Common Stock account?

a. \$44,000.

b. \$32,000.

c. \$48,000.

d. \$42,000.

Answer: b

Learning Objective: 02-02

Difficulty: Hard

AACSB: Analytic

AICPA: FN Measurement

Blooms: Analyze

Topic: Accounting Equation

[Question]

51. When a company incurs employee salaries but does not pay them, how will the basic accounting equation be affected?

a. Stockholders' equity decreases.

b. Revenues decrease.

c. Expenses decrease.

d. Liabilities decrease.

Answer: a

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

52. When cash payments are made to stockholders, what is the effect on the company's accounts?

- a. Cash decreases and dividends increase.
- b. Cash increases and dividends decrease.
- c. Cash decreases and common stock decreases.
- d. Cash increases and common stock increases.

Answer: a

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

53. Which of the following is *not* an asset account?

- a. Supplies.
- b. Accounts Payable.
- c. Equipment.
- d. Accounts Receivable.

Answer: b

Learning Objective: 02-02

Difficulty: Easy

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Remember

Topic: Account Types

[Question]

54. An account receivable can best be defined as:

- a. A payment to the owners.
- b. A sale of goods and services.
- c. A resource owned by the company.
- d. An amount owed by the company.

Answer: c

Learning Objective: 02-02

Difficulty: Easy

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Remember

Topic: Account Types

[Question]

55. Receiving assets from customers before services are performed results in:

- a. Prepaid Assets.
- b. Service Revenue.

- c. Unearned Revenues.
- d. Accounts Receivable.

Answer: c

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Account Types

[Question]

56. When the company pays stockholders a dividend, what is the effect on the accounting equation for that company?

- a. Decrease stockholders' equity and increase assets.
- b. Increase liabilities and increase assets.
- c. Decrease assets and decrease liabilities.
- d. Decrease assets and decrease stockholders' equity.

Answer: d

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

57. Pumpkin Inc. sold \$500 in pumpkins to a customer on account on January 1. On January 11 Pumpkin collected the cash from that customer. What is the impact on Pumpkin's accounting equation from the collection of cash?

- a. No net effect to the accounting equation.
- b. Decrease assets and increase liabilities.
- c. Increase assets and increase liabilities.
- d. Decrease assets and decrease liabilities.

Answer: a

Learning Objective: 02-02

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Apply

Topic: Effect of Transactions on Accounting Equation

[Question]

58. A company receives a \$50,000 cash deposit from a customer on October 15 but will not provide services until November 20. Which of the following statements is true?

- a. The company records service revenue on October 15.
- b. The company records cash collection November 20.

- c. The company records unearned revenue on October 15.
- d. The company records nothing on October 15.

Answer: c

Learning Objective: 02-02

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Apply

Topic: Recording Transactions

[Question]

59. Which of the following would increase assets and increase liabilities?

- a. Provide services to customers on account.
- b. Purchase office supplies on account.
- c. Pay dividends to stockholders.
- d. Receive a utility bill but do not pay it immediately.

Answer: b

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

60. Receiving cash from an account receivable:

- a. Increases revenue and decreases an asset.
- b. Decreases a liability and increases an asset.
- c. Increases an asset and increases revenue.
- d. Increases one asset and decreases another asset.

Answer: d

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

61. An expense has what effect on the accounting equation?

- a. Decrease liabilities.
- b. Decrease stockholders' equity.
- c. Increase assets.
- d. No effect.

Answer: b

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

62. Revenues have what effect on the accounting equation?

- a. Increase liabilities.
- b. Decrease assets.
- c. Increase stockholders' equity.
- d. No effect.

Answer: c

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

63. Investments by stockholders have what effect on the accounting equation?

- a. Assets increase and liabilities increase.
- b. Expenses increase and liabilities increase.
- c. Assets increase and revenues increase.
- d. Assets increase and stockholders' equity increases.

Answer: d

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

64. Which of the following is *not* possible when recording a transaction?

- a. Liabilities increase and assets decrease.
- b. Stockholders' equity increases and assets increase.
- c. One asset increases and another asset decreases.
- d. Stockholders' equity decreases and assets decrease.

Answer: a

Learning Objective: 2

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Analyze

Topic: Effect of Transactions on Accounting Equation

[Question]

65. Amounts owed to suppliers for supplies purchased on account are defined as:

- a. Cash.
- b. Accounts Receivable.
- c. Accounts Payable.
- d. Supplies Expense.

Answer: c

Learning Objective: 02-02

Difficulty: Easy

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Remember

Topic: Account Types

[Question]

66. Purchasing office supplies on account will:

- a. Not change assets.
- b. Increase assets and decrease liabilities.
- c. Increase assets and increase liabilities.
- d. Increase assets and increase stockholders' equity.

Answer: c

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

67. Providing services and receiving cash will:

- a. Increase assets and increase stockholders' equity.
- b. Increase assets and increase liabilities.
- c. Decrease assets and increase liabilities.
- d. Decrease liabilities and increase stockholders' equity.

Answer: a

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

68. When a company provides services on account, the accounting equation would be affected as follows:

- a. Assets increase.
- b. Revenues increase.
- c. Assets increase and liabilities decrease.
- d. Assets increase and stockholders' equity increases.

Answer: d

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

69. If a company provides services on account, which of the following is true?

- a. Expenses increase.
- b. Liabilities increase.
- c. Stockholders' equity increases.
- d. Assets decrease.

Answer: c

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

70. When a payment is made on an account payable:

- a. Assets and stockholders' equity decrease.
- b. Assets and liabilities decrease.
- c. Liabilities and revenues decrease.
- d. Assets and expenses decrease.

Answer: b

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

71. Purchasing office equipment on account has what impact on the accounting equation?

- a. Stockholders' equity decreases and assets increase.
- b. Liabilities increase and assets increase.

- c. Assets decrease and liabilities decrease.
- d. Assets increase and stockholders' equity increases.

Answer: b

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

72. Purchasing supplies for cash has what effect on the accounting equation?

- a. Increase assets.
- b. Decrease stockholders' equity.
- c. Decrease liabilities.
- d. No effect.

Answer: d

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

73. The Unearned Revenue account is shown in which statement?

- a. Income statement.
- b. Statement of cash flows.
- c. Balance sheet.
- d. Statement of stockholders' equity.

Answer: c

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Reporting

Blooms: Understand

Topic: Account Types

[Question]

74. On January 1, Brad Inc. sold \$30,000 in products to a customer on account. Then on January 10, Brad collected the cash on that account. What is the impact on Brad's accounting equation from the collection of cash on January 10?

- a. No net effect to the accounting equation.
- b. Assets increase and liabilities decrease.
- c. Assets decrease and liabilities decrease.
- d. Assets increase and stockholders' equity increases.

Answer: a

Learning Objective: 02-02

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Apply

Topic: Effect of Transactions on Accounting Equation

[Question]

75. On September 30, MFP Co. paid employee salaries of \$7,000, including \$1,000 it owed to its employees last month. What are the effects of this transaction on the accounting equation?

- a. Expenses increased, liabilities increased, and assets increased.
- b. Assets decreased, liabilities decreased, and expenses increased.
- c. Assets decreased, expenses decreased, and liabilities increased.
- d. Expenses decreased, liabilities decreased, and assets decreased.
- e. Assets increased, expenses increased, and liabilities decreased.

Answer: b

Learning Objective: 02-02

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Apply

Topic: Effect of Transactions on Accounting Equation

[Question]

76. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

1. Issued 10,000 shares of common stock for \$15,000 cash.
2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

What was the total amount of Gotebo's liabilities following these six transactions?

- a. \$12,300.
- b. \$27,300.
- c. \$22,600.
- d. \$15,500.

Answer: a

Feedback: Liabilities = (\$12,000 + \$300) = \$12,300.

Learning Objective: 02-02

Difficulty: Hard

AACSB: Analytic

AICPA: FN Reporting

Blooms: Analyze

Topic: Effect of Transactions on Accounting Equation

[Question]

77. Consider the following transactions:

- Issued common stock for cash.
- Purchased equipment by signing a note payable.
- Paid rent for the current month.
- Collected cash from customers on account.

How many of these four transactions increased the given company's total assets?

- a. One.
- b. Two.
- c. Three.
- d. Four.

Answer: b

Feedback: (1) Issued common stock for cash and (2) purchased equipment by signing a note payable.

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

78. Assume that Sallisaw Sideboards, Inc. had a retained earnings balance of \$10,000 on April 1, and that the company had the following transactions during April.

- Issued common stock for cash, \$5,000.
- Provided services to customers on account, \$2,000.
- Provided services to customers in exchange for cash, \$900.
- Purchased equipment and paid cash, \$4,300.
- Paid April rent, \$800.
- Paid employee salaries for April, \$700.

What was Sallisaw's retained earnings balance at the end of April?

- a. \$11,400.
- b. \$12,100.
- c. \$16,400.
- d. Some other amount.

Answer: a

Feedback: Beginning retained earnings \$10,000 + Net income \$1,400 – Dividends \$0 = Ending retained earnings \$11,400.

Net Income = Revenue (\$2,000 + \$900) – Expenses (\$800 + \$700) = \$1,400.

Learning Objective: 02-02

Difficulty: Hard

AACSB: Analytic

AICPA: FN Measurement

Blooms: Analyze

Topic: Effect of Transactions on Accounting Equation

[Question]

79. Consider the following transactions:

- Issued common stock for cash.
- Purchased equipment by signing a note payable.
- Provided services to customers on account.
- Collected cash from customers on account.

How many of these four transactions increased the given company's total liabilities?

- a. One.
- b. Two.
- c. Three.
- d. Four.

Answer: a

Feedback: Purchased equipment by signing a note payable.

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

80. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

1. Issued 10,000 shares of common stock for \$15,000 cash.
2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

How many of these transactions decreased Gotebo's total assets?

- a. One.
- b. Two.
- c. Three.
- d. Four.

Answer: a

Feedback: Transaction #6.

Learning Objective: 02-02

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Reporting

Blooms: Apply

Topic: Effect of Transactions on Accounting Equation

[Question]

81. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

1. Issued 10,000 shares of common stock for \$15,000 cash.
2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

How many of these transactions increased Gotebo's liabilities?

- a. Four.
- b. Three.
- c. Two.
- d. One.

Answer: c

Feedback: Transactions #2 and #5.

Learning Objective: 02-02

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Reporting

Blooms: Apply

Topic: Effect of Transactions on Accounting Equation

[Question]

82. Which of the following transactions causes a decrease in stockholders' equity?

- a. Pay dividends to stockholders.
- b. Obtain cash by borrowing from a local bank.
- c. Provide services to customers on account.
- d. Purchase office equipment for cash.

Answer: a

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

83. How many of the following events would require an expense to be recorded?

- Ordering office supplies
- Hiring a receptionist
- Paying employee salaries for the current month
- Receiving but not paying a current utility bill
- Paying for insurance in advance

- a. One.
- b. Two.

c. Three.

d. Four.

Answer: b

Feedback: (1) Paying employee salaries for the current month and (2) Receiving but not paying a current utility bill.

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

84. Which of the following is NOT possible for a business transaction?

- a. Increase assets and decrease revenue.
- b. Decrease assets and increase expense.
- c. Increase liabilities and increase expense.
- d. Decrease liabilities and increase revenue.

Answer: a

Learning Objective: 02-02

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Apply

Topic: Effect of Transactions on Accounting Equation

[Question]

85. Which of the following transactions would cause a decrease in both assets and stockholders' equity?

- a. Paying insurance premium for the next two years.
- b. Purchasing office equipment on account.
- c. Paying advertising for the current month.
- d. Providing installation services to customers.

Answer: c

Learning Objective: 02-02

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Apply

Topic: Effect of Transactions on Accounting Equation

[Question]

86. When a company issues common stock for cash, what is the effect on the accounting equation for the company?

- a. Assets increase and liabilities increase.
- b. Assets increase and stockholders' equity increases.

- c. Assets decrease and liabilities decrease.
- d. Liabilities decrease and stockholders' equity increases.

Answer: b

Learning Objective: 02-02

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Apply

Topic: Effect of Transactions on Accounting Equation

[Question]

87. If the liabilities of a company increased by \$55,000 during a month and the stockholders' equity decreased by \$21,000 during that same month, did assets increase or decrease and by how much?

- a. \$34,000 increase.
- b. \$55,000 increase.
- c. \$34,000 decrease.
- d. \$76,000 increase.

Answer: a

Learning Objective: 02-02

Feedback: Increase in Liabilities (\$55,000) – Decrease in Stockholders' Equity (\$21,000) = Increase in Assets (\$34,000).

Difficulty: Hard

AACSB: Analytic

AICPA: FN Reporting

Blooms: Apply

Topic: Effect of Transactions on Accounting Equation

[Question]

88. Providing services to customers on account would affect the balances reported in which financial statement(s)?

- a. Income statement
- b. Statement of stockholders' equity
- c. Balance sheet
- d. All of the financial statements would be affected

Answer: d

Learning Objective: 02-02

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Reporting

Blooms: Apply

Topic: Effect of Transactions on Accounting Equation

[Question]

89. Which of the following transactions would cause an increase in both the assets and liabilities of a company?

- a. Paying for the current month's rent.
- b. Pay for inventory purchased 90 days ago.
- c. Purchase of a building by issuing a note payable.
- e. Services received on account.

Answer: c

Feedback: One asset (building) and one liability (note payable) increases.

Learning Objective: 02-02

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Apply

Topic: Effect of Transactions on Accounting Equation

[Question]

90. When a company pays cash for equipment, what is the effect on the accounting equation for that company?

- a. Increase assets and increase liabilities.
- b. Decrease assets and decrease liabilities.
- c. No change.
- d. Increase assets and increase stockholders' equity.

Answer: c

Feedback: One asset (equipment) increases while another asset (cash) decreases.

Learning Objective: 02-02

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Apply

Topic: Effect of Transactions of Accounting Equation

[Question]

91. "Record revenue in the period in which it's earned" is the definition of which principle in accounting?

- a. Trial balance.
- b. Debits and credits.
- c. Revenue recognition.
- d. Accounting equation.

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: Revenue Recognition Principle

[Question]

92. Which of the accounts are decreased on the debit side and increased on the credit side?

- a. Liabilities, stockholders' equity, and revenues.

- b. Dividends, liabilities, and assets.
- c. Expenses, dividends, and stockholders' equity.
- d. Assets, dividends, and expenses.

Answer: a

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

93. Which of the following is true about a “debit”?

- I. It is part of the double-entry procedure that keeps the accounting equation in balance.
 - II. It represents an increase to assets.
 - III. It represents a decrease to liabilities.
 - IV. It is on the right side of a T-account.
- a. I and II.
 - b. IV only.
 - c. I, II, and III.
 - d. I, II, III, and IV.

Answer: c

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

94. Which of the following is true about a “credit”?

- I. It is part of the double-entry procedure that keeps the accounting equation in balance.
 - II. It represents a decrease to assets.
 - III. It represents an increase to liabilities.
 - IV. It is on the right side of a T-account.
- a. I and II.
 - b. IV only.
 - c. I, II, and III.
 - d. I, II, III, and IV.

Answer: d

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

95. Dividends normally carry a _____ balance and are shown in the _____.

- a. Debit; Statement of stockholders' equity.
- b. Debit; Income statement.
- c. Credit; Balance sheet.
- d. Debit; Balance Sheet.

Answer: a

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

AICPA: FN Reporting

Blooms: Understand

Topic: Debits and Credits

Topic: Statement of Stockholders' Equity

[Question]

96. Expenses normally carry a _____ balance and are shown in the _____.

- a. Debit; Statement of stockholders' equity.
- b. Debit; Income statement.
- c. Credit; Balance sheet.
- d. Debit; Balance Sheet.

Answer: b

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

AICPA: FN Reporting

Blooms: Understand

Topic: Debits and Credits

Topic: Income Statement

[Question]

97. Liabilities normally carry a _____ balance and are shown in the _____.

- a. Debit; Statement of stockholders' equity.
- b. Debit; Income statement.
- c. Credit; Balance sheet.
- d. Debit; Balance Sheet.

Answer: c

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

AICPA: FN Reporting

Blooms: Understand

Topic: Debits and Credits

Topic: Balance Sheet

[Question]

98. Which of the following accounts has a debit balance?

- a. Accounts Payable.
- b. Unearned Revenue.
- c. Service Revenue.
- d. Salaries Expense.

Answer: d

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credit

[Question]

99. Which of the following accounts would normally have a credit balance?

- a. Accounts Payable, Service Revenue, Common Stock.
- b. Salaries Payable, Unearned Revenue, Delivery Expense.
- c. Income Tax Payable, Service Revenue, Dividends.
- d. Cash, Repairs and Maintenance Expense, Dividends.

Answer: a

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

100. Which of the following accounts would normally have a debit balance?

- a. Accounts Payable, Service Revenue, Common Stock.
- b. Salaries Payable, Unearned Revenue, Utilities Expense.
- c. Income Tax Payable, Service Revenue, Dividends.
- d. Cash, Delivery expense, Dividends.

Answer: d

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

101. Which of the following accounts would normally have a debit balance and appear in the balance sheet?

- a. Accounts Receivable.
- b. Unearned Revenue.
- c. Salaries Expense.
- d. Dividends.

Answer: a

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

AICPA: FN Reporting

Blooms: Understand

Topic: Debits and Credits

Topic: Balance Sheet

[Question]

102. Which of the following accounts has a credit balance?

- a. Salaries Expense.
- b. Income Tax Payable.
- c. Land.
- d. Prepaid Rent.

Answer: b

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

103. The following statements pertain to recording transactions. Which of them are true?

- I. Total debits should equal total credits.
 - II. It is possible to have multiple debits or credits in one journal entry.
 - III. Assets are always listed first in journal entries.
 - IV. Some journal entries will have debits only.
- a. I only.
 - b. I and II.
 - c. I, II, and IV.
 - d. II, III, and IV.

Answer: b

Learning Objective: 02-04

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Analyze

Topic: Recording Transactions

[Question]

104. Which of the following is *not* a possible journal entry?

- a. Credit assets; Debit expenses.
- b. Debit assets; Debit stockholders' equity.
- c. Credit revenues; Debit assets.
- d. Debit expenses; Credit liabilities.

Answer: b

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

105. Which of the accounts are increased with a debit and decreased with a credit?

- a. Liabilities, stockholders' equity, and revenues.
- b. Dividends, liabilities, and assets.
- c. Expenses, dividends, and stockholders' equity.
- d. Assets, dividends, and expenses.

Answer: d

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

106. Consider the following list of accounts:

Cash	Retained Earnings
Service Revenue	Utilities Expense
Salaries Expense	Accounts Receivable
Accounts Payable	Common Stock
Equipment	Dividends

How many of these accounts have a normal debit balance?

- a. Four.
- b. Five.
- c. Six.
- d. Seven.

Answer: c

Feedback: Cash, Salaries Expense, Equipment, Utilities Expense, Accounts Receivable, Dividends.

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

107. Consider the following list of accounts:

Accounts Payable

Cash

Prepaid Rent

Common Stock

Salaries Payable

Equipment

Supplies

Rent Expense

How many of these accounts have a normal credit balance?

a. Two.

b. Three.

c. Four.

d. Five.

Answer: b

Feedback: Accounts Payable, Common Stock, Salaries Payable.

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

108. Consider the following accounts:

Utilities Expense

Accounts Payable

Service Revenue

Common Stock

How many of these accounts are increased with debits?

a. One.

b. Two.

c. Three.

d. Four.

Answer: a

Feedback: Utilities Expense.

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement
Blooms: Understand
Topic: Debits and Credits

[Question]

109. Which one of the following accounts will have a credit balance?

- a. Dividends
- b. Salary Expense
- c. Supplies
- d. Common Stock

Answer: d

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

110. Consider the following accounts:

- Dividends
- Insurance Expense
- Cash
- Service Revenue

How many of these accounts are increased with credits?

- a. One.
- b. Two.
- c. Three.
- d. Four.

Answer: a

Feedback: Service Revenue.

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

111. Providing services on account would be recorded with a:

- a. Debit to Service Revenue.
- b. Credit to Accounts Receivable.
- c. Credit to Accounts Payable.
- d. Debit to Accounts Receivable.

Answer: d

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

112. Xenon Corporation borrows \$75,000 from First Bank. Xenon Corporation records this transaction with a:

- a. Debit to Investments.
- b. Credit to Retained Earnings.
- c. Credit to Notes Payable.
- d. Credit to Interest Expense.

Answer: c

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

113. Childers Service Company provides services to customers totaling \$3,000, for which it billed the customers. How would the transaction be recorded?

- a. Debit Cash \$3,000, credit Service Revenue \$3,000.
- b. Debit Accounts Receivable \$3,000, credit Service Revenue \$3,000.
- c. Debit Accounts Receivable \$3,000, credit Cash \$3,000.
- d. Debit Service Revenue \$3,000, credit Accounts Receivable \$3,000.

Answer: b

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

114. A company received a bill for newspaper advertising services, \$400. The bill will be paid in 10 days. How would the transaction be recorded today?

- a. Debit Advertising Expense \$400, credit Accounts Payable \$400.
- b. Debit Accounts Payable \$400, credit Advertising Expense \$400.
- c. Debit Accounts Payable \$400, credit Cash \$400.
- d. Debit Advertising Expense \$400, credit Cash \$400.

Answer: a

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking
AICPA: FN Measurement
Blooms: Understand
Topic: Recording Transactions

[Question]

115. When a company pays utilities of \$1,800 in cash, the transaction is recorded as:

- a. Debit Utilities Expense \$1,800, credit Utilities Payable \$1,800.
- b. Debit Utilities Payable \$1,800, credit Cash \$1,800.
- c. Debit Cash \$1,800, credit Utilities Expense \$1,800.
- d. Debit Utilities Expense \$1,800, credit Cash \$1,800.

Answer: d

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

116. Assume that cash is paid for rent to cover the next year. The appropriate debit and credit are:

- a. Debit Rent Expense, credit Cash.
- b. Debit Prepaid Rent, credit Rent Expense.
- c. Debit Prepaid Rent, credit Cash.
- d. Debit Cash, credit Prepaid Rent.

Answer: c

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

117. Summer Leasing received \$12,000 for 24 months rent in advance. How should Summer record this transaction?

- a. Debit Prepaid Rent; credit Rent Expense.
- b. Debit Cash; credit Unearned Revenue.
- c. Debit Cash; credit Service Revenue.
- d. Debit Rent Expense; credit Cash.

Answer: b

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

118. Styleson Inc. performed cleaning services for its customers for cash. These transactions would be recorded as:

- a. Debit Service Revenue, credit Cash.
- b. Debit Cash, credit Service Revenue.
- c. Debit Cash, credit Accounts Receivable.
- d. Debit Accounts Receivable, credit Service Revenue.

Answer: b

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

119. Assume that \$18,000 cash is paid for insurance to cover the next year. The appropriate debit and credit are:

- a. Debit Insurance Expense \$18,000, credit Prepaid Insurance \$18,000.
- b. Debit Prepaid Insurance \$18,000, credit Insurance Expense \$18,000.
- c. Debit Prepaid Insurance \$18,000, credit Cash \$18,000.
- d. Debit Cash \$18,000, credit Prepaid Insurance \$18,000.

Answer: c

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

120. Schooner Inc. purchased equipment by signing a note payable. This transaction would be recorded as:

- a. Debit Equipment, credit Cash.
- b. Debit Cash, credit Notes Payable.
- c. Debit Notes Payable, credit Equipment.
- d. Debit Equipment, credit Notes Payable.

Answer: d

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

121. When a company pays \$2,500 dividends to its stockholders, the transaction should be recorded as:

- a. Debit Cash; credit Dividends.
- b. Debit Retained Earnings; credit Dividends.
- c. Debit Dividends; credit Cash.
- d. Debit Dividends; credit Accounts Payable.

Answer: c

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

122. Daniel Dino Restaurant owes employee salaries of \$15,000. This would be recorded as:

- a. Debit Salaries Expense, credit Cash.
- b. Debit Salaries Payable, credit Cash.
- c. Debit Salaries Expense, credit Salaries Payable.
- d. Debit Salaries Payable, credit Salaries Expense.

Answer: c

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

123. Jerome purchased a building for his business by signing a note to be repaid over the next ten years. Which of the following correctly describes how to record this transaction?

- a. Debit assets, credit liabilities.
- b. Debit assets, credit stockholders' equity.
- c. Debit liabilities, credit assets.
- e. Debit expenses, credit liabilities.

Answer: a

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

124. Incurring an expense for advertising on account would be recorded by:

- a. Debiting liabilities.
- b. Crediting assets.
- c. Debiting an expense.
- d. Debiting assets.

Answer: c

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

125. Tyler Incorporated receives \$150,000 from investors in exchange for shares of its common stock. Tyler Incorporated records this transaction with a:

- a. Debit to Investments.
- b. Credit to Retained Earnings.
- c. Credit to Common Stock.
- d. Credit to Service Revenue.

Answer: c

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

126. The owner of an office building should report rent collected in advance as a debit to Cash and a credit to:

- a. A liability.
- b. An asset other than Cash.
- c. Revenue.
- d. Stockholders' equity.

Answer: a

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

127. Clement Company paid an account payable related to a previous utility bill of \$1,000. This transaction should be recorded as follows on the payment date:

- a. Debit Accounts Payable \$1,000, credit Cash \$1,000.
- b. Debit Cash \$1,000, credit Accounts Payable \$1,000.
- c. Debit Utilities Expense \$1,000, credit Cash \$1,000.
- d. Debit Cash \$1,000, credit Utilities Expense \$1,000.

Answer: a

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

128. On July 7, Saints Inc. received \$10,000 in cash from a customer for services to be provided on October 10. Which of the following describes how the transaction should be recorded on July 7?

- a. Debit Cash \$10,000, credit Service Revenue \$10,000.
- b. Debit Accounts Receivable \$10,000, credit Service Revenue \$10,000.
- c. Debit Cash \$10,000, credit Unearned Revenue \$10,000.
- d. Debit Unearned Revenue \$10,000, credit Cash \$10,000.

Answer: c

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

129. On December 1, Bears Inc. signed a contract with a retailer to supply maintenance for the next calendar year. How should this transaction be recorded on December 1?

- a. Debit Cash, credit Service Revenue.
- b. Debit Cash, credit Accounts Receivable.
- c. Debit Accounts Receivable, credit Service Revenue.
- d. No transaction should be recorded on December 1.

Answer: d

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

130. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

1. Issued 10,000 shares of common stock for \$15,000 cash.
2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

What was the balance of Gotebo's Cash account following these six transactions?

- a. \$29,800.
- b. \$19,300.
- c. \$17,800.
- d. \$22,400.

Answer: c

Feedback: Cash = (\$15,000 - \$1,200 + \$14,000 - \$10,000) = \$17,800.

Learning Objective: 02-02

Learning Objective: 02-04

Difficulty: Hard

AACSB: Analytic

AICPA: FN Measurement

Blooms: Analyze

Topic: Effect of Transactions on Accounting Equation

Topic: Posting Transactions

[Question]

131. Sooner purchased office supplies on account. The transaction would be recorded as:

- a. Debit Supplies, Credit Cash
- b. Debit Cash, Credit Accounts Payable
- c. Debit Accounts Payable, Credit Supplies
- d. Debit Supplies, Credit Accounts Payable

Answer: d

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

132. Tomlin & Company provides music for special occasions. On January 14, the Smith family hired Tomlin for an upcoming family wedding for an agreed upon fee of \$10,000. The wedding was scheduled for May 23. As part of the agreement, the Smiths paid Tomlin half of the fee at the end of April with the remaining amount due by the end of June. How would Tomlin record the receipt of the final payment in June?

- a. Credit to Accounts Receivable.
- b. Credit to Service Revenue.

- c. Credit to Cash.
- d. Debit to Unearned Revenue.

Answer: a
Learning Objective: 02-04
Difficulty: Hard
AACSB: Reflective Thinking
AICPA: FN Measurement
Blooms: Analyze
Topic: Recording Transactions

[Question]

133. Bostel wanted to expand the size of its warehouse in order to generate more profits. The company decided to purchase the building adjacent to its existing warehouse. The company pays for the building by borrowing from the bank. The purchase would be recorded as:

- a. Debit Cash; credit Notes Payable.
- b. Debit Buildings; credit Cash.
- c. Debit Buildings; credit Notes Payable.
- d. Debit Cash and Buildings; credit Notes Payable.

Answer: c
Learning Objective: 02-04
Difficulty: Medium
AACSB: Reflective Thinking
AICPA: FN Measurement
Blooms: Understand
Topic: Recording Transactions

[Question]

134. On July 5, Harris Company purchased supplies from the hardware store for \$600 on account. On July 10, Harris receives a bill from the hardware store as a reminder about the account balance. On July 17, Harris pays the account in full. How does Harris record the transaction on July 17?

- a. Supplies 600
 Accounts Payable 600
- b. Accounts Payable 600
 Supplies 600
- c. Cash 600
 Accounts Payable 600
- d. Accounts Payable 600
 Cash 600

Answer: d
Learning Objective: 02-04
Difficulty: Medium
AACSB: Reflective Thinking
AICPA: FN Measurement
Blooms: Understand
Topic: Recording Transactions

[Question]

135. Which of the following is possible for a particular business transaction?

- a. Increase assets; Decrease liabilities
- b. Decrease assets; Increase assets
- c. Decrease assets; Increase stockholders' equity
- d. Decrease liabilities; Increase expenses

Answer: b

Learning Objective: 02-04

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Apply

Topic: Effect of Transactions on Accounting Equation

[Question]

136. On July 31, ALOE Inc. received \$5,000 cash from a customer who previously purchased ALOE's products on account. What entry should ALOE Inc. record at the time it receives cash?

- a. Debit Accounts Receivable, \$5,000; credit Cash, \$5,000.
- b. Debit Cash, \$5,000; credit Accounts Receivable, \$5,000.
- c. Debit Cash, \$5,000; credit Accounts Payable, \$5,000.
- d. Debit Cash, \$5,000; credit Service Revenue, \$5,000.

Answer: b

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

137. The Accounts Payable account has a beginning balance of \$12,000 and the company purchased \$50,000 of supplies on account during the month. The ending balance was \$10,000. How much did the company pay to creditors during the month?

- a. \$50,000.
- b. \$52,000.
- c. \$60,000.
- d. \$62,000.

Answer: b

Feedback: $\$12,000 + \$50,000 - \$10,000 = \$52,000$.

Learning Objective: 02-05

Difficulty: Hard

AACSB: Analytic

AICPA: FN Measurement

Blooms: Analyze

Topic: Posting Transactions

[Question]

138. On March 3, Cobra Inc. purchased a desk for \$450 on account. On March 22, Cobra purchased another desk for \$500 also on account, and then on March 24, Cobra paid \$400 on account. At the end of March, what amount should Cobra report for desks (assuming these two desks were the only desks they had)?

- a. \$50.
- b. \$450.
- c. \$500.
- d. \$950.

Answer: d

Learning Objective: 02-05

Difficulty: Hard

AACSB: Analytic

AICPA: FN Reporting

Blooms: Analyze

Topic: Posting Transactions

[Question]

139. Posting transactions to T-accounts involve:

- a. Analyzing source documents to determine the effects of transactions on the company's accounts.
- b. Listing all accounts and their balances at a particular date to ensure that debits equal credits.
- c. Preparing a chronological record of all transactions affecting the company.
- d. Transferring debit and credit information from the journal to the accounts in the general ledger.

Answer: d

Learning Objective: 02-05

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: Posting Transactions

[Question]

140. The Accounts Receivable account has a beginning balance of \$10,000 and the company provides services of \$50,000 on account during the month. The ending balance was \$12,000. How much did the company receive from customers during the month?

- a. \$50,000.
- b. \$52,000.
- c. \$48,000.
- d. \$62,000.

Answer: c

Feedback: $\$10,000 + \$50,000 - \$12,000 = \$48,000$.

Learning Objective: 02-05

Difficulty: Hard

AACSB: Analytic
AICPA: FN Measurement
Blooms: Analyze
Topic: Posting Transactions

[Question]

141. Posting is the process of:

- a. Analyzing the impact of the transaction on the accounting equation.
- b. Obtaining information about external transactions from source documents.
- c. Transferring the debit and credit information from the journal to individual accounts in the general ledger.
- d. Listing all accounts and their balances at a particular date.

Answer: c

Learning Objective: 02-05

Difficulty: Easy

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Remember

Topic: Posting Transactions

[Question]

142. A trial balance can best be explained as a list of:

- a. The income statement accounts used to calculate net income.
- b. Revenue, expense, and dividend accounts used to show the balances of the components of retained earnings.
- c. The balance sheet accounts used to show the equality of the accounting equation.
- d. All accounts and their balances at a particular date.

Answer: d

Learning Objective: 02-06

Difficulty: Easy

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Remember

Topic: Trial Balance

[Question]

143. A trial balance represents the:

- a. Source documents used to determine the effects of transactions on the company's accounts.
- b. List of all accounts and their balances at a particular date to ensure that debits equal credits.
- c. Chronological record of all transactions affecting the company.
- d. Process of transferring debit and credit information from the journal to the accounts in the general ledger.

Answer: b

Learning Objective: 02-06

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: Trial Balance

[Question]

144. Lithuanian Motors has the following balance sheet accounts:

Land	\$170,000
Equipment	66,000
Salaries Payable	?
Notes Payable	88,000
Supplies	14,000
Cash	26,000
Common Stock	100,000
Retained Earnings	40,000
Accounts Payable	?
Prepaid Rent	12,000

If the company has total assets of \$288,000, what is the balance of the company's Salaries Payable account?

- a. \$15,000.
- b. \$25,000.
- c. \$12,000.
- d. Cannot be determined given the information provided.

Answer: d

Feedback: Total liabilities + Stockholders' equity = (\$288,000) = Accounts Payable (?) + Salaries Payable (?) + Notes Payable (\$88,000) + Common Stock (\$100,000) + Retained Earnings (\$40,000); therefore, with two unknowns there is not enough information to solve the problem.

Learning Objective: 02-06

Difficulty: Hard

AACSB: Analytic

AICPA: FN Measurement

Blooms: Analyze

Topic: Trial Balance

[Question]

145. Finnish Motors has the following balance sheet accounts:

Land	\$150,000
Equipment	90,000
Salaries Payable	12,000
Notes Payable	99,000
Supplies	10,000
Cash	25,000
Common Stock	40,000
Retained Earnings	100,000
Accounts Payable	?
Prepaid Rent	?

If the company has total liabilities and stockholders' equity of \$290,000, what is the balance of the company's Prepaid Rent account?

- a. \$15,000.
- b. \$25,000.
- c. \$12,000.
- d. \$39,000.

Answer: a

Feedback: Total assets (\$290,000) = Land (\$150,000) + Equipment (\$90,000) + Supplies (\$10,000) + Cash (\$25,000) + Prepaid Rent (?); therefore, Prepaid Rent = \$15,000.

Learning Objective: 02-06

Difficulty: Hard

AACSB: Analytic

AICPA: FN Measurement

Blooms: Analyze

Topic: Trial Balance

Problems

[Question]

146. Below are the steps in the measurement process of external transactions. Arrange them from first (1) to last (6).

- _____ (a) Post the transaction to the T-accounts in the general ledger.
- _____ (b) Assess whether the impact of the transaction results in a debit or credit to the account balance.
- _____ (c) Use source documents to identify accounts affected by external transactions.
- _____ (d) Analyze the impact of the transaction on the accounting equation.
- _____ (e) Prepare a trial balance.
- _____ (f) Record transactions using debits and credits.

Answer: (a) 5; (b) 3; (c) 1; (d) 2; (e) 6; (f) 4

Learning Objective: 02-01

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: FN Measurement Process for External Transactions

[Question]

147. A company received a utility bill of \$600 but did not pay it. Indicate the amount of increases and decreases in the accounting equation.

Answer:

Assets	=	Liabilities	+	Stockholders' Equity
\$0	=	\$600	+	-\$600

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

148. A company purchases supplies on account for \$1,700. Indicate the amount of increases and decreases in the accounting equation.

Answer:

Assets	=	Liabilities	+	Stockholders' Equity
\$1,700	=	\$1,700	+	\$0

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

149. A company provides services to customers on account for \$2,400. Indicate the amount of increases and decreases in the accounting equation.

Answer:

Assets	=	Liabilities	+	Stockholders' Equity
\$2,400	=	\$0	+	\$2,400

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

150. A company pays \$800 dividends to stockholders. Indicate the amount of increases and decreases in the accounting equation.

Answer:

Assets	=	Liabilities	+	Stockholders' Equity
-\$800	=	\$0	+	-\$800

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

151. A company pays \$1,300 on account for supplies previously purchased on account. Indicate the amount of increases and decreases in the accounting equation.

Answer:

$$\begin{array}{rclcl}
 \text{Assets} & = & \text{Liabilities} & + & \text{Stockholders' Equity} \\
 -\$1,300 & = & -\$1,300 & + & \$0
 \end{array}$$

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

[Question]

152. The following transactions occur for the Hamilton Manufacturers.

- (a) Provide services to customers on account for \$4,500.
- (b) Purchase equipment by signing a note with the bank for \$10,000.
- (c) Pay advertising of \$1,500 for the current month.

Analyze each transaction and indicate the amount of increases and decreases in the accounting equation.

Answer:

	Assets	=	Liabilities	+	Stockholders' Equity
(a)	+\$4,500	=	\$0	+	+\$4,500
(b)	+\$10,000	=	+\$10,000	+	\$0
(c)	-\$1,500	=	\$0	+	-\$1,500

Learning Objective: 02-02

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Apply

Topic: Effect of Transactions on Accounting Equation

[Question]

153. Using the notion that the accounting equation (Assets = Liabilities + Stockholders' Equity) must remain in balance, indicate whether each of the following transactions is possible.

- (a) Cash decreases; Accounts Payable decreases.
- (b) Salaries Expense increases; Salaries Payable decreases.
- (c) Accounts Receivable decreases; Service Revenue increases.

Answer: (a) Yes; (b) No; (c) No

Learning Objective: 02-02

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Apply

Topic: Effect of Transactions on Accounting Equation

[Question]

154. Suppose a company has the following balance sheet accounts:

<u>Accounts</u>	<u>Balances</u>
Land	\$ 9,000
Building	?
Salaries payable	3,700
Common stock	?
Accounts payable	2,600
Cash	5,300
Retained earnings	11,600
Supplies	3,200
Equipment	4,500

Calculate the missing amounts assuming the company has total assets of \$40,000.

Answer: Building = \$18,000; Common stock = \$22,100.

Feedback: $\$40,000 = \text{Land } (\$9,000) + \text{Building } (?) + \text{Cash } (\$5,300) + \text{Supplies } (\$3,200) + \text{Equipment } (\$4,500)$; therefore, Building = \$18,000.

$\$40,000 = \text{Salaries Payable } (\$3,700) + \text{Common Stock } (?) + \text{Accounts Payable } (\$2,600) + \text{Retained Earnings } (\$11,600)$; therefore, Common Stock = \$22,100

Learning Objective: 02-02

Difficulty: Hard

AACSB: Analytic

AICPA: FN Measurement

Blooms: Analyze

Topic: Effect of Transactions on Accounting Equation

[Question]

155. For each of the following accounts, indicate whether a debit or credit is used to increase (+) or decrease (-) the balance of the account.

Account	Debit	Credit
(a) Common Stock		
(b) Liability		
(c) Asset		
(d) Revenue		
(e) Dividend		
(f) Retained Earnings		
(g) Expense		

Answer: (a) -, +; (b) -, +; (c) +, -; (d) -, +; (e) +, -; (f) -, +; (g) +, -

Learning Objective: 02-3

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement
Blooms: Understand
Topic: Debits and Credits

[Question]

156. For each of the following accounts, indicate whether we use a debit or a credit to increase the balance of the account.

- (a) Accounts Receivable
- (b) Accounts Payable
- (c) Salaries Expense
- (d) Service Revenue
- (e) Supplies
- (f) Common Stock
- (g) Advertising Expense
- (h) Dividends

Answer: (a) debit; (b) credit; (c) debit; (d) credit; (e) debit; (f) credit; (g) debit; (h) debit

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

157. For each of the following accounts, indicate whether we use a debit or a credit to decrease the balance of the account.

- (a) Accounts Receivable
- (b) Accounts Payable
- (c) Salaries Expense
- (d) Service Revenue
- (e) Supplies
- (f) Common Stock
- (g) Advertising Expense
- (h) Dividends

Answer: (a) credit; (b) debit; (c) credit; (d) debit; (e) credit; (f) debit; (g) credit; (h) credit

Learning Objective: 02-03

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Debits and Credits

[Question]

158. A company sells common stock for \$20,000 cash. Record the transaction.

Answer:

Cash	20,000	
Common Stock		20,000

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

159. A company purchases a building for \$100,000, paying \$20,000 cash and signing a note payable for the remainder. Record the transaction.

Answer:

Building	100,000	
Cash		20,000
Notes Payable		80,000

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

160. A company purchases machinery for \$15,000 cash. Record the transaction.

Answer:

Equipment	15,000	
Cash		15,000

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

161. A company purchases office supplies on account for \$7,500. Record the transaction.

Answer:

Office Supplies	7,500	
Accounts Payable		7,500

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

162. A company provides services to customers on account, \$3,500. Record the transaction.

Answer:

Accounts Receivable	3,500	
Service Revenue		3,500

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

163. A company provides services to customers for \$2,400 cash. Record the transaction.

Answer:

Cash	2,400	
Service Revenue		2,400

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

164. A company incurs employee salaries of \$4,200 but does not pay them. Record the transaction.

Answer:

Salaries Expense	4,200	
Salaries Payable		4,200

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

165. A company pays \$2,000 dividends to its stockholders. Record the transaction.

Answer:

Dividends	2,000	
Cash		2,000

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement
Blooms: Understand
Topic: Recording Transactions

[Question]

166. A company collects \$4,000 cash from customers for services previously provided on account. Record the transaction.

Answer:

Cash	4,000	
Accounts Receivable		4,000

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

167. A company receives \$6,500 cash in advance from customers for services to be provided next year. Record the transaction.

Answer:

Cash	6,500	
Unearned Revenue		6,500

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

168. A company pays \$5,400 for maintenance in the current period. Record the transaction.

Answer:

Repairs and Maintenance Expense	5,400	
Cash		5,400

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

169. A company pays \$12,000 to purchase a one-year insurance policy. Record the transaction.

Answer:

Prepaid Insurance	12,000	
Cash		12,000

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

170. Record the following transactions for Acme Builders:

(a) Purchase office supplies on account, \$1,200.

(b) Provide services to customers for cash, \$2,500.

(c) Pay \$1,100 in salaries for the current month.

Answer:

(a)			
Supplies	1,200		
Accounts Payable		1,200	
(b)			
Cash	2,500		
Service Revenue		2,500	
(c)			
Salaries Expense	1,100		
Cash		1,100	

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

171. Record the following transactions for the Stroud Music Store:

(a) Provide music lessons to students for \$12,000 on account.

(b) Purchase music supplies on account, \$1,500.

(c) Pay rent for the current month, \$2,000.

(d) Receive \$10,000 cash from students in (a) above.

Answer:

(a)			
Accounts Receivable	12,000		
Service Revenue		12,000	
(b)			
Supplies	1,500		
Accounts Payable		1,500	
(c)			
Rent Expense	2,000		

	Cash	2,000	
(d)	Cash	10,000	
	Accounts Receivable		10,000

Learning Objective: 02-04

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Topic: Recording Transactions

[Question]

172. Rite Shoes was involved in the transactions described below. Record each transaction. If an entry is not required, state "No Entry."

- (a) Purchased \$8,200 of supplies on account.
- (b) Paid weekly salaries, \$920.
- (c) Provide services to customers: Cash: \$7,100; On account: \$5,300.
- (d) Paid for supplies purchased in (a) above.
- (e) Placed an order for \$6,200 of supplies.

Answer:

(a)	Supplies	8,200	
	Accounts Payable		8,200
(b)	Salaries expense	920	
	Cash		920
(c)	Cash	7,100	
	Accounts Receivable	5,300	
	Service Revenue		12,400
(d)	Accounts Payable	8,200	
	Cash		8,200

(e) No Entry.

Learning Objective: 02-04

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Apply

Topic: Recording Transactions

[Question]

173. Record the following transactions. If an entry is not required, state "No Entry."

- (a) Started business by issuing 10,000 shares of common stock for \$20,000.
- (b) Hired Rebecca as an administrative assistant, promising to pay her \$2,000 every two weeks.
- (c) Rented a building for three years at \$500 per month and paid six months' rent in advance.

- (d) Purchased equipment for \$5,400 cash.
- (e) Purchased \$1,800 of supplies on account.
- (f) Provided services to customers for \$7,800 cash.
- (g) Paid employee salaries, \$5,200.
- (h) Paid for supplies purchased in item (e).
- (i) Paid \$800 for current advertising in a local newspaper.
- (j) Paid utility bill of \$1,300 for the current month.

(a)	Cash	20,000	
	Common Stock		20,000
(b)	No Entry.		
(c)	Prepaid Rent	3,000	
	Cash		3,000
(d)	Equipment	5,400	
	Cash		5,400
(e)	Supplies	1,800	
	Accounts Payable		1,800
(f)	Cash	7,800	
	Service Revenue		7,800
(g)	Salaries Expense	5,200	
	Cash		5,200
(h)	Accounts Payable	1,800	
	Cash		1,800
(i)	Advertising Expense	800	
	Cash		800
(j)	Utilities Expense	1,300	
	Cash		1,300

Answer:

Learning Objective: 02-04

Difficulty: Hard

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Apply

Topic: Recording Transactions

[Question]

174. Consider the following T-account for Accounts Payable.

Accounts Payable	
	10,200
8,800	4,500

1. Compute the balance of the Accounts Payable account.
2. Give an example of a transaction that would have resulted in the \$8,800 posting to the account.
3. Give an example of a transaction that would have resulted in the \$4,500 posting to the account.

Answer:

1. $\$10,200 - \$8,800 + \$4,500 = \$5,900$.
2. Postings on the left side (or debit side) of the Accounts Payable T-account represent decreases to accounts payable, such as making a payment on the account.
3. Postings on the right side (or credit side) of the Accounts Payable T-account represent increases to accounts payable, such as purchasing office supplies on account.

Learning Objective: 02-05

Difficulty: Hard

AACSB: Analytic

AICPA: FN Measurement

Blooms: Analyze

Topic: Posting Transactions

[Question]

175. Consider the following transactions for Mittel Corporation:

- a. Sell common stock for \$10,000.
- b. Purchase equipment for \$11,500 cash.
- c. Pay employee salaries of \$3,700.
- e. Provide services to customers for \$6,200 cash.

1. Post these transactions to the Cash T-account. Assume the balance of Cash before these transactions is \$4,200.

2. Calculate the ending balance of the Cash account.

Cash	
4,200	
10,000	11,500
6,200	3,700
5,200	

Answer:

Learning Objective: 02-05

Difficulty: Hard

AACSB: Analytic

AICPA: FN Measurement

Blooms: Analyze

Topic: Posting Transactions

[Question]

176. Use the following information to prepare a trial balance.

Cash	\$6,200	Dividends	\$ 1,200
Unearned revenue	1,200	Salaries expense	2,200
Prepaid insurance	1,200	Accounts receivable	3,400
Accounts payable	1,900	Common stock	6,200
Retained earnings	1,600	Service revenue	7,100
Utilities expense	3,000	Maintenance expense	800

Trial Balance		
	Debit	Credit
Cash	\$6,200	
Accounts receivable	3,400	
Prepaid insurance	1,200	
Accounts payable		\$1,900
Unearned revenue		1,200
Common stock		6,200
Retained earnings		1,600
Dividends	1,200	
Service revenue		7,100
Salaries expense	2,200	
Utilities expense	3,000	
Maintenance expense	800	
Total	\$18,000	\$18,000

Answer:

Learning Objective: 02-06

Difficulty: Hard

AACSB: Analytic

AICPA: FN Measurement

Blooms: Analyze

Topic: Trial Balance

Essay

The following answers point out the key phrases that should appear in students' answers. They are not intended to be examples of complete student responses. It might be helpful to provide detailed instructions to students on how brief or in-depth you want their answers to be.

[Question]

177. Describe the difference between external events and internal events and give two examples of each.

Answer: External events involve an exchange between the company and a separate economic entity. Examples include purchasing office supplies on account or borrowing money from a bank. Internal events directly affect the financial position of the company but do not involve exchange transactions with another entity. Examples include depreciation of equipment or use of supplies.

Learning Objective: 02-01

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: External and Internal Events

[Question]

178. Describe the six steps in the FN Measurement process of external transactions.

Answer: The six steps include: (1) Use source documents to identify accounts affected by external transactions, (2) analyze the impact of the transaction on the accounting equation, (3) assess whether the impact of the transaction results in a debit or credit to the account balance, (4) record transactions using debits and credits, (5) post the transaction to the T-accounts in the general ledger, and (6) prepare a trial balance.

Learning Objective: 02-01

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: FN Measurement Process for External Transactions

[Question]

179. Explain what it means that external transactions have a dual effect.

Answer:

Dual effect refers to each transaction having at least two effects on the accounting equation. Either an economic event increases (decreases) one side of the equation and also increases (decreases) the other side of the equation by the same amount, or the economic event increases one element and decreases another element by an equal amount, both on the same side of the accounting equation.

Learning Objective: 02-02

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: Effect of Transactions on Accounting Equation

Matching

Reference: 02_142

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the best term by placing the letter designating the term in the space provided.

Terms:

- a. Assets
- b. Debit
- c. Journal entry
- d. Liabilities
- e. Revenues
- f. Expenses
- g. Credit
- h. General ledger
- i. Trial balance

j. Dividends

[Question]

180. ____ Refers to the right side of an account.

Answer: g

Learning Objective: 02-02

Learning Objective: 02-03

Learning Objective: 02-04

Learning Objective: 02-06

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: Debits and Credits

Refer To: 02_142

[Question]

181. ____ Convention used to record transactions of a company.

Answer: c

Learning Objective: 02-02

Learning Objective: 02-03

Learning Objective: 02-04

Learning Objective: 02-06

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: Recording Transactions

Refer To: 02_142

[Question]

182. ____ Resources earned by providing goods and services to customers.

Answer: e

Learning Objective: 02-02

Learning Objective: 02-03

Learning Objective: 02-04

Learning Objective: 02-06

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: Revenues

Refer To: 02_142

[Question]

183. ____ Resources owned by a company.

Answer: a

Learning Objective: 02-02

Learning Objective: 02-03

Learning Objective: 02-04

Learning Objective: 02-06

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: Assets

Refer To: 02_142

[Question]

184. ____ List of all accounts and their balances after external transactions are recorded.

Answer: i

Learning Objective: 02-02

Learning Objective: 02-03

Learning Objective: 02-04

Learning Objective: 02-06

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: Trial Balance

Refer To: 02_142

Reference: 02_147

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the best term by placing the letter designating the term in the space.

Terms:

a. Assets

b. Debit

c. Journal entry

d. Liabilities

e. Revenues

f. Expenses

g. Credit

h. General ledger

i. Trial balance

j. Dividends

[Question]

185. ____ Asset and expense accounts normally have this type of balance.

Answer: b

Learning Objective: 02-02

Learning Objective: 02-03

Learning Objective: 02-05

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: Debits and Credits

Refer To: 02_147

[Question]

186. ____ Contains all the accounts of a company.

Answer: h

Learning Objective: 02-02

Learning Objective: 02-03

Learning Objective: 02-05

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: General Ledger

Refer To: 02_147

[Question]

187. ____ Costs to generate revenues.

Answer: f

Learning Objective: 02-02

Learning Objective: 02-03

Learning Objective: 02-05

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: Expenses

Refer To: 02_147

[Question]

188. ____ Resources owed by a company.

Answer: d

Learning Objective: 02-02

Learning Objective: 02-03

Learning Objective: 02-05

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Topic: Liabilities

Refer To: 02_147

[Question]

189. ____ Payments to stockholders.

Answer: j

Learning Objective: 02-02

Learning Objective: 02-03

Learning Objective: 02-05

Difficulty: Medium

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Refer To: 02_147

Topic: Dividends