

Financial Accounting, 4e (Kemp)

Chapter 2 Analyzing and Recording Business Transactions

2.1 Define accounts and understand how they are used in accounting

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

Answer: FALSE

Diff: 1

Question Type: Application

2) An account numbered 321 would be considered a Stockholders' Equity account as it begins with a 3.

Answer: TRUE

Diff: 1

Question Type: Application

3) The Stockholders' Equity section would include accounts such as Retained Earnings and Revenues.

Answer: TRUE

Diff: 1

Question Type: Concept

4) Items of value that a company owns are called Stockholders' Equity.

Answer: FALSE

Diff: 1

Question Type: Concept

5) A business generally has fewer liability accounts than asset accounts.

Answer: TRUE

Diff: 1

Question Type: Concept

6) A business generally has just one expense account.

Answer: FALSE

Diff: 1

Question Type: Concept

7) The Assets section would include prepaid expense accounts.

Answer: TRUE

Diff: 1

Question Type: Concept

8) The Liabilities section would include accrued liabilities and prepaid expense accounts.

Answer: FALSE

Diff: 1

Question Type: Concept

9) Accounts Payable represent amounts a business must pay because it signed a written promissory note.

Answer: FALSE

Diff: 1

Question Type: Concept

10) 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

Question Type: Concept

11) The _____ account tracks a company's cumulative earnings less dividends.

A) Retained Earnings

B) Cash

C) Common Stock

D) Revenues

Answer: A

Diff: 1

Question Type: Concept

12) 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

Question Type: Concept

13) 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

Question Type: Concept

14) 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

Question Type: Concept

15) All payables are listed as:

- A) assets.
- B) liabilities.
- C) Stockholders' Equity.
- D) revenue.

Answer: B

Diff: 1

Question Type: Concept

16) 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

Question Type: Application

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

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

Answer: B

Diff: 1

Question Type: Concept

18) 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

Question Type: Concept

19) 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

Question Type: Concept

20) Accounts starting with the number 4 would represent:

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

Answer: C

Diff: 1

Question Type: Application

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

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

Answer: B

Diff: 1

Question Type: Application

22) 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

Question Type: Concept

23) 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

Question Type: Concept

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

- A) Receivables and Equipment
- B) Depreciation Expense and Marketing Expense
- C) Merchandise Sales and Rent Revenue
- D) Common Stock and Dividends

Answer: A

Diff: 1

Question Type: Application

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

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

Answer: A

Diff: 1

Question Type: Application

26) 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

Question Type: Concept

27) A chart of accounts does NOT include:

- A) Stockholders' Equity.
- B) assets.
- C) names of customers.
- D) liabilities.

Answer: C

Diff: 1

Question Type: Concept

28) Which of the following is an expense account?

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

Answer: B

Diff: 1

Question Type: Concept

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

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

Answer: A

Diff: 1

Question Type: Concept

30) The account used to record payment of a telephone bill immediately after receiving it, would be a(n):

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

Answer: D

Diff: 1

Question Type: Concept

31) 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

Question Type: Concept

32) Net income and dividends are part of:

- A) Revenues.
- B) Stockholders' Equity.
- C) Assets.
- D) Liabilities.

Answer: B

Diff: 1

Question Type: Concept

33) Which is NOT a part of Stockholders' Equity?

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

Answer: C

Diff: 1

Question Type: Concept

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

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

Answer: C

Diff: 1

Question Type: Concept

35) 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

Question Type: Concept

36) 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

Question Type: Concept

37) Which of the following is NOT a liability?

- A) Accounts Payable
- B) Interest Payable
- C) Rent Expense
- D) All of the above are liabilities.

Answer: C

Diff: 1

Question Type: Concept

38) Which of the following is NOT an asset?

- A) Revenues
- B) Accounts Receivable
- C) Prepaid Rent
- D) All of the above are assets.

Answer: A

Diff: 1

Question Type: Concept

2.2 Explain debits, credits, and the double-entry system of accounting

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

Answer: TRUE

Diff: 1

Question Type: Concept

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

Answer: TRUE

Diff: 1

Question Type: Concept

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

Answer: FALSE

Diff: 1

Question Type: Concept

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

Answer: TRUE

Diff: 1

Question Type: Concept

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

Answer: FALSE

Diff: 1

Question Type: Concept

6) Accounts that increase on the credit side are Liabilities, Common Stock, Revenues and Retained Earnings (LCR).

Answer: TRUE

Diff: 1

Question Type: Concept

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

Question Type: Concept

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: 1

Question Type: Concept

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

Question Type: Concept

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

Question Type: Concept

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

Question Type: Concept

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

Question Type: Concept

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

Question Type: Concept

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

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

Answer: B

Diff: 1

Question Type: Concept

15) 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

Question Type: Concept

16) A T-account has a \$698 credit balance. This account is most likely NOT:

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

Answer: C

Diff: 2

Question Type: Application

17) A T-account has a \$789 debit balance. This account is most likely NOT:

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

Answer: A

Diff: 2

Question Type: Application

18) A T-account has a \$426 debit balance. This account is most likely:

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

Answer: C

Diff: 2

Question Type: Application

19) A T-account has a \$312 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

Question Type: Application

20) A T-account has a \$864 credit balance. This account is most likely:

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

Answer: D

Diff: 2

Question Type: Application

21) A T-account has a \$1,250 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

Question Type: Application

22) Debit means:

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

Answer: D

Diff: 1

Question Type: Concept

23) Credit means:

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

Answer: C

Diff: 1

Question Type: Concept

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

- A) liabilities.
- B) expenses.
- C) revenues.
- D) Stockholders' Equity.

Answer: B

Diff: 1

Question Type: Concept

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

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

Answer: A

Diff: 1

Question Type: Concept

26) 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

Question Type: Concept

27) 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

Question Type: Concept

28) 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

Question Type: Concept

29) 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

Question Type: Concept

30) A company has a \$4568 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

Question Type: Concept

31) A company has an \$11,263 credit balance in the payable accounts. Given this information, which of the following is a TRUE statement?

- A) It is NOT normal for payable accounts to have a credit balance.
- B) Not enough information provided, since normal account balances are different for each company.
- C) It is ALWAYS normal for payable accounts to have a credit balance.
- D) Payable accounts shouldn't be this high, so this is not a normal balance.

Answer: C

Diff: 2

Question Type: Concept

32) A company has a \$14,457 credit balance in the cash account. Given this information, which of the following is a TRUE statement?

- A) This is NOT a normal account balance—companies don't normally have this much cash on hand.
- B) It is NOT normal for the cash account to have a credit balance.
- C) Not enough information provided, since normal account balances are different for each company.
- D) It is ALWAYS normal for the cash account to have a credit balance.

Answer: B

Diff: 2

Question Type: Concept

33) A company has a \$26,329 debit balance in the payable accounts. Given this information, which of the following is a TRUE statement?

- A) It is NOT normal for payable accounts to have a debit balance
- B) Not enough information provided, since normal account balances are different for each company.
- C) Payable accounts don't tend to run this high, so this is not a normal balance.
- D) It is ALWAYS normal for payable accounts to have a debit balance.

Answer: A

Diff: 2

Question Type: Concept

34) Revenues _____ Retained Earnings, and increase on the _____ side.

- A) increase, debit
- B) increase, credit
- C) decrease, debit
- D) decrease, credit

Answer: B

Diff: 1

Question Type: Concept

35) Expenses _____ Retained Earnings, and increase on the _____ side.

- A) increase, debit
- B) increase, credit
- C) decrease, debit
- D) decrease, credit

Answer: C

Diff: 1

Question Type: Concept

36) Given the following T-Account information, what is the balance of the supplies account?

Supplies 132	
1/4	
250	1/18
1/12	195
420	

- A) \$475 debit balance
- B) \$475 credit balance
- C) \$670 debit balance
- D) \$195 credit balance

Answer: A

Diff: 2

Question Type: Application

37) Given the following T-Account information, what is the balance in accounts payable?

Accounts Payable 212	
1/7	
425	1/4
1/21	960
200	

- A) \$335 debit balance
- B) \$625 debit balance
- C) \$335 credit balance
- D) \$960 credit balance

Answer: C

Diff: 2

Question Type: Application

2.3 Demonstrate the use of the general journal and the general ledger to record business transactions

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

Answer: FALSE

Diff: 1

Question Type: Concept

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

Answer: TRUE

Diff: 1

Question Type: Concept

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

Answer: TRUE

Diff: 1

Question Type: Concept

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

Answer: FALSE

Diff: 1

Question Type: Concept

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

Question Type: Concept

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

Answer: TRUE

Diff: 1

Question Type: Concept

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

Answer: FALSE

Diff: 1

Question Type: Concept

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

Answer: TRUE

Diff: 1

Question Type: Concept

9) The difference between total debits and total credits is known as the balance.

Answer: TRUE

Diff: 1

Question Type: Concept

10) If an account's total credits are more than its total debits, then it has a positive balance.

Answer: FALSE

Diff: 1

Question Type: Concept

11) The Caesar Coffee Company pays wages in the amount of \$12,000. This transaction includes a credit to Wages Expense.

Answer: FALSE

Diff: 1

Question Type: Application

12) Danio Corp performs services on account. This transaction includes a debit to Accounts Receivable.

Answer: TRUE

Diff: 1

Question Type: Application

13) Sydney's Sails pays dividends at the end of the year. This transaction includes a debit to Cash.

Answer: FALSE

Diff: 1

Question Type: Application

14) Yukon Inc. pays wages in the amount of \$15,000. 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

Question Type: Application

15) The account "Cash" began with a zero balance and then had the following changes: increase of \$280, decrease of \$90, increase of \$125 and a decrease of \$40. The final balance is a:

A) debit balance of \$275.

B) credit balance of \$275.

C) debit balance of \$405.

D) credit balance of \$130.

Answer: A

Diff: 2

Question Type: Application

16) The account "Notes Payable" began with a zero balance and then had the following changes: increase of \$700, increase of \$300, decrease of \$600, and an increase of \$280. The final balance is a:

- A) credit balance of \$600.
- B) debit balance of \$1,280.
- C) credit balance of \$680.
- D) debit balance of \$680.

Answer: C

Diff: 2

Question Type: Application

17) 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

Question Type: Concept

18) 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 be debited and credited.

Answer: C

Diff: 1

Question Type: Concept

19) 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 be debited and credited.

Answer: A

Diff: 1

Question Type: Concept

20) 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 be debited and credited.

Answer: D

Diff: 1

Question Type: Concept

- 21) 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

Question Type: Concept

- 22) 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

Question Type: Concept

- 23) 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

Question Type: Concept

- 24) 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

Question Type: Concept

- 25) 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

Question Type: Concept

26) 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

Question Type: Concept

27) Christine invested \$32,000 in her business, Cuts by Christine. The journal entry would include a:

- A) debit to Cash for \$32,000 and a credit to Sales for \$32,000.
- B) debit to Cash for \$32,000 and a credit to Common Stock for \$32,000.
- C) credit to Cash for \$32,000 and a debit to Common Stock for \$32,000.
- D) debit to Cash for \$32,000 and a credit to Dividends for \$32,000.

Answer: B

Diff: 2

Question Type: Application

28) Office equipment was purchased for \$1,300 on account from Supplies-for-Less. 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

Question Type: Application

29) Salaries of \$1,025 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

Question Type: Application

30) Sky Co. 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

Question Type: Application

31) S & C, Inc. purchases a building for \$70,000 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

Question Type: Application

32) Renoir Associates paid one of its creditors \$584 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

Question Type: Application

33) Shaman, Inc. purchased \$325 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

Question Type: Application

34) Alaska Alehouse purchased a \$700 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

Question Type: Application

35) Mozart Co. sold season tickets for \$5,500 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

Question Type: Application

36) 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

Question Type: Concept

37) 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

Question Type: Concept

38) One of the customers of Metro Roofing, Inc. paid \$400 on her bill. The journal entry that Metro 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

Question Type: Concept

39) 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

Question Type: Concept

40) 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

Question Type: Concept

41) 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

Question Type: Concept

42) 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

Question Type: Concept

43) The account "Salaries Expense" began with a zero balance and then had the following changes: increase of \$550, decrease of \$275, increase of \$600, and an increase of \$375. The final balance is a:

- A) credit balance of \$1,250.
- B) debit balance of \$1,250.
- C) credit balance of \$1,800.
- D) debit balance of \$1,800.

Answer: B

Diff: 2

Question Type: Application

44) The account "Accounts Receivable" began with a zero balance and then had the following changes: increase of \$625, decrease of \$275, increase of \$350 and increase of \$200. The final balance is a:

- A) credit balance of \$900.
- B) debit balance of \$900.
- C) credit balance of \$1,450.
- D) debit balance of \$1,450.

Answer: B

Diff: 2

Question Type: Application

45) The account "Accounts Payable" began with a zero balance and then had the following changes: increase of \$250, increase of \$600, decrease of \$225, and an increase of \$375. The final balance is a:

- A) credit balance of \$1,000.
- B) debit balance of \$1,000.
- C) credit balance of \$1,450.
- D) debit balance of \$1,450.

Answer: A

Diff: 2

Question Type: Application

46) 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

Question Type: Concept

47) Coyote Co. paid \$8,000 rent in advance. The journal entry would require:

- A) debit to Cash, credit to Rent Expense.
- B) debit to Cash, credit to Prepaid Rent.
- C) debit to Rent Expense, credit to Cash.
- D) debit to Prepaid Rent, credit to Cash.

Answer: D

Diff: 1

Question Type: Application

48) Monet Designs provided services to a client on account. The journal entry would require:

- A) debit to Cash, credit to Service Revenue.
- B) debit to Service Revenue, credit to Accounts Receivable.
- C) debit to Accounts Receivable, credit to Service Revenue.
- D) debit to Service Revenue, credit to Accounts Receivable.

Answer: C

Diff: 1

Question Type: Application

49) Fischers, Inc. paid \$1,200 of dividends. The journal entry would require:

- A) debit to Cash, credit to Dividends
- B) debit to Dividends, credit to Cash.
- C) debit to Dividends, credit to Accounts Payable
- D) debit to Accounts Payable, credit to Dividends

Answer: B

Diff: 1

Question Type: Application

2.4 Use a trial balance to prepare financial statements

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

Answer: FALSE

Diff: 1

Question Type: Concept

2) The trial balance is an official financial statement.

Answer: FALSE

Diff: 1

Question Type: Concept

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

Answer: TRUE

Diff: 1

Question Type: Concept

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

Answer: FALSE

Diff: 1

Question Type: Concept

5) If debits equal credits on the trial balance, it means that all the steps in the accounting process are correct.

Answer: FALSE

Diff: 1

Question Type: Concept

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

Question Type: Concept

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

Answer: TRUE

Diff: 1

Question Type: Concept

8) The purpose of the trial balance is to verify that all account balances are correct.

Answer: FALSE

Diff: 1

Question Type: Concept

9) If a journal entry is recorded twice, both entries must be reversed in order to correct the error.

Answer: FALSE

Diff: 1

Question Type: Concept

10) Revenues and expenses are listed in different columns on the trial balance.

Answer: TRUE

Diff: 1

Question Type: Concept

11) 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

Question Type: Concept

12) 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

Question Type: Concept

13) 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

Question Type: Concept

14) Which document would be best to prove that the account balances are correct?

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

Answer: B

Diff: 1

Question Type: Concept

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

Cash \$367	Accounts Payable \$268	Revenue \$635
Accounts Receivable \$430	Expenses \$106	

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

- A) \$903
- B) \$797
- C) \$741
- D) \$1,806

Answer: A

Diff: 3

Question Type: Application

16) Caesar's Company's trial balance contains the following balances:

Cash \$423	Accounts Receivable \$380	Revenue \$725
Accounts Payable \$287	Expenses \$209	

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

- A) \$1,528
- B) \$496
- C) \$1,012
- D) \$1,299

Answer: C

Diff: 3

Question Type: Application

17) Anthoney Inc's trial balance contains the following balances:

Cash \$533 Accounts Payable \$347 Revenue \$671
Accounts Receivable \$280 Expenses \$205

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

- A) \$552
- B) \$1,018
- C) \$1,484
- D) \$1,689

Answer: B

Diff: 3

Question Type: Application

18) Sassycat Company's trial balance contains the following balances:

Cash \$670	Accounts Receivable \$590	Common Stock \$1,500
Accounts Payable \$720	Dividends \$960	

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

- A) \$2,760
- B) \$3,180
- C) \$3,130
- D) \$2,220

Answer: D

Diff: 3

Question Type: Application

19) 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

Question Type: Concept

20) 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

Question Type: Concept

21) 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

Question Type: Concept

22) 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

Question Type: Application

23) 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

Question Type: Concept

24) The purpose of the trial balance is to:

- A) summarize all account balances.
- B) determine that account balances are correct.
- C) verify that total debits equal total credits.
- D) all of the above.
- E) A and C both pertain to the purpose of the trial balance.

Answer: E

Diff: 1

Question Type: Concept

25) A company accidentally records the rent payment twice in October. The effect on the trial balance will be:

- A) debits will be more than credits.
- B) credits will be more than debits.
- C) debits will still be equal to credits.
- D) not enough information provided.

Answer: C

Diff: 1

Question Type: Application

26) 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

Question Type: Application

27) A company purchased a truck for \$800 on credit. The journal entry to record this transaction, however, was a debit to 'Truck' for \$700 and a credit to 'Account Payable' for \$700. What will the effect be on the trial balance?

- A) Debits will be \$100 less than credits.
- B) Debits will be \$100 more than credits.
- C) The trial balance will still balance.
- D) None of the above

Answer: C

Diff: 1

Question Type: Application

28) A company purchased supplies on account; however, the journal entry to record the purchase was a debit to Supplies for \$200 and a credit to Cash for \$200. What will the effect be on the trial balance?

- A) There will be no effect on the trial balance.
- B) Debits will be \$200 more than credits.
- C) Debits will be \$200 less than credits.
- D) None of the above.

Answer: A

Diff: 1

Question Type: Application