

# CHAPTER 2

## THE RECORDING PROCESS

### CHAPTER LEARNING OBJECTIVES

1. **Describe how accounts, debits, and credits are used to record business transactions .** An account is a record of increases and decreases in specific asset, liability, and owner's equity items. The terms debit and credit are synonymous with left and right. Assets, owner's drawings, and expenses are increased by debits and decreased by credits. Liabilities, owner's capital, and revenues are increased by credits and decreased by debits.
2. **Indicate how a journal is used in the recording process.** The basic steps in the recording process are (a) analyze each transaction for its effects on the accounts, (b) enter the transaction information in a journal, and (c) transfer the journal information to the appropriate accounts in the ledger. The initial accounting record of a transaction is entered in a journal before the data are entered in the accounts. A journal (a) discloses in one place the complete effects of a transaction, (b) provides a chronological record of transactions, and (c) prevents or locates errors because the debit and credit amounts for each entry can be easily compared.
3. **Explain how a ledger and posting help in the recording process.** The ledger is the entire group of accounts maintained by a company. The ledger provides the balance in each of the accounts as well as keeps track of changes in these balances. Posting is the transfer of journal entries to the ledger accounts. This phase of the recording process accumulates the effects of journalized transactions in the individual accounts.
4. **Prepare a trial balance.** A trial balance is a list of accounts and their balances at a given time. Its primary purpose is to prove the equality of debits and credits after posting. A trial balance also uncovers errors in journalizing and posting and is useful in preparing financial statements.

### TRUE-FALSE STATEMENTS

1. A new account is opened for each transaction entered into by a business firm.  
Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting
2. The recording process becomes more efficient and informative if all transactions are recorded in one account.  
Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting
3. When the volume of transactions is large, recording them in tabular form is more efficient than using journals and ledgers.  
Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting
4. An account is often referred to as a T-account because of the way it is constructed.  
Ans: T, LO: 1 Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

## 2 - 2 Test Bank for Accounting Principles, Fourteenth Edition

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5. A debit to an account always indicates an increase in that account.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

6. If a revenue account is credited, the revenue account is increased.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

7. The normal balance of all accounts is a debit.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

8. Debit and credit can be interpreted to mean increase and decrease, respectively.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

9. The double-entry system of accounting refers to the placement of a double line at the end of a column of figures.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

10. A credit balance in a liability account indicates that an error in recording has occurred.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

11. The drawing account is a subdivision of the owner's capital account and appears as an expense on the income statement.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, Reporting, AICPA PC: None, IMA: Reporting

12. Revenues are a subdivision of owner's capital.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

13. Under the double-entry system, revenues must always equal expenses.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

14. Transactions are entered in the ledger first and then they are analyzed in terms of their effect on the accounts.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

15. The normal balance of an expense is a credit.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

16. The journal provides a chronological record of transactions.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

17. Business documents can provide evidence that a transaction has occurred.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

18. Each transaction must be analyzed in terms of its effect on the accounts before it can be recorded in a journal.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

19. Transactions are entered in the ledger accounts and then transferred to journals.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

20. All business transactions must be entered first in the general ledger.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

21. A simple journal entry requires only one debit to an account and one credit to an account.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

22. A compound journal entry requires several debits to one account and several credits to one account.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

23. Transactions are recorded in alphabetic order in a journal.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

24. A journal is also known as a book of original entry.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

25. The complete effect of a transaction on the accounts is disclosed in the journal.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

26. The account titles used in journalizing transactions do **not** need to be identical to the account titles in the ledger.

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Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

27. The chart of accounts is a special ledger used in accounting systems.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

28. A general ledger should be arranged in the order in which accounts are presented in the financial statements, beginning with the balance sheet accounts.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

29. The number and types of accounts used by different business enterprises are the same if generally accepted accounting principles are being followed by the enterprises.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

30. Posting is the process of proving the equality of debits and credits in the trial balance.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

31. After a transaction has been posted, the reference column in the journal should be filled in.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

32. The ledger is merely a bookkeeping device and therefore does **not** provide much useful data for management.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

33. The chart of accounts is a listing of the accounts and the account numbers which identify their location in the ledger.

Ans: T, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

34. The primary purpose of a trial balance is to prove the mathematical equality of the debits and credits after posting.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

35. The trial balance will **not** balance when incorrect account titles are used in journalizing or posting.

Ans: F, LO: 4 Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

36. A trial balance does **not** prove that all transactions have been recorded or that the ledger is correct.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

37. The double-entry system is a logical method for recording transactions and results in equal amounts for debits and credits for each transaction.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

## MULTIPLE CHOICE QUESTIONS

38. An account consists of
- one part.
  - two parts.
  - three parts.
  - four parts.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

39. The left side of an account is
- blank.
  - a description of the account.
  - the debit side.
  - the balance of the account.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

40. Which one of the following is **not** a part of an account?
- Credit side
  - Trial balance
  - Debit side
  - Title

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

41. An account is a part of the financial information system and is described by all **except** which one of the following?
- An account has a debit and credit side.
  - An account is a source document.
  - An account may be part of a manual or a computerized accounting system.
  - An account has a title.

Ans: B, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

42. The right side of an account
- is the correct side.
  - reflects all transactions for the accounting period.
  - shows all the balances of the accounts in the system.
  - is the credit side.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

43. An account consists of

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- a. a title, a debit balance, and a credit balance.
- b. a title, a left side, and a debit balance.
- c. a title, a debit side, and a credit side.
- d. a title, a right side, and a debit balance.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

44. A T-account is

- a. a way of depicting the basic form of an account.
- b. what the computer uses to organize bytes of information.
- c. a special account used instead of a trial balance.
- d. used for accounts that have both a debit and credit balance.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

45. Credits

- a. decrease both assets and liabilities.
- b. decrease assets and increase liabilities.
- c. increase both assets and liabilities.
- d. increase assets and decrease liabilities.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

46. A debit to an asset account indicates

- a. an error.
- b. a credit was made to a liability account.
- c. a decrease in the asset.
- d. an increase in the asset.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

47. The normal balance of any account is the

- a. left side.
- b. right side.
- c. side which increases that account.
- d. side which decreases that account.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

48. The double-entry system requires that each transaction must be recorded

- a. in at least two different accounts.
- b. in two sets of books.
- c. in a journal and in a ledger.
- d. first as a revenue and then as an expense.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

49. A credit is **not** the normal balance for which account listed below?

- a. Capital account
- b. Revenue account
- c. Liability account

## d. Owner's Drawings account

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

50. Which one of the following could represent the expanded basic accounting equation?
- a.  $\text{Assets} = \text{Liabilities} + \text{Owner's Capital} + \text{Owner's Drawings} - \text{Revenue} - \text{Expenses}.$
  - b.  $\text{Assets} + \text{Owner's Drawings} + \text{Expenses} = \text{Liabilities} + \text{Owner's Capital} + \text{Revenues}.$
  - c.  $\text{Assets} - \text{Liabilities} - \text{Owner's Drawings} = \text{Owner's Capital} + \text{Revenues} - \text{Expenses}.$
  - d.  $\text{Assets} = \text{Revenues} + \text{Expenses} - \text{Liabilities}.$

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

51. Which of the following correctly identifies normal balances of accounts?

- |                 |        |
|-----------------|--------|
| a. Assets       | Debit  |
| Liabilities     | Credit |
| Owner's Capital | Credit |
| Revenues        | Debit  |
| Expenses        | Credit |
|                 |        |
| b. Assets       | Debit  |
| Liabilities     | Credit |
| Owner's Capital | Credit |
| Revenues        | Credit |
| Expenses        | Credit |
|                 |        |
| c. Assets       | Credit |
| Liabilities     | Debit  |
| Owner's Capital | Debit  |
| Revenues        | Credit |
| Expenses        | Debit  |
|                 |        |
| d. Assets       | Debit  |
| Liabilities     | Credit |
| Owner's Capital | Credit |
| Revenues        | Credit |
| Expenses        | Debit  |

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

52. The best interpretation of the word *credit* is the

- offset side of an account.
- increase side of an account.
- right side of an account.
- decrease side of an account.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

53. In recording an accounting transaction in a double-entry system,

- the number of debit accounts must equal the number of credit accounts.
- there must always be entries made on both sides of the accounting equation.
- the dollar amount of the debits must equal the dollar amount of the credits.
- there must only be two accounts affected by any transaction.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

54. Debits

- decrease both assets and liabilities.
- decrease liabilities and increase assets.
- increase both assets and liabilities.
- increase liabilities and decrease assets.

Ans: B, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

55. A debit is **not** the normal balance for which account listed below?



- a. Owner's Drawings
- b. Cash
- c. Accounts Receivable
- d. Service Revenue

Ans: D, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

56. An accountant has debited an asset account for \$1,400 and credited a liability account for \$500. What can be done to complete the recording of the transaction?
- a. Nothing further must be done.
  - b. Debit an owner's equity account for \$900.
  - c. Debit another asset account for \$900.
  - d. Credit a different asset account for \$900.

Ans: D, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

57. An accountant has debited an asset account for \$1,300 and credited a liability account for \$600. Which of the following would be an **incorrect** way to complete the recording of the transaction?
- a. Credit an asset account for \$700.
  - b. Credit another liability account for \$700.
  - c. Credit an owner's equity account for \$700.
  - d. Debit an owner's equity account for \$700.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

58. Which of the following is **not** true of the terms debit and credit?
- a. They can be abbreviated as Dr. and Cr.
  - b. They can be interpreted to mean increase and decrease.
  - c. They can be used to describe the balance of an account.
  - d. They can be interpreted to mean left and right.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

59. An account will have a credit balance if the
- a. credits exceed the debits.
  - b. first transaction entered was a credit.
  - c. debits exceed the credits.
  - d. last transaction entered was a credit.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

60. For the basic accounting equation to stay in balance, each transaction recorded must
- a. affect two or less accounts.
  - b. affect two or more accounts.
  - c. always affect exactly two accounts.
  - d. affect the same number of asset and liability accounts.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

61. Which of the following statements is true?

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- a. Debits increase assets and increase liabilities.
- b. Credits decrease assets and decrease liabilities.
- c. Credits decrease assets and increase liabilities.
- d. Debits decrease liabilities and decrease assets.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

62. Assets normally show
- a. credit balances.
  - b. debit balances.
  - c. debit and credit balances.
  - d. debit or credit balances.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

63. An awareness of the normal balances of accounts would help you spot which of the following as an error in recording?
- a. A debit balance in the owner's drawings account
  - b. A credit balance in an expense account
  - c. A credit balance in a liabilities account
  - d. A credit balance in a revenue account

Ans: B, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

64. If a company has overdrawn its bank balance, then
- a. its cash account will show a debit balance.
  - b. its cash account will show a credit balance.
  - c. the cash account debits will exceed the cash account credits.
  - d. it cannot be detected by observing the balance of the cash account.

Ans: B, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

65. Which account below is **not** a subdivision of owner's equity?
- a. Owner's Drawings
  - b. Revenues
  - c. Expenses
  - d. Liabilities

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

66. When an owner makes a withdrawal
- a. it doesn't have to be cash, it could be another asset.
  - b. the owner's drawings account will be increased with a credit.
  - c. the owner's capital account will be directly increased with a debit.
  - d. the owner's drawings account will be decreased with a debit.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

67. The owner's drawings account
- a. appears on the income statement along with the expenses of the business.
  - b. must show transactions every accounting period.

- c. is increased with debits and decreased with credits.
- d. is not a proper subdivision of owner's equity.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

68. Which of the following statements is **not** true?
- a. Expenses increase owner's equity.
  - b. Expenses have normal debit balances.
  - c. Expenses decrease owner's equity.
  - d. Expenses are a negative factor in the computation of net income.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

69. A credit to a liability account
- a. indicates an increase in the amount owed to creditors.
  - b. indicates a decrease in the amount owed to creditors.
  - c. is an error.
  - d. must be accompanied by a debit to an asset account.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

## 2 - 12 Test Bank for Accounting Principles, Fourteenth Edition

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70. In the first month of operations, the total of the debit entries to the cash account amounted to \$1,400 and the total of the credit entries to the cash account amounted to \$800. The cash account has a(n)
- \$800 credit balance.
  - \$1,400 debit balance.
  - \$600 debit balance.
  - \$600 credit balance.

Ans: C, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution:  $\$1,400 - \$800 = \$600$   
(Tot. of debit entries – Tot. of credit entries = Debit bal.)

71. Phast Mail Service purchased equipment for \$2,000. Phast paid \$500 in cash and signed a note for the balance. Phast debited the Equipment account, credited Cash and
- nothing further must be done.
  - debited the Capital account for \$1,500.
  - credited another asset account for \$500.
  - credited a liability account for \$1,500.

Ans: D, LO: 1, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution:  $\$2,000 - \$500 = \$1,500$   
(Cost of equip. – Cash pd. = Note pay. amt.)

72. Madrid Industries purchased supplies for \$1,200. They paid \$500 in cash and agreed to pay the balance in 30 days. The journal entry to record this transaction would include a debit to an asset account for \$1,200, a credit to a liability account for \$700. Which of the following would be the correct way to complete the recording of the transaction?
- Credit an asset account for \$500.
  - Credit another liability account for \$500.
  - Credit the Capital account for \$500.
  - Debit the Capital account for \$500.

Ans: A, LO: 1, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

73. On January 14, Maxine Industries purchased supplies of \$900 on account. The entry to record the purchase will include
- a debit to Supplies and a credit to Accounts Payable.
  - a debit to Supplies Expense and a credit to Accounts Receivable.
  - a debit to Supplies and a credit to Cash.
  - a debit to Accounts Receivable and a credit to Supplies.

Ans: A, LO: 1, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

74. On June 1, 2020, Barcelona Inc. reported a cash balance of \$11,000. During June, Barcelona made deposits of \$3,000 and made disbursements totalling \$9,000. What is the cash balance at the end of June?
- \$5,000 debit balance
  - \$14,000 debit balance
  - \$5,000 credit balance
  - \$4,000 credit balance

Ans: A, LO: 1, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution:  $\$11,000 + \$3,000 - \$9,000 = \$5,000$   
(Beg. dr. bal. + Deposits – Disb. = End. dr. bal.)

## 2 - 14 Test Bank for Accounting Principles, Fourteenth Edition

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75. At January 1, 2020, Croc Industries reported owner's capital of \$140,000. During 2020, Croc had a net loss of \$30,000 and owner drawings of \$15,000. At December 31, 2020, the amount of owner's capital is
- \$ 95,000.
  - \$110,000.
  - \$125,000.
  - \$155,000.

Ans: A, LO: 1, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution:  $\$140,000 - \$30,000 - \$15,000 = \$95,000$   
(Beg. bal. – Net loss – Draws. = End. bal.)

76. Boise Co. pays its employees twice a month, on the 7<sup>th</sup> and the 21<sup>st</sup>. On June 21, Boise Co. paid employee salaries of \$6,000. This transaction would
- increase owner's equity by \$6,000.
  - decrease the balance in Salaries and Wages Expense by \$6,000.
  - decrease net income for the month by \$6,000.
  - be recorded by a \$6,000 debit to Salaries and Wages Payable and a \$6,000 credit to Salaries and Wages Expense.

Ans: C, LO: 1, Bloom: AP, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

77. In the first month of operations for Pendleton Industries, the total of the debit entries to the cash account amounted to \$33,000 (\$13,000 investment by the owner and revenues of \$20,000). The total of the credit entries to the cash account amounted to \$21,000 (purchase of equipment \$8,000 and payment of expenses \$13,000). At the end of the month, the cash account has a(n)
- \$5,000 credit balance.
  - \$5,000 debit balance.
  - \$12,000 debit balance.
  - \$12,000 credit balance.

Ans: C, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $\$33,000 - \$21,000 = \$12,000$  debit

78. Qwik Company showed the following balances at the end of its first year:

Cash	\$ 8,700
Prepaid insurance	9,400
Accounts receivable	7,000
Accounts payable	5,800
Notes payable	9,400
Owner's Capital	2,300
Owner's Drawings	1,400
Revenues	44,000
Expenses	35,000

What is the total of accounts with credit balances for Qwik Company?

- \$52,400
- \$61,500
- \$62,900
- \$70,900

Ans: B, LO: 1, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution:  $\$5,800 + \$9,400 + \$2,300 + \$44,000 = \$61,500$   
(Accts. pay. + Notes pay. + Owner's cap. + Rev. = Tot. credits)

79. Bertoli Company showed the following balances at the end of its first year:

Cash	\$ 4,000
Prepaid insurance	7,000
Accounts receivable	8,000
Accounts payable	4,000
Notes payable	7,000
Owner's Capital	3,000
Owner's Drawings	2,000
Revenues	32,000
Expenses	25,000

What is the total of accounts with credit balances for Bertoli Company?

- a. \$14,000
- b. \$46,000
- c. \$44,000
- d. \$48,000

Ans: B, LO: 1, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution:  $\$4,000 + \$7,000 + \$3,000 + \$32,000 = \$46,000$   
(Accts. pay. + Notes pay. + Owner's cap. + Rev. = Tot. credits)

80. During February 2020, its first month of operations, the owner of Solcist Co. invested cash of \$50,000. Solcist had cash revenues of \$16,000 and paid expenses of \$21,000. Assuming no other transactions impacted the cash account, what is the balance in Cash at February 29?
- a. \$5,000 credit
  - b. \$5,000 debit
  - c. \$45,000 debit
  - d. \$55,000 debit

Ans: C, LO: 1, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution:  $\$50,000 + \$16,000 - \$21,000 = \$45,000$   
(Beg. bal. + Cash rev. - Exp. pd. = End bal.)

81. At January 31, 2020, the balance in Bigelow Inc.'s supplies account was \$780. During February, Bigelow purchased supplies of \$900 and used supplies of \$1,150. At the end of February, the balance in the supplies account should be
- a. \$530 debit.
  - b. \$1,030 debit.
  - c. \$530 credit.
  - d. \$830 debit.

Ans: A, LO: 2, Bloom: AP, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution:  $\$780 + \$900 - \$1,150 = \$530$  debit  
(Beg. dr. bal. + Purch. - Used = End. dr. bal.)

82. At December 1, 2020, Dubois Company's accounts receivable balance was \$1,300. During December, Dubois had credit sales of \$7,400 and collected accounts receivable of \$6,000. At December 31, 2020, the accounts receivable balance is
- a. \$100 debit.
  - b. \$2,700 debit.
  - c. \$100 credit.
  - d. \$2,700 credit.



Ans: B, LO: 1, Bloom: AP, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution:  $\$1,300 + \$7,400 - \$6,000 = \$2,700$  debit  
(Beg. dr. bal. + Credit sales – Accts. rec. collected = End. dr. bal.)

83. At October 1, 2020, Medina Co. had an accounts payable balance of \$50,000. During the month, the company made purchases on account of \$35,000 and made payments on account of \$48,000. At October 31, 2020, the accounts payable balance is
- \$37,000.
  - \$33,000.
  - \$63,000.
  - \$133,000.

Ans: A, LO: 1, Bloom: AP, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution:  $\$50,000 + \$35,000 - \$48,000 = \$37,000$   
(Beg. bal. + Purch. on acct. - Pmts. made = End. bal.)

84. During 2020, its first year of operations, Aida's Bakery had revenues of \$65,000 and expenses of \$35,000. The business had owner's drawings of \$22,000. What is the amount of owner's equity at December 31, 2020, if the beginning balance was \$-0-?
- \$0
  - \$8,000 credit
  - \$30,000 credit
  - \$22,000 debit

Ans: B, LO: 1, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution:  $\$0 + (\$65,000 - \$35,000) - \$22,000 = \$8,000$   
[Beg. bal. + (Rev. - Exp.) - Draws. = End. bal.]

85. On July 7, 2020, Rancho Realty Co. performed cash services of \$1,900. The entry to record this transaction would include
- a debit to Service Revenue of \$1,900.
  - a credit to Accounts Receivable of \$1,900.
  - a debit to Cash of \$1,900.
  - a credit to Accounts Payable of \$1,900.

Ans: C, LO: 1, Bloom: AP, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

86. At September 1, 2020, Hotel Suites Co. reported owner's capital of \$147,000. During the month, Hotel Suites generated revenues of \$48,000, incurred expenses of \$26,000, purchased equipment for \$5,000 and withdrew cash of \$3,000. What is the amount of owner's capital at September 30, 2020?
- \$161,000
  - \$166,000
  - \$169,000
  - \$171,000

Ans: B, LO: 1, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution:  $\$147,000 + (\$48,000 - \$26,000) - \$3,000 = \$166,000$   
[Beg. cap. bal. + (Rev. - Exp.) - Draws. = End. cap. bal.]

87. An account is an individual accounting record of increases and decreases in specific
- liabilities.
  - assets.
  - expenses.
  - assets, liabilities, and owner's equity items.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting



88. A debit is **not** the normal balance for which of the following?
- a. Asset account
  - b. Owner's Drawings account
  - c. Expense account
  - d. Owner's Capital account

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

89. Which of the following rules is **incorrect**?
- a. Credits decrease the owner's drawings account.
  - b. Debits increase the owner's capital account.
  - c. Credits increase revenue accounts.
  - d. Debits decrease liability accounts.

Ans: B, LO: 1, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

90. Which of the following statements is **false**?
- a. Revenues increase owner's equity.
  - b. Revenues have normal credit balances.
  - c. Revenues are a positive factor in the computation of net income.
  - d. Revenues are increased by debits.

Ans: D, LO: 1, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

91. Which of the following is the correct sequence of steps in the recording process?
- a. Posting, journalizing, analyzing
  - b. Journalizing, analyzing, posting
  - c. Analyzing, posting, journalizing
  - d. Analyzing, journalizing, posting

Ans: D, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

92. The final step in the recording process is to
- a. analyze each transaction.
  - b. enter the transaction in a journal.
  - c. prepare a trial balance.
  - d. transfer journal information to ledger accounts.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

93. The usual sequence of steps in the transaction recording process is:
- a. journal → analyze → ledger.
  - b. analyze → journal → ledger.
  - c. journal → ledger → analyze.
  - d. ledger → journal → analyze.

Ans: B, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

94. In recording business transactions, evidence that an accounting transaction has taken place is obtained from
- business documents.
  - the Internal Revenue Service.
  - the public relations department.
  - the SEC.

Ans: A, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

95. After a business transaction has been analyzed and entered in the book of original entry, the next step in the recording process is to transfer the information to
- the company's bank.
  - owner's equity.
  - ledger accounts.
  - financial statements.

Ans: C, LO: 2, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

96. The first step in the recording process is to
- prepare financial statements.
  - analyze each transaction for its effect on the accounts.
  - post to a journal.
  - prepare a trial balance.

Ans: B, LO: 2, Bloom: L, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

97. Evidence that would **not** help with determining the effects of a transaction on the accounts would be a(n)
- cash register sales tape.
  - bill.
  - advertising brochure.
  - check.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

98. After transaction information has been recorded in the journal, it is transferred to the
- trial balance.
  - income statement.
  - book of original entry.
  - ledger.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

99. The usual sequence of steps in the recording process is to analyze each transaction, enter the transaction in the
- a. journal, and transfer the information to the ledger accounts.
  - b. ledger, and transfer the information to the journal.
  - c. book of accounts, and transfer the information to the journal.
  - d. book of original entry, and transfer the information to the journal.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

100. The final step in the recording process is to transfer the journal information to the
- trial balance.
  - financial statements.
  - ledger.
  - file cabinets.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

101. The recording process occurs
- once a year.
  - once a month.
  - repeatedly during the accounting period.
  - infrequently in a manual accounting system.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

102. A compound journal entry involves
- two accounts.
  - three accounts.
  - three or more accounts.
  - four or more accounts.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

103. A journal provides
- the balances for each account.
  - information about a transaction in several different places.
  - a list of all accounts used in the business.
  - a chronological record of transactions.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

104. When three or more accounts are required in one journal entry, the entry is referred to as a
- compound entry.
  - triple entry.
  - multiple entry.
  - simple entry.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

105. When two accounts are required in one journal entry, the entry is referred to as a
- balanced entry.
  - simple entry.
  - posting.
  - nominal entry.

Ans: B, LO: 2, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

106. Another name for a journal is
- listing.
  - book of original entry.
  - book of accounts.
  - book of source documents.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

107. The standard format of a journal would **not** include
- a reference column.
  - an account title column.
  - a T-account.
  - a date column.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

108. Transactions in a journal are initially recorded in
- account number order.
  - dollar amount order.
  - alphabetical order.
  - chronological order.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

109. A journal is **not** useful for
- disclosing in one place the complete effect of a transaction.
  - obtaining amounts for preparing financial statements.
  - providing a record of transactions.
  - locating and preventing errors.

Ans: B, LO: 2, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

110. A complete journal entry does **not** show
- the date of the transaction.
  - the new balance in the accounts affected by the transaction.
  - a brief explanation of the transaction.
  - the accounts and amounts to be debited and credited.

Ans: B, LO: 2, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

111. The name given to entering transaction data in the journal is
- chronicling.
  - listing.
  - posting.
  - journalizing.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting



112. The standard form of a journal entry has the
- debit account entered first and indented.
  - credit account entered first and indented.
  - debit account entered first at the extreme left margin.
  - credit account entered first at the extreme left margin.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

113. When journalizing, the reference column is
- left blank.
  - used to reference the source document.
  - used to reference the journal page.
  - used to reference the financial statements.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

114. On June 1, 2020 Ben Casey buys a copier machine for his business and finances this purchase with cash and a note. When journalizing this transaction, he will
- use two journal entries.
  - make a compound entry.
  - make a simple entry.
  - list the credit entries first, which is proper form for this type of transaction.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

115. Which of the following journal entries is recorded correctly and in the standard format?
- |                                  |       |       |
|----------------------------------|-------|-------|
| Salaries and Wages Expense ..... | 500   |       |
| Cash .....                       |       | 2,500 |
| Advertising Expense .....        | 2,000 |       |
  - |                                  |       |       |
|----------------------------------|-------|-------|
| Salaries and Wages Expense ..... |       | 500   |
| Advertising Expense .....        |       | 2,000 |
| Cash .....                       | 2,500 |       |
  - |                                  |       |       |
|----------------------------------|-------|-------|
| Cash .....                       | 2,500 |       |
| Salaries and Wages Expense ..... |       | 500   |
| Advertising Expense .....        |       | 2,000 |
  - |                                  |       |       |
|----------------------------------|-------|-------|
| Salaries and Wages Expense ..... | 500   |       |
| Advertising Expense .....        | 2,000 |       |
| Cash .....                       |       | 2,500 |

Ans: D, LO: 2, Bloom: AN, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

116. Which of the following is **false** about a journal?
- It discloses in one place the complete effects of a transaction.
  - It provides a chronological record of transactions.
  - It helps to prevent or locate errors because debit and credit amounts for each entry can be readily compared.

- d. It keeps in one place all the information about changes in specific account balances.

Ans: D, LO: 2, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

117. Haselhof Company purchases equipment for \$2,400 and supplies for \$700 from Behrman Co. for \$3,100 cash. The entry for this transaction will include a
- a. debit to Equipment \$2,400 and a debit to Supplies Expense \$700 for Behrman.
  - b. credit to Cash for Behrman.
  - c. credit to Accounts Payable for Haselhof.
  - d. debit to Equipment \$2,400 and a debit to Supplies \$700 for Haselhof.

Ans: D, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

118. Sara Bernheat withdraws \$700 cash from her business for personal use. The entry for this transaction will include a debit of \$700 to
- Owner's Drawings.
  - Owner's Capital.
  - Owner's Salaries Expense.
  - Salaries and Wages Expense.

Ans: A, LO: 2, Bloom: AP, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

119. On October 3, Ken Steele, a carpenter, received a cash payment for services previously billed to a client. Ken paid his telephone bill, and he also bought equipment on credit. For the three transactions, at least one of the entries will include a
- credit to Owner's Capital.
  - credit to Notes Payable.
  - debit to Accounts Receivable.
  - credit to Accounts Payable.

Ans: D, LO: 2, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

120. The ledger should be arranged in
- alphabetical order.
  - chronological order.
  - dollar amount order.
  - None of these choices are correct.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

121. The record of activity in the entire group of accounts maintained by a company is called the
- chart of accounts.
  - general journal.
  - general ledger.
  - trial balance.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

122. An accounting record of the balances of all assets, liabilities, and owner's equity accounts is called a
- compound entry.
  - general journal.
  - general ledger.
  - chart of accounts.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

123. The usual ordering of accounts in the general ledger is
- assets, liabilities, owner's capital, drawings, revenues, and expenses.

## 2 - 28 Test Bank for Accounting Principles, Fourteenth Edition

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- b. assets, liabilities, drawings, owner's capital, expenses, and revenues.
- c. liabilities, assets, owner's capital, revenues, expenses, and drawings.
- d. owner's capital, assets, liabilities, drawings, expenses, and revenues.

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

124. Management could determine the amounts due from customers by examining which ledger account?
- a. Service Revenue
  - b. Accounts Payable
  - c. Accounts Receivable
  - d. Supplies

Ans: C, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

125. The ledger accounts should be arranged in
- a. chronological order.
  - b. alphabetical order.
  - c. financial statement order.
  - d. order of appearance in the journal.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

126. A three column form of account is so named because it has columns for
- a. debit, credit, and account name.
  - b. debit, credit, and reference.
  - c. debit, credit, and balance.
  - d. debit, credit, and date.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

127. On August 13, 2020, Accounting Services Co. purchased office equipment for \$1,700 and office supplies of \$300 on account. Which of the following journal entries is recorded correctly and in the standard format?
- a. 

Equipment .....	1,700	
Account Payable.....		2,000
Supplies .....	300	
  - b. 

Equipment .....		1,700
Supplies .....		300
Accounts Payable.....	2,000	
  - c. 

Accounts Payable.....	2,000	
Equipment.....		1,700
Supplies.....		300
  - d. 

Equipment .....	1,700	
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Supplies .....	300	
Accounts Payable.....		2,000

Ans: D, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

128. Able2 Company received a cash advance of \$800 from a customer. As a result of this event,
- assets increased by \$800.
  - owner's equity increased by \$800.
  - liabilities decreased by \$800.
  - assets and owner's equity both increased by \$800.

Ans: A, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

129. Camper Van Company purchased equipment for \$2,300 cash. As a result of this event,
- owner's equity decreased by \$2,300.
  - total assets increased by \$2,300.
  - total assets remained unchanged.
  - owner's equity decreased and total assets increased by \$2,300.

Ans: C, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

130. Beethoven Company provided consulting services and billed the client \$3,600. As a result of this event,
- assets remained unchanged.
  - assets increased by \$3,600.
  - owner's equity increased by \$3,600.
  - assets and owner's equity both increased by \$3,600.

Ans: D, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

131. The first step in posting involves
- entering in the appropriate ledger account the date, journal page, and debit amount shown in the journal.
  - writing in the journal the account number to which the debit amount was posted.
  - writing in the journal the account number to which the credit amount was posted.
  - entering in the appropriate ledger account the date, journal page, and credit amount shown in the journal.

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

132. A chart of accounts usually starts with
- asset accounts.
  - expense accounts.
  - liability accounts.
  - revenue accounts.

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

133. The procedure of transferring journal entries to the ledger accounts is called
- a. journalizing.
  - b. analyzing.
  - c. reporting.
  - d. posting.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

134. A number in the reference column in a general journal indicates
- a. that the entry has been posted to a particular account.
  - b. the page number of the journal.
  - c. the dollar amount of the transaction.
  - d. the date of the transaction.

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

135. A chart of accounts for a business firm
- is a graph.
  - indicates the amount of profit or loss for the period.
  - lists the accounts and account numbers that identify their location in the ledger.
  - shows the balance of each account in the general ledger.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

136. Posting
- should be performed in account number order.
  - accumulates the effects of journalized transactions in the individual accounts.
  - involves transferring all debits and credits on a journal page to the trial balance.
  - is accomplished by examining ledger accounts and seeing which ones need updating.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

137. After journal entries are posted, the reference column
- of the general journal will be blank.
  - of the general ledger will show journal page numbers.
  - of the general journal will show "Dr" or "Cr".
  - of the general ledger will show account numbers.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

138. The explanation column of the general ledger
- is completed without exception.
  - is nonexistent.
  - is used infrequently.
  - shows account titles.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

139. A numbering system for a chart of accounts
- is prescribed by GAAP.
  - is uniform for all businesses.
  - usually starts with income statement accounts.
  - usually starts with balance sheet accounts.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

140. The first step in designing a computerized accounting system is the creation of the
- general ledger.
  - general journal.
  - trial balance.
  - chart of accounts.

## **2 - 32    Test Bank for Accounting Principles, Fourteenth Edition**

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Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting



141. Posting of journal entries should be done in
- account number order.
  - alphabetical order.
  - chronological order.
  - dollar amount order.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

142. The chart of accounts is a
- list of accounts and their balances at a given time.
  - device used to prove the mathematical accuracy of the ledger.
  - listing of the accounts and the account numbers which identify their location in the ledger.
  - required step in the recording process.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

143. The steps in preparing a trial balance include all of the following **except**
- listing the account titles and their balances.
  - totaling the debit and credit columns.
  - proving the equality of the two columns.
  - transferring journal amounts to ledger accounts.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

144. A trial balance may balance even when each of the following occurs **except** when
- a transaction is not journalized.
  - a journal entry is posted twice.
  - incorrect accounts are used in journalizing.
  - a transposition error is made.

Ans: D, LO: 4, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

145. A list of accounts and their balances at a given time is called a(n)
- journal.
  - posting.
  - trial balance.
  - income statement.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

146. If the sum of the debit column equals the sum of the credit column in a trial balance, it indicates
- no errors have been made.
  - no errors can be discovered.
  - that all accounts reflect correct balances.

- d. the mathematical equality of the accounting equation.

Ans: D, LO: 4, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

147. A trial balance is a listing of
- transactions in a journal.
  - the chart of accounts.
  - general ledger accounts and balances.
  - the totals from the journal pages.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

148. Customarily, a trial balance is prepared
- at the end of each day.
  - after each journal entry is posted.
  - at the end of an accounting period.
  - only at the inception of the business.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

149. A trial balance would only help in detecting which one of the following errors?
- A transaction that is not journalized
  - A journal entry that is posted twice
  - Offsetting errors are made in recording the transaction
  - A transposition error when transferring the debit side of journal entry to the ledger

Ans: D, LO: 4, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

150. Which of the following is **incorrect** regarding a trial balance?
- It proves that the debits equal the credits after posting.
  - It proves that the company has recorded all transactions.
  - A trial balance may uncover errors in journalizing and posting.
  - A trial balance is useful in the preparation of financial statements.

Ans: B, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

151. A trial balance will **not** balance if
- a journal entry is posted twice.
  - a wrong amount is used for both accounts when journalizing a simple entry.
  - incorrect account titles are used in journalizing.
  - a journal entry is only partially posted.

Ans: D, LO: 4, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

152. Which of the following are the same under both GAAP and IFRS?
- The account.
  - Debit and credit rules.
  - Steps in the recording process.
  - All of these answer choices are correct.

IFRS,    Ans: D, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AASCB: Diversity, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

153. Which of the following are the same under both GAAP and IFRS?

- a. The journal.
- b. The ledger.
- c. The chart of accounts.
- d. All of these answer choices are correct.

IFRS, Ans: D, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AASCB: Diversity, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

154. Which of the following is true?

- a. Transaction analysis is completely different under IFRS and GAAP.
- b. Most transactions are recorded differently under IFRS and GAAP.
- c. Transaction analysis is the same under IFRS and GAAP, but some transactions are recorded differently.
- d. All transactions are recorded the same under IFRS and GAAP.

IFRS, Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AASCB: Diversity, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

155. European companies rely

- a. less on historical cost and more on fair values than U.S. companies.
- b. less on fair values and more on historical cost than U.S. companies.
- c. completely on fair values for financial reporting.
- d. completely on historical cost for financial reporting.

IFRS, Ans: A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AASCB: Diversity, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

156. The double-entry accounting system is the basis of accounting systems

- a. worldwide.
- b. worldwide, except for the U.S.
- c. in the U.S. only
- d. neither internationally nor in the U.S.

IFRS,

Ans: A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AASCB: Diversity, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

157. Under IFRS, the trial balance

- a. follows the same format as under GAAP.
- b. shows credits on the left and debits on the right.
- c. includes less accounts than under GAAP.
- d. includes more accounts than under GAAP.

IFRS, Ans: A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AASCB: Diversity, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

158. Fair value is relied on

- a. less under IFRS than under GAAP.
- b. more under IFRS than under GAAP.
- c. equally under IFRS and GAAP.
- d. infrequently under IFRS.

IFRS, Ans: B, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AASCB: Diversity, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting



## BRIEF EXERCISES

### BE 159

At June 1, 2020, Cooper Company had an accounts receivable balance of \$14,000. During the month, the company performed credit services of \$35,000 and collected accounts receivable of \$23,000. What is the balance in accounts receivable at June 30, 2020?

### Solution 159

The balance at the end of the month is \$26,000, calculated as follows:

Beginning accounts receivable	\$14,000
Add: Credit sales	35,000
Less: Collections	<u>(23,000)</u>
Ending accounts receivable	<u>\$26,000</u>

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Easy, Min: 3, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting  
(Beg. bal. + Credit sales – Collect. = End. bal.)

### BE 160

TNT has the following transactions during April of the current year. Indicate (a) the effect on the accounting equation and (b) the debit-credit analysis.

- Apr. 1 Opens a law office, investing \$25,000 in cash.
- 4 Pays rent in advance for 6 months, \$9,000 cash.
- 16 Receives \$8,000 from clients for services provided.
- 27 Pays secretary \$2,800 salary.

**Solution 160**

(a) <u>Effect on Accounting Equation</u>	(b) <u>Debit-Credit Analysis</u>
The asset Cash is increased; the owner's equity Capital account is increased.	Debits increase assets: debit Cash \$25,000. Credits increase owner's equity: credit Owner's Capital \$25,000.
The asset Prepaid Rent is increased; the asset Cash is decreased.	Debits increase assets: debit Prepaid Rent \$9,000. Credits decrease assets: credit Cash \$9,000.
The asset Cash is increased; the revenue Service Revenue is increased.	Debits increase assets: debit Cash \$8,000. Credits increase revenues: credit Service Revenue \$8,000.
The expense Salaries and Wages Expense is increased; the asset Cash is decreased.	Debits increase expenses: debit Salaries and Wages Expense \$2,800. Credits decrease assets: credit Cash \$2,800.

Ans: N/A, LO: 1, Bloom: C, Difficulty: Moderate, Min: 6, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**BE 161**

For each of the following accounts indicate the effect of a debit or a credit on the account and the normal balance. Increase (+), Decrease (–).

	<u>Debit</u>	<u>Credit</u>	<u>Normal Balance</u>
1. Salaries and wages expense.	_____	_____	_____
2. Accounts receivable.	_____	_____	_____
3. Service revenue.	_____	_____	_____
4. Owner's Capital.	_____	_____	_____
5. Owner's Drawings.	_____	_____	_____



**Solution 161**

	<u>Debit</u>	<u>Credit</u>	<u>Normal Balance</u>
1. Salaries and wages expense.	<u>+</u>	<u>-</u>	<u>Dr</u>
2. Accounts receivable.	<u>+</u>	<u>-</u>	<u>Dr</u>
3. Service revenue.	<u>-</u>	<u>+</u>	<u>Cr</u>
4. Owner's Capital.	<u>-</u>	<u>+</u>	<u>Cr</u>
5. Owner's Drawings.	<u>+</u>	<u>-</u>	<u>Dr</u>

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**BE 162**

For each of the following transactions of Neon Garden, identify the account to be debited and the account to be credited.

1. Purchased 18-month insurance policy for cash.
2. Paid weekly payroll.
3. Purchased supplies on account.
4. Received utility bill to be paid at later date.

**Solution 162**

<u>Transaction</u>	<u>Debit</u>	<u>Credit</u>
1	Prepaid Insurance	Cash
2	Salaries and Wages Expense	Cash
3	Supplies	Accounts Payable
4	Utilities Expense	Accounts Payable

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 4, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**BE 163**

Journalize the following business transactions in general journal form. Identify each transaction by number. You may omit explanations of the transaction.

1. Barry Cain invested \$38,000 cash to start an appliance repair business.
2. Hired an employee to be paid \$500 per week, starting tomorrow.
3. Paid two years' rent in advance, \$10,800.
4. Paid the worker's weekly wage, \$500.
5. Recorded revenue earned and received for the week, \$2,900.

**Solution 163**

1. Cash.....	38,000	
Owner's Capital.....		38,000

**2 - 42    Test Bank for Accounting Principles, Fourteenth Edition**

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2. No entry, not a transaction.

3. Prepaid Rent.....	10,800	
Cash.....		10,800

**Solution 163** (cont'd)

4. Salaries and Wages Expense.....	500	
Cash.....		500
5. Cash.....	2,900	
Service Revenue.....		2,900

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**BE 164**

Identify the impact on the accounting equation of the following transactions.

1. Purchased 36-month insurance policy for cash.
2. Purchased supplies on account.
3. Received utility bill to be paid at later date.
4. Paid utility bill previously accrued.

**Solution 164**

1. Net effect is no change: Increases assets and decreases assets.
2. Increases assets and increases liabilities.
3. Increases liabilities and decreases owner's equity.
4. Decreases assets and decreases liabilities

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 4, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**BE 165**

Journalize the following transactions for Tanaka Company for June 2020, the company's first month of operations. You may omit explanations for the transactions.

1. Purchased equipment on account for \$9,800.
2. Billed customers \$5,600 for services performed.
3. Made payment of \$2,400 on account for equipment purchased earlier in month.
4. Collected \$3,900 on customer accounts.

**Solution 165**

1. Equipment.....	9,800	
Accounts Payable.....		9,800
2. Accounts Receivable.....	5,600	
Service Revenue.....		5,600
3. Accounts Payable.....	2,400	
Cash.....		2,400
4. Cash.....	3,900	
Accounts Receivable.....		3,900

## 2 - 44 Test Bank for Accounting Principles, Fourteenth Edition

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 4, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

### BE 166

The following transactions took place for Tanaka company during their first month of operations:

1. Purchased equipment on account for \$9,800.
2. Billed customers \$5,600 for services performed.
3. Made payment of \$2,400 on account for equipment purchased earlier in month.
4. Collected \$3,900 on customer accounts.

1. What is the balance in Accounts Payable at June 30, 2020?
2. What is the balance in Accounts Receivable at June 30, 2020?

### Solution 166

1. Accounts Payable at June 30, 2020:

Beginning accounts payable	\$ 0
Purchases on account	9,800
Payments on account	(2,400)
Ending accounts payable	<u>\$7,400</u>

(Beg. bal. + Purch. on acct. – Pmts. on acct. = End. bal.)

2. Accounts Receivable at June 30, 2020:

Beginning accounts receivable	\$ 0
Billed to customers	5,600
Collections from customers	(3,900)
Ending accounts receivable	<u>\$1,700</u>

(Beg. bal. + Cust. Billings – Collect. from cust. = End. bal.)

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 6, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

### BE 167

The transactions of the Litehouse Realty are recorded in the general journal below. You are to post the journal entries to T-accounts.

#### General Journal

Date	Account Titles	Debit	Credit
2020			
Aug. 5	Accounts Receivable	4,600	
	Service Revenue		4,600
10	Cash	3,200	
	Service Revenue		3,200
19	Rent Expense	1,300	
	Cash		1,300

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25	Cash	1,500	
	Accounts Receivable		1,500

**BE 167** (cont'd)

General Ledger			
Cash		Accounts Receivable	
Service Revenue		Rent Expense	

**Solution 167**

General Ledger			
Cash		Accounts Receivable	
8/10	3,200	8/5	4,600
8/25	1,500	8/25	1,500
8/31 Bal.	3,400	8/31 Bal.	3,100
Service Revenue		Rent Expense	
	8/5 4,600	8/19	1,300
	8/10 3,200		
	8/31 Bal. 7,800	8/31 Bal.	1,300

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**BE 168**

Prepare a trial balance from the ledger accounts of Black Diamond Express as of January 31, 2020.

Accounts Payable	\$ 1,100	Rent Expense	\$ 500
Accounts Receivable	1,700	Service Revenue	3,000
Cash	1,400	Supplies	200
Owner's Capital	2,000	Salaries and Wages Expense	1,300
Owner's Drawings	1,000		

**Solution 168**

BLACK DIAMOND EXPRESS  
Trial Balance  
January 31, 2020

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 1,400	
Accounts Receivable	1,700	
Supplies	200	
Accounts Payable		\$ 1,100
Owner's Capital		2,000
Owner's Drawings	1,000	
Service Revenue		3,000
Rent Expense	500	
Salaries and Wages Expense	<u>1,300</u>	
	<u>\$6,100</u>	<u>\$6,100</u>

[(Cash + Accts. rec. + Supp. + Owner's draws. + Rent exp. + Sal. & wages exp.) = (Accts. pay. + Owner's cap. + Serv. rev.)]

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**BE 169**

Prepare a corrected trial balance for Howard Company. All accounts should have a normal balance.

HOWARD COMPANY  
Trial Balance  
For the Quarter Ended 3/31/20

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 13,000	
Accounts Receivable		\$ 25,000
Prepaid Insurance	2,500	
Equipment	62,000	
Accounts Payable		16,000
Unearned Service Revenue	12,000	
Notes Payable		25,000
Owner's Capital		40,000
Owner's Drawings		1,500
Service Revenue		40,000
Salaries and Wages Expense	14,000	
Utilities Expense	5,000	
Rent Expense	<u>10,000</u>	
	<u>\$118,500</u>	<u>\$147,500</u>

**Solution 169**

HOWARD COMPANY  
Trial Balance  
March 31, 2020

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 13,000	
Accounts Receivable	25,000	
Prepaid Insurance	2,500	
Equipment	62,000	
Accounts Payable		\$ 16,000
Unearned Service Revenue		12,000
Notes Payable		25,000
Owner's Capital		40,000
Owner's Drawings	1,500	
Service Revenue		40,000
Salaries and Wages Expense	14,000	
Utilities Expense	5,000	
Rent Expense	10,000	
	<u>\$133,000</u>	<u>\$133,000</u>

[(Cash + Accts. rec. + Prepd. ins. + Equip. + Owner's draws. + Sal. & wages exp. + Util. exp. + Rent exp.) = (Accts. pay. + Unearn. serv. rev. + Notes pay. + Owner's cap. + Serv. rev.)]

Ans: N/A, LO: 4, Bloom: AN, Difficulty: Moderate, Min: 6, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting



## EXERCISES

### Ex. 170

The chart of accounts used by Notwist Copy Company is listed below. You are to indicate the proper accounts to be debited and credited for the following transactions by writing the account number(s) in the appropriate boxes.

#### CHART OF ACCOUNTS

101 Cash	209 Unearned Service Revenue
112 Accounts Receivable	301 Owner's Capital
125 Supplies	306 Owner's Drawings
157 Equipment	400 Service Revenue
200 Notes Payable	610 Advertising Expense
201 Accounts Payable	729 Rent Expense

	Number(s) of account(s) debited	Number(s) of account(s) credited
1. M. Acher invests \$70,000 cash to start the business.		
2. Purchased three pieces of equipment for \$160,000, paying \$50,000 cash and signing a 5-year, 10% note for the remainder.		
3. Purchased \$5,000 supplies on credit.		
4. Cash revenue amounted to \$7,000.		
5. Paid \$500 cash for radio advertising.		
6. Paid \$800 on account for supplies purchased in transaction 3.		
7. Owner withdrew \$2,100 from the business for personal expenses.		
8. Paid \$1,200 cash for rent for the current month.		
9. Received \$2,000 cash advance from a customer for future copying.		
10. Billed a customer for \$575 for photocopy work done.		

**Solution 170**

	Number(s) of account(s) debited	Number(s) of account(s) credited
1. M. Acher invests \$70,000 cash to start the business.	101	301
2. Purchased three pieces of equipment for \$160,000, paying \$50,000 cash and signing a 5-year, 10% note for the remainder.	157	101,200
3. Purchased \$5,000 supplies on credit.	125	201
4. Cash revenue amounted to \$7,000.	101	400
5. Paid \$500 cash for radio advertising.	610	101
6. Paid \$800 on account for supplies purchased in transaction 3.	201	101
7. Owner withdrew \$2,100 from the business for personal expenses.	306	101
8. Paid \$1,200 cash for rent for the current month.	729	101
9. Received \$2,000 cash advance from a customer for future copying.	101	209
10. Billed a customer for \$575 for photocopy work done.	112	400

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Moderate, Min: 15, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 171**

Under a double-entry system, show how the entry in each statement is entered in the ledger by using debit or credit to indicate the increase or decrease in the affected account.

	<u>Debit or Credit</u>
1. An increase in Salaries and Wages Expense.	<u>                    </u>
2. A decrease in Accounts Payable.	<u>                    </u>
3. An increase in Prepaid Insurance.	<u>                    </u>
4. An increase in Owner's Capital.	<u>                    </u>
5. A decrease in Supplies.	<u>                    </u>
6. An increase in Owner's Drawings.	<u>                    </u>
7. An increase in Service Revenue.	<u>                    </u>
8. A decrease in Accounts Receivable.	<u>                    </u>
9. An increase in Rent Expense.	<u>                    </u>
10. A decrease in Equipment.	<u>                    </u>

**Solution 171**

1. An increase in Salaries and Wages Expense.	<u>Debit</u>
2. A decrease in Accounts Payable.	<u>Debit</u>
3. An increase in Prepaid Insurance.	<u>Debit</u>
4. An increase in Owner's Capital.	<u>Credit</u>
5. A decrease in Office Supplies.	<u>Credit</u>
6. An increase in Owner's Drawings.	<u>Debit</u>
7. An increase in Service Revenue.	<u>Credit</u>
8. A decrease in Accounts Receivable.	<u>Credit</u>
9. An increase in Rent Expense.	<u>Debit</u>
10. A decrease in Store Equipment.	<u>Credit</u>

## 2 - 52 Test Bank for Accounting Principles, Fourteenth Edition

Ans: N/A, LO: 1, Bloom: C, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

### Ex. 172

Selected transactions for A. Byrjun, a property manager, in her first month of business, are as follows.

- Jan. 2 Invested \$15,000 cash in business.  
3 Purchased used car for \$5,200 cash for use in business.  
9 Purchased supplies on account for \$500.  
11 Billed customers \$2,100 for services performed.  
16 Paid \$450 cash for advertising.  
20 Received \$1,300 cash from customers billed on January 11.  
23 Paid creditor \$300 cash on balance owed.  
28 Withdrew \$2,000 cash for personal use of owner.

### Instructions

For each transaction indicate the following.

- (a) The basic type of account debited and credited (asset (A), liability (L), owner's equity (OE)).  
(b) The specific account debited and credited (cash, rent expense, service revenue, etc.).  
(c) Whether the specific account is increased (incr.) or decreased (decr).  
(d) The normal balance of the specific account.

Use the following format, in which the January 2 transaction is given as an example.

	<u>Account Debited</u>				<u>Account Credited</u>			
	(a) Basic	(b) Specific	(c) Effect	(d) Normal	(a) Basic	(b) Specific	(c) Effect	(d) Normal
<u>Date</u>	<u>Type</u>	<u>Account</u>	<u>Effect</u>	<u>Balance</u>	<u>Type</u>	<u>Account</u>	<u>Effect</u>	<u>Balance</u>
Jan. 2	A	Cash	Incr.	Debit	OE	Owner's Capital	Incr.	Credit

**Solution 172**

<u>Account Debited</u>					<u>Account Credited</u>			
<u>Date</u>	(a) <u>Basic Type</u>	(b) <u>Specific Account</u>	(c) <u>Effect</u>	(d) <u>Normal Balance</u>	(a) <u>Basic Type</u>	(b) <u>Specific Account</u>	(c) <u>Effect</u>	(d) <u>Normal Balance</u>
Jan. 2	A	Cash	Incr.	Debit	OE	Owner's Capital	Incr.	Credit
3	A	Equip.	Incr.	Debit	A	Cash	Decr.	Debit
9	A	Supplies	Incr.	Debit	L	Accts. Pay.	Incr.	Credit
11	A	Accts. Rec.	Incr.	Debit	OE	Service Revenue	Incr.	Credit
16	OE	Advert. Expense	Incr.	Debit	A	Cash	Decr.	Debit
20	A	Cash	Incr.	Debit	A	Accts. Rec.	Decr.	Debit
23	L	Accts. Pay.	Decr.	Credit	A	Cash	Decr.	Debit
28	OE	Owner's Drawings	Incr.	Debit	A	Cash	Decr.	Debit

Ans: N/A, LO: 1, Bloom: C, Difficulty: Moderate, Min: 10, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 173**

For the accounts listed below, indicate if the normal balance of the account is a debit or credit.

<u>Accounts</u>	<u>Normal Balance Debit or Credit</u>
1. Service Revenue	_____
2. Rent Expense	_____
3. Accounts Receivable	_____
4. Accounts Payable	_____
5. Owner's Capital	_____
6. Supplies	_____
7. Insurance Expense	_____
8. Owner's Drawings	_____
9. Buildings	_____

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10.    Notes Payable

\_\_\_\_\_

**Solution 173**

<u>Accounts</u>	<u>Normal Balance Debit or Credit</u>
1. Service Revenue	Credit
2. Rent Expense	Debit
3. Accounts Receivable	Debit
4. Accounts Payable	Credit
5. Owner's Capital	Credit
6. Supplies	Debit
7. Insurance Expense	Debit
8. Owner's Drawings	Debit
9. Buildings	Debit
10. Notes Payable	Credit

Ans: N/A, LO: 1, Bloom: C, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 174**

For each of the following accounts, indicate the effects of (a) a debit and (b) the normal account balance.

- Notes Payable
- Prepaid Insurance
- Salaries and Wages Expense
- Service Revenue
- Equipment
- Owner's Capital

**Solution 174**

	<u>Debit Effect</u>	<u>Normal Balance</u>
1. Notes Payable	Decrease	Credit
2. Prepaid Insurance	Increase	Debit
3. Salaries and Wages Expense	Increase	Debit
4. Service Revenue	Decrease	Credit
5. Equipment	Increase	Debit
6. Owner's Capital	Decrease	Credit

Ans: N/A, LO: 1, Bloom: C, Difficulty: Easy, Min: 7, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 175**

During an accounting period, a business has numerous transactions affecting each of the following accounts. State for each account whether it is likely to have (a) debit entries only, (b) credit entries only, or (c) both debit and credit entries.

_____ (1) Advertising Expense	_____ (6) Owner's Drawings
_____ (2) Service Revenue	_____ (7) Cash
_____ (3) Accounts Payable	_____ (8) Salaries and Wages Expense
_____ (4) Accounts Receivable	_____ (9) Notes Payable
_____ (5) Owner's Capital	_____ (10) Insurance Expense

**Solution 175**

(1) (a)	(5) (b)	(9) (c)
(2) (b)	(6) (a)	(10) (a)
(3) (c)	(7) (c)	
(4) (c)	(8) (a)	

Ans: N/A, LO: 1, Bloom: C, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 176**

Eight transactions are recorded in the following T-accounts:

CASH				ACCOUNTS RECEIVABLE			
(1)	25,000	(2)	3,500	(5)	27,500	(7)	22,500
(7)	22,500	(3)	1,950				
		(4)	5,100				
		(6)	8,000				
		(8)	3,300				
SUPPLIES				EQUIPMENT			
(3)	1,950			(2)	13,500		
OWNER'S CAPITAL				SERVICE REVENUE			
		(1)	25,000			(5)	27,500
ACCOUNTS PAYABLE				OWNER'S DRAWINGS			
(6)	8,000	(2)	10,000	(8)	3,300		
SALARIES AND WAGES EXPENSE							



(4)	5,100	
-----	-------	--

**Ex. 176** (cont'd)

Indicate for each debit and each credit: (a) whether an asset, liability, capital, drawing, revenue, or expense account was affected and (b) whether the account was increased (+) or (–) decreased. Answers should be presented in the following chart form:

Transaction No.	<u>Account Debited</u>		<u>Account Credited</u>	
	Type	Effect	Type	Effect
(1) (Example)	Asset	+	Capital	+
(2)				
(3)				
(4)				
(5)				
(6)				
(7)				
(8)				

**Solution 176**

Transaction No.	<u>Account Debited</u>		<u>Account Credited</u>	
	Type	Effect	Type	Effect
(1) (Example)	Asset	+	Capital	+
(2)	Asset	+	Asset Liability	– +
(3)	Asset	+	Asset	–
(4)	Expense	+	Asset	–
(5)	Asset	+	Revenue	+
(6)	Liability	–	Asset	–
(7)	Asset	+	Asset	–
(8)	Drawings	+	Asset	–

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Ans: N/A, LO: 1, Bloom: C, Difficulty: Moderate, Min: 15, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 177**

For each of the following accounts indicate (a) the type of account (Asset, Liability, Owner's Equity, Revenue, Expense), (b) the debit and credit effects, and (c) the normal account balance.

Example

0. Cash                      a. Asset account  
                                  b. Debit increases, credit decreases  
                                  c. Normal balance - debit

---

Accounts

---

- |                        |                      |
|------------------------|----------------------|
| 1. Accounts Payable    | 5. Service Revenue   |
| 2. Accounts Receivable | 6. Insurance Expense |
| 3. Owner's Capital     | 7. Notes Payable     |
| 4. Owner's Drawings    | 8. Equipment         |

**Solution 177**

- |   |  |
|---|--|
| 1. a. Liability account.<br>b. Debit decreases, credit increases.<br>c. Normal balance - credit.      | 5. a. Revenue account.<br>b. Debit decreases, credit increases.<br>c. Normal balance - credit.   |
| 2. a. Asset account.<br>b. Debit increases, credit decreases.<br>c. Normal balance - debit.           | 6. a. Expense account.<br>b. Debit increases, credit decreases.<br>c. Normal balance - debit.    |
| 3. a. Owner's Equity account.<br>b. Debit decreases, credit increases.<br>c. Normal balance - credit. | 7. a. Liability account.<br>b. Debit decreases, credit increases.<br>c. Normal balance - credit. |
| 4. a. Owner's Equity account.<br>b. Debit increases, credit decreases.<br>c. Normal balance - debit.  | 8. a. Asset account.<br>b. Debit increases, credit decreases.<br>c. Normal balance - debit.      |

Ans: N/A, LO: 1, Bloom: C, Difficulty: Easy, Min: 15, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 178**

For each transaction given, enter in the tabulation given below a "D" for debit and a "C" for credit to reflect the increases and decreases of the assets, liabilities, and owner's equity accounts. In some cases there may be a "D" and a "C" in the same box.

Transactions:

1. Owner invests cash in the business.
2. Pays insurance in advance for six months.
3. Pays secretary's salary.
4. Purchases office supplies on account.
5. Pays electricity bill.
6. Borrows money from local bank.

**2 - 60 Test Bank for Accounting Principles, Fourteenth Edition**

7. Makes payment on account.
8. Receives cash due from customers.

**Ex. 178** (cont'd)

9. Provides services on account.
10. Owner withdraws assets from the business.

	Transaction #									
	1	2	3	4	5	6	7	8	9	10
Assets										
Liabilities										
Owner's Capital Account										
Owner's Drawings										
Revenues										
Expenses										

## Solution 178

	Transaction #									
	1	2	3	4	5	6	7	8	9	10
Assets	D	D,C	C	D	C	D	C	D,C	D	C
Liabilities				C		C	D			
Owner's Capital Account	C									
Owner's Drawings										D
Revenues									C	
Expenses			D		D					

Ans: N/A, LO: 1, Bloom: C, Difficulty: Moderate, Min: 15, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 179**

Journalize the following business transactions in general journal form. Identify each transaction by number. You may omit explanations of the transactions.

1. The owner, Mai Li, invests \$40,000 in cash in starting a real estate office operating as a sole proprietorship.
2. Purchased \$500 of supplies on credit.
3. Purchased equipment for \$9,000, paying \$4,000 in cash and signed a 30-day, \$5,000, note payable.
4. Real estate commissions billed to clients amount to \$4,000.
5. Paid \$800 in cash for the current month's rent.
6. Paid \$200 cash on account for supplies purchased in transaction 2.
7. Received a bill for \$600 for advertising for the current month.
8. Paid \$2,500 cash for office salaries and wages.
9. Li withdrew \$1,800 from the business for living expenses.
10. Received a check for \$2,500 from a client in payment on account for commissions billed in transaction 4.

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**Solution 179**

1.	Cash.....	40,000	
	Owner's Capital.....		40,000
2.	Supplies.....	500	
	Accounts Payable.....		500
3.	Equipment.....	9,000	
	Cash.....		4,000
	Notes Payable.....		5,000
4.	Accounts Receivable.....	4,000	
	Service Revenue.....		4,000
5.	Rent Expense.....	800	
	Cash.....		800
6.	Accounts Payable.....	200	
	Cash.....		200
7.	Advertising Expense.....	600	
	Accounts Payable.....		600
8.	Salaries and Wages Expense.....	2,500	
	Cash.....		2,500
9.	Owner's Drawings.....	1,800	
	Cash.....		1,800
10.	Cash.....	2,500	
	Accounts Receivable.....		2,500

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 15, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 180**

Identify the accounts to be debited and credited for each of the following transactions.

1. The owner, O. Gulag, invested \$8,000 cash in the business.
2. Purchased supplies on account for \$1,000.
3. Billed customers \$2,000 for services performed.
4. Paid salaries of \$1,200.

**Solution 180**

	<u>Account Debited</u>	<u>Account Credited</u>
1.	Cash	Owner's Capital
2.	Supplies	Accounts Payable
3.	Accounts Receivable	Service Revenue

## 4. Salaries and Wages Expense Cash

Ans: N/A, LO: 2, Bloom: C, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 181**

Transactions for Joan Jett Company for the month of October are presented below. Journalize each transaction and identify each transaction by number. You may omit journal explanations.

1. Invested \$42,000 cash in the business.
2. Purchased land costing \$28,000 for cash.
3. Purchased equipment costing \$18,000 for \$4,000 cash and the remainder on credit.
4. Purchased supplies on account for \$800.
5. Paid \$1,200 for a one-year insurance policy.
6. Received \$3,500 cash for services performed.
7. Received \$4,000 for services previously performed on account.
8. Paid wages to employees for \$2,800.
9. Petty withdrew \$2,300 cash from the business.

**Solution 181**

1. Cash.....	42,000	
Owner's Capital.....		42,000
2. Land.....	28,000	
Cash.....		28,000
3. Equipment.....	18,000	
Cash.....		4,000
Accounts Payable.....		14,000
4. Supplies .....	800	
Accounts Payable .....		800
5. Prepaid Insurance.....	1,200	
Cash.....		1,200
6. Cash.....	3,500	
Service Revenue.....		3,500
7. Cash.....	4,000	
Accounts Receivable.....		4,000
8. Salaries and Wages Expense.....	2,800	
Cash.....		2,800
9. Owner's Drawings.....	2,300	
Cash.....		2,300

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 10, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting





**Ex. 182**

Match the basic step in the recording process described by each of the following statements.

- A. Analyze each transaction
- B. Enter each transaction in a journal
- C. Transfer journal information to ledger accounts

- \_\_\_\_ 1. This step is called posting.
- \_\_\_\_ 2. Business documents are examined to determine the effects of transactions on the accounts.
- \_\_\_\_ 3. This step is called journalizing.

**Solution 182**

1. C              2. A              3. B

Ans: N/A, LO: 2, Bloom: C, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 183**

Prepare journal entries for each of the following transactions.

1. Performed services for customers on account \$8,400.
2. Purchased \$20,000 of equipment on account.
3. Received \$3,800 from customers in transaction 1.
4. The owner, J. Dean, withdrew \$2,900 cash for personal use.

**Solution 183**

1. Accounts Receivable.....	8,400	
Service Revenue.....		8,400
2. Equipment.....	20,000	
Accounts Payable.....		20,000
3. Cash.....	3,800	
Accounts Receivable.....		3,800
4. Owner's Drawings.....	2,900	
Cash.....		2,900

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 184**

Sigur Ros Company is a newly organized business. The list of accounts to be opened in the general ledger is as follows:

Accounts Payable	Prepaid Insurance
Accounts Receivable	Prepaid Rent
Accumulated Depreciation - Equip.	Rent Expense
Cash	Salaries and Wages Expense
Depreciation Expense	Salaries and Wages Payable
Equipment	Service Revenue
Insurance Expense	Supplies
Owner's Capital	Supplies Expense
Owner's Drawings	

**Instructions**

Organize the accounts into the order in which they should appear in the ledger of Sigur Ros Company and assign account numbers. Use the following system to assign account numbers.

1—199	Assets
200—299	Liabilities
300—399	Owner's Equity
400—499	Revenues
500—599	Expenses

**Solution 184**

There are several possible correct account number assignments. The following is one of the correct solutions.

- 101- Cash
- 112- Accounts Receivable
- 125- Supplies
- 130- Prepaid Insurance
- 140- Prepaid Rent
- 157- Equipment
- 158- Accumulated Depreciation - Equip.
- 201- Accounts Payable
- 212- Salaries and Wages Payable
- 301- Owner's Capital
- 306- Owner's Drawings
- 400- Service Revenue
- 510- Salaries and Wages Expense
- 520- Supplies Expense
- 530- Rent Expense
- 540- Insurance Expense
- 550- Depreciation Expense

Ans: N/A, LO: 3, Bloom: C, Difficulty: Moderate, Min: 15, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 185**

Post the following transactions to T-accounts and determine each account's ending balance.

1. Supplies.....	2,600	
Accounts Payable.....		2,600
2. Accounts Receivable.....	4,300	
Service Revenue.....		4,300
3. Cash.....	3,500	
Accounts Receivable.....		3,500
4. Accounts Payable.....	1,200	
Cash.....		1,200

**Solution 185**

Cash		Accounts Payable	
3. 3,500	4. 1,200	4. 1,200	1. 2,600
Bal. 2,300			Bal. 1,400

  

Accounts Receivable		Service Revenue	
2. 4,300	3. 3,500		2. 4,300
Bal. 800			Bal. 4,300

  

Supplies	
1. 2,600	
Bal. 2,600	

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Easy, Min: 6, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 186**

The transactions of Molina Information Service are recorded in the general journal below. You are to post the journal entries to the accounts in the general ledger. After all entries have been posted, you are to prepare a trial balance on the form provided.

<u>General Journal</u>				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
2020				
Sept. 1	Cash Owner's Capital (Invested cash in business)		27,000	27,000
4	Equipment Cash Notes Payable (Paid cash and issued 2-year, 9%, note for equipment)		34,000	9,000 25,000
8	Rent Expense Cash (Paid September rent)		1,000	1,000
15	Prepaid Insurance Cash (Paid one-year liability insurance)		900	900
18	Cash Service Revenue (Received cash for delivery services)		2,800	2,800
20	Salaries and Wages Expense Cash (Paid salaries for current period)		500	500
25	Utilities Expense Accounts Payable (Received a bill for September utilities)		100	100
30	Owner's Drawings Cash (Withdrew cash for personal use)		1,600	1,600
30	Accounts Receivable Service Revenue (Billed customer for delivery service)		4,500	4,500

**Ex. 186** (cont'd)General Ledger

## Cash

Account No. 101

Date	Explanation	Ref.	Debit	Credit	Balance
------	-------------	------	-------	--------	---------

## Accounts Receivable

Account No. 112

Date	Explanation	Ref.	Debit	Credit	Balance
------	-------------	------	-------	--------	---------

## Prepaid Insurance

Account No. 130

Date	Explanation	Ref.	Debit	Credit	Balance
------	-------------	------	-------	--------	---------

## Equipment

Account No. 155

Date	Explanation	Ref.	Debit	Credit	Balance
------	-------------	------	-------	--------	---------

## Accounts Payable

Account No. 201

Date	Explanation	Ref.	Debit	Credit	Balance
------	-------------	------	-------	--------	---------

**FOR INSTRUCTOR USE ONLY**

**2 - 70 Test Bank for Accounting Principles, Fourteenth Edition****Ex. 186** (cont'd)

Notes Payable				Account No. 205	
Date	Explanation	Ref.	Debit	Credit	Balance

Owner's Capital				Account No. 301	
Date	Explanation	Ref.	Debit	Credit	Balance

Owner's Drawing				Account No. 306	
Date	Explanation	Ref.	Debit	Credit	Balance

Service Revenue				Account No. 400	
Date	Explanation	Ref.	Debit	Credit	Balance

Rent Expense				Account No. 719	
Date	Explanation	Ref.	Debit	Credit	Balance

**FOR INSTRUCTOR USE ONLY**

**Ex. 186** (cont'd)

## Salaries and Wages Expense

Account No. 726

Date	Explanation	Ref.	Debit	Credit	Balance
------	-------------	------	-------	--------	---------

## Utilities Expense

Account No. 735

Date	Explanation	Ref.	Debit	Credit	Balance
------	-------------	------	-------	--------	---------

MOLINA INFORMATION SERVICE  
Trial Balance  
September 30, 2020

Accounts	Debit	Credit
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## Solution 186

<u>General Journal</u>				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
2020				
Sept. 1	Cash	101	27,000	
	Owner's Capital	301		27,000
	(Invested cash in business)			
4	Equipment	155	34,000	
	Cash	101		9,000
	Notes Payable	205		25,000
	(Paid cash and issued 2-year, 9%, note for equipment)			
8	Rent Expense	719	1,000	
	Cash	101		1,000
	(Paid September rent)			
15	Prepaid Insurance	130	900	
	Cash	101		900
	(Paid one-year liability insurance)			
18	Cash	101	2,800	
	Service Revenue	400		2,800
	(Received cash for delivery services)			
20	Salaries and Wages Expense	726	500	
	Cash	101		500
	(Paid salaries for current period)			
25	Utilities Expense	735	100	
	Accounts Payable	201		100
	(Received a bill for September utilities)			
30	Owner's Drawings	306	1,600	
	Cash	101		1,600
	(Withdrew cash for personal use)			
30	Accounts Receivable	112	4,500	
	Service Revenue	400		4,500
	(Billed customer for delivery service)			



**Solution 186** (cont'd)General Ledger

Cash			Account No. 101		
Date	Explanation	Ref.	Debit	Credit	Balance
2020					
Sept. 1		J1	27,000		27,000
4		J1		9,000	18,000
8		J1		1,000	17,000
15		J1		900	16,100
18		J1	2,800		18,900
20		J1		500	18,400
30		J1		1,600	16,800

Accounts Receivable			Account No. 112		
Date	Explanation	Ref.	Debit	Credit	Balance
2020					
Sept. 30		J1	4,500		4,500

Prepaid Insurance			Account No. 130		
Date	Explanation	Ref.	Debit	Credit	Balance
2020					
Sept. 15		J1	900		900

Equipment			Account No. 155		
Date	Explanation	Ref.	Debit	Credit	Balance
2020					
Sept. 4		J1	34,000		34,000

Accounts Payable			Account No. 201		
Date	Explanation	Ref.	Debit	Credit	Balance
2020					
Sept. 25		J1		100	100

**FOR INSTRUCTOR USE ONLY**

**2 - 74 Test Bank for Accounting Principles, Fourteenth Edition****Solution 186** (cont'd)

Notes Payable				Account No. 205	
Date	Explanation	Ref.	Debit	Credit	Balance
2020 Sept. 4		J1		25,000	25,000

Owner's Capital				Account No. 301	
Date	Explanation	Ref.	Debit	Credit	Balance
2020 Sept. 1		J1		27,000	27,000

Owner's Drawings				Account No. 306	
Date	Explanation	Ref.	Debit	Credit	Balance
2020 Sept. 30		J1	1,600		1,600

Service Revenue				Account No. 400	
Date	Explanation	Ref.	Debit	Credit	Balance
2020 Sept. 18		J1		2,800	2,800
30		J1		4,500	7,300

Rent Expense				Account No. 719	
Date	Explanation	Ref.	Debit	Credit	Balance
2020 Sept. 8		J1	1,000		1,000

Salaries and Wages Expense				Account No. 726	
Date	Explanation	Ref.	Debit	Credit	Balance
2020 Sept. 20		J1	500		500

**FOR INSTRUCTOR USE ONLY**

**Solution 186** (cont'd)

Utilities Expense				Account No. 735	
Date	Explanation	Ref.	Debit	Credit	Balance
2020 Sept. 25		J1	100		100

MOLINA INFORMATION SERVICE  
Trial Balance  
September 30, 2020

Accounts	Debit	Credit
Cash	\$ 16,800	
Accounts Receivable	4,500	
Prepaid Insurance	900	
Equipment	34,000	
Accounts Payable		\$ 100
Notes Payable		25,000
Owner's Capital		27,000
Owner's Drawings	1,600	
Service Revenue		7,300
Rent Expense	1,000	
Salaries and Wages Expense	500	
Utilities Expense	100	
Totals	<u>\$59,400</u>	<u>\$59,400</u>

[(Cash + Accts. rec. + Prepd. ins. + Equip. + Owner's draws. + Rent exp. + Sal. & wages exp. + Util. exp.) = (Accts. pay. + Notes pay. + Owner's cap. + Serv. rev.)]

Ans: N/A, LO: 2,3,4, Bloom: AP, Difficulty: Hard, Min: 25, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 187**

The bookkeeper for Panda Bear Yard Service made a number of errors in journalizing and posting as described below:

1. A debit posting to accounts receivable for \$500 was omitted.
2. A payment of accounts payable for \$600 was credited to cash and debited to accounts receivable.
3. A credit to accounts receivable for \$950 was posted as \$95.
4. A cash purchase of equipment for \$893 was journalized as a debit to equipment and a credit to notes payable. The credit posting was made for \$839 while the debit posting was made for \$893.
5. A debit posting of \$400 for purchase of supplies was credited to supplies.
6. A debit to repairs expense for \$451 was posted as \$415.
7. A debit posting for salaries and wages expense for \$900 was made twice.

**FOR INSTRUCTOR USE ONLY**

8. A cash purchase of supplies for \$700 was journalized and posted as a debit to supplies for \$70 and a credit to cash for \$70.

**Ex. 187** (cont'd)**Instructions**

For each error, indicate (a) whether the trial balance will balance; if the trial balance will **not** balance, indicate (b) the amount of the difference, and (c) the trial balance column that will have the larger total. Consider each error separately. Use the following form, in which error (1) is given as an example.

<u>Error</u>	(A) <u>In Balance</u>	(B) <u>Difference</u>	(C) <u>Larger Column</u>
1	No	\$500	Credit

**Solution 187**

<u>Error</u>	(A) <u>In Balance</u>	(B) <u>Difference</u>	(C) <u>Larger Column</u>
1	No	\$500	Credit
2	Yes	—	—
3	No	855	Debit
4	No	54	Debit
5	No	800	Credit
6	No	36	Credit
7	No	900	Debit
8	Yes	—	—

Ans: N/A, LO: 4, Bloom: AN, Difficulty: Hard, Min: 15, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 188**

The trial balance of Red House Painters shown below does **not** balance.

## RED HOUSE PAINTERS

Trial Balance

June 30, 2020

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 2,780	
Accounts Receivable.....	7,420	
Supplies.....	600	
Equipment.....	8,300	
Accounts Payable.....		\$ 9,777
Owner's Capital.....		1,952
Owner's Drawings.....	1,300	
Service Revenue.....		15,200
Salaries and Wages Expense.....	3,800	
Repairs Expense.....	1,600	
Totals.....	<u>\$25,800</u>	<u>\$26,929</u>

FOR INSTRUCTOR USE ONLY

**Ex. 188** (cont'd)

An examination of the ledger and journal reveals the following errors:

- Each of the above listed accounts has a normal balance per the general ledger.
- Cash of \$270 received from a customer on account was debited to Cash \$720 and credited to Accounts Receivable \$720.
- A withdrawal of \$400 by the owner was posted as a credit to Owner's Drawings, \$400 and credit to Cash \$400.
- A debit of \$300 was **not** posted to Salaries and Wages Expense.
- The purchase of equipment on account for \$700 was recorded as a debit to Repairs Expense and a credit to Accounts Payable for \$700.
- Services were performed on account for a customer, \$510, for which Accounts Receivable was debited \$510 and Service Revenue was credited \$51.
- A payment on account for \$235 was credited to Cash for \$235 and credited to Accounts Payable for \$253.

**Instructions**

Prepare a correct trial balance.

**Solution 188**

RED HOUSE PAINTERS  
Trial Balance  
June 30, 2020

	<u>Debit</u>	<u>Credit</u>
Cash [2,780 – 450 (2)].....	\$ 2,330	\$
Accounts Receivable [7,420 + 450 (2)].....	7,870	
Supplies.....	600	
Equipment [8,300 + 700 (5)].....	9,000	
Accounts Payable [9,777 – 253 – 235].....		9,289
Owner's Capital.....		1,952
Owner's Drawings [1,300 + 400 + 400 (3)].....	2,100	
Service Revenue [15,200 + 459 (6)].....		15,659
Salaries and Wages Expense [3,800 + 300 (4)].....	4,100	
Repairs Expense [1,600 – 700 (5)].....	900	
Totals.....	<u>\$26,900</u>	<u>\$26,900</u>

(((Cash – Item 2) + (Accts. rec. + Item 2) + Supp. + (Equip. + Item 5) + (Owner's draws. + Item 3 + Item 3) + (Sal. & wages exp. + Item 4) + (Repairs exp. – Item 5)) = ((Accts. pay. – Item 7: 253. – Item 7:235.) + Owner's cap. + (Serv. rev. + Item 6)))

Ans: N/A, LO: 4, Bloom: AN, Difficulty: Hard, Min: 25, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 189**

Some of the following errors would cause the debit and credit columns of the trial balance to have unequal totals. For each of the four cases, state whether the error would cause unequal totals in the trial balance. If the error causes unequal totals, indicate the amount of difference between the columns and state whether the debit or credit is larger. Each case is to be considered independently of the others.

1. A payment of \$600 to a creditor was recorded by a debit to Accounts Payable of \$60 and a credit to Cash of \$600.

Ex. 189, cont'd

2. A \$450 payment for a printer was recorded by a debit to Equipment of \$45 and a credit to Cash for \$45.
3. An account receivable in the amount of \$3,000 was collected in full. The collection was recorded by a debit to Cash for \$3,000 and a debit to Accounts Payable for \$3,000.
4. An account payable was paid by issuing a check for \$600. The payment was recorded by debiting Accounts Payable \$600 and crediting Accounts Receivable \$600.

**Solution 189**

1. The trial balance totals will be unequal. The credit column will be \$540 larger than the debit column.
2. The trial balance totals will be misstated but not unequal.
3. The trial balance totals will be unequal. The debit column will be \$6,000 larger than the credit column.
4. The trial balance totals will be misstated but not unequal.

Ans: N/A, LO: 4, Bloom: AN, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 190**

L. Phair and Associates is a financial planning service. The account balances at December 31, 2020 are shown by the following alphabetical list:

Accounts Payable	\$ 5,000
Accounts Receivable	19,000
Buildings	140,000
Cash	11,700
Equipment	31,300
Land	42,000
Owner's Capital	152,900
Notes Payable	95,000
Notes Receivable	8,100
Supplies	800

**Instructions**

Prepare a trial balance with the accounts arranged in financial statement order.

**Solution 190**

L. PHAIR AND ASSOCIATES  
Trial Balance  
December 31, 2020

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 11,700	
Accounts Receivable.....	19,000	
Notes Receivable.....	8,100	
Supplies.....	800	
Equipment.....	31,300	
Buildings.....	140,000	
Land.....	42,000	
Notes Payable.....		\$ 95,000
Accounts Payable.....		5,000
Owner's Capital.....		<u>152,900</u>
Totals.....	<u>\$252,900</u>	<u>\$252,900</u>

[(Cash + Accts. rec. + Notes rec. + Supp. + Equip. + Bldgs. + Land) = (Notes pay. + Accts. pay. + Owner's cap.)]

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 10, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 191**

The ledger accounts of the Flex Gym at June 30, 2020 are shown below:

Accounts Payable	\$ 9,800
Accounts Receivable	7,050
Buildings	63,000
Owner's Capital	71,800
Cash	6,200
Equipment	42,500
Notes Payable	46,000
Supplies	350
Owner's Drawings	8,500

**Instructions**

Prepare a trial balance with the ledger accounts arranged in the proper financial statement order. Include the appropriate heading.



**Solution 191**

FLEX GYM  
Trial Balance  
June 30, 2020

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 6,200	
Accounts Receivable.....	7,050	
Supplies.....	350	
Equipment.....	42,500	
Buildings.....	63,000	
Notes Payable.....		\$ 46,000
Accounts Payable.....		9,800
Owner's Capital.....		71,800
Owner's Drawings.....	8,500	
Totals.....	<u>\$127,600</u>	<u>\$127,600</u>

[(Cash + Accts. rec. + Supp. + Equip. + Bldgs. + Owner's draws.) = (Notes pay. + Accts. pay. + Owner's cap.)]

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 10, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**Ex. 192**

The ledger account balances for Galaxie 500 Company are listed below.

Accounts Payable	\$ 6,000
Accounts Receivable	7,000
Cash	5,200
Owner's Capital	11,000
Owner's Drawings	4,000
Service Revenue	30,000
Salaries and Wages Expense	20,800
Unearned Service Revenue	2,000
Utilities Expense	12,000

**Instructions**

Prepare a trial balance in proper form for Galaxie at December 31, 2020.

## Solution 192

GALAXIE 500 Company  
Trial Balance  
December 31, 2020

	<u>Debit</u>	<u>Credit</u>
Cash	\$5,200	
Accounts Receivable	7,000	
Accounts Payable		\$ 6,000
Unearned Service Revenue		2,000
Owner's Capital		11,000
Owner's Drawings	4,000	
Service Revenue		30,000
Salaries and Wages Expense	20,800	
Utilities Expense	<u>12,000</u>	
	<u>\$49,000</u>	<u>\$49,000</u>

[(Cash + Accts. rec. + Owner's draws. + Sal. & wages exp. + Util. exp.) = (Accts. pay. + Unearn. serv. rev. + Owner's cap. + Serv. rev.)]

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 8, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

## Ex 193

The bookkeeper for Darrel Johnston Auto Repair made a number of errors in journalizing and posting, as described below.

1. A debit posting of \$600 to Accounts Payable was omitted.
2. A debit posting of \$700 for Prepaid Insurance was debited to Insurance Expense.
3. A collection from a customer of \$150 in payment of its account owed was journalized and posted as a debit to Cash \$150 and a credit to Owner's Capital \$150.
4. A credit posting of \$530 to Accounts Payable was made twice.
5. A cash purchase of supplies for \$350 was journalized and posted as a debit to Supplies \$35 and a credit to Cash \$35.
6. A debit of \$658 to Rent Expense was posted as \$568.

## Instructions

For each error:

- (a) Indicate whether the trial balance will balance.
- (b) If the trial balance will **not** balance, indicate the amount of the difference.
- (c) Indicate the trial balance column that will have the larger total.

Consider each error separately. Use the following form, in which error (1) is given as an example.

Error	(a) In Balance	(b) Difference	(c) Larger Column
(1)	No	\$600	Credit

**Solution 193**

Error	(a) In Balance	(b) Difference	(c) Larger Column
1.	No	\$600	Credit
2.	Yes	—	—
3.	Yes	—	—
4.	No	530	Credit
5.	Yes	—	—
6.	No	90	Credit

Ans: N/A, LO: 4, Bloom: AN, Difficulty: Hard, Min: 8, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

## COMPLETION STATEMENTS

194. An \_\_\_\_\_ is a record of increases and decreases in specific assets, liabilities, and owner's equity items.
195. The process of entering an amount on the left side of an account is called \_\_\_\_\_ the account, and making an entry on the right side is called \_\_\_\_\_ the account.
196. \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_ have debit normal account balances whereas \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_ have credit normal account balances.
197. The four subdivisions of owner's equity are: \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_.
198. The basic steps in the recording process are: \_\_\_\_\_ each transaction, enter the transaction in a \_\_\_\_\_, and transfer the \_\_\_\_\_ information to appropriate accounts in the \_\_\_\_\_.
199. A sales slip, a check, and a cash register tape are examples of \_\_\_\_\_ used as evidence that a transaction has taken place.
200. An accounting record where transactions are initially recorded in chronological order is called a \_\_\_\_\_.
201. When three or more accounts are required in one journal entry, the entry is referred to as a \_\_\_\_\_ entry.
202. The entire group of accounts and their balances maintained by a company is called the \_\_\_\_\_.
203. A two column list of all accounts and their balances at a given time is a \_\_\_\_\_.

### Answers to Completion Statements

- |   |                         |
|---|-------------------------|
| 194. account  | 199. business documents |
| 195. debiting, crediting  | 200. journal            |
| 196. Assets, expenses, owner's drawings, owner's capital, liabilities, revenues | 201. compound           |
| 197. owner's capital, owner's drawings, revenues, expenses                      | 202. general ledger     |
| 198. analyze, journal, ledger   | 203. trial balance      |

Ans: N/A, LO: 1,2,3,4, Bloom: K, Difficulty: Easy, Min: 8, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**MATCHING**

204. Match the items below by entering the appropriate code letter in the space provided.

- |                           |                      |
|---------------------------|----------------------|
| A. Account                | F. Journal           |
| B. Normal account balance | G. Posting           |
| C. Debit                  | H. Chart of accounts |
| D. Revenue account        | I. Trial balance     |
| E. Compound entry         | J. Simple entry      |

- \_\_\_\_\_ 1. An entry that involves three or more accounts.
- \_\_\_\_\_ 2. Transferring journal entries to ledger accounts.
- \_\_\_\_\_ 3. The side which increases an account.
- \_\_\_\_\_ 4. A list of all the accounts used by an enterprise.
- \_\_\_\_\_ 5. A record of increases and decreases in specific assets, liabilities, and owner's equity items.
- \_\_\_\_\_ 6. Left side of an account.
- \_\_\_\_\_ 7. An entry that involves only two accounts.
- \_\_\_\_\_ 8. A book of original entry.
- \_\_\_\_\_ 9. A list of accounts and their balances at a given time.
- \_\_\_\_\_ 10. Has a credit normal balance

**Answers to Matching**

- |      |       |
|------|-------|
| 1. E | 6. C  |
| 2. G | 7. J  |
| 3. B | 8. F  |
| 4. H | 9. I  |
| 5. A | 10. D |

Ans: N/A, LO: 1,2,3,4, Bloom: K, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

## SHORT-ANSWER ESSAY QUESTIONS

### S-A E 205

An account is an important accounting record where financial information is stored until needed. Briefly explain (1) the nature of an account, (2) the different types of accounts, and (3) the manner in which an account is increased and decreased and its normal balance.

### Solution 205

An account is an individual accounting record of increases and decreases in specific asset, liability, and owner's equity accounts. In its simplest form, an account consists of three parts: (1) the title of the account, (2) a left or debit side, and (3) a right or credit side (it resembles the letter T). Accounts are classified as asset, liability, owner's equity, revenue, and expense. Accounts with a normal debit balance, such as assets and expenses, are increased when debited and decreased when credited. Accounts with a normal credit balance, such as liabilities and revenues, are increased when credited and decreased when debited.

Ans: N/A, LO: 1, Bloom: C, Difficulty: Moderate, Min: 5, AACSB: Communication, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting

### S-A E 206

Your roommate, a marketing major, thinks that debit means decrease and credit means increase. And, that every account can be debited and credited and as result, every account can have both a debit and a credit balance. Explain to your roommate (1) the meaning of debit and credit; (2) which accounts can only be debited, which can only be credited, and which can be both debited and credited; and (3) which accounts normally have debit balances and which credit balances.

### Solution 206

The terms debit and credit mean the left and right side, respectively, of every account. Some accounts such as Drawings and Expenses are only debited; other accounts such as Capital and Revenues are only credited; and finally, some accounts such as Cash, Accounts Receivable, and Accounts Payable can be debited and credited. Accounts with debit balances include Assets, Drawings, and Expenses. Accounts with credit balances include Liabilities, Capital and Revenues.

Ans: N/A, LO: 1, Bloom: C, Difficulty: Moderate, Min: 5, AACSB: Communication, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting

### S-A E 207

A fellow classmate is confused about how debits and credits relate to the basic accounting equation. State the basic accounting equation, convert it into the expanded accounting equation, and then explain how it ties into the rules for debits and credits.

**Solution 207**

The basic accounting equation is:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

The expanded equation divides Owner's Equity into its various parts, reflecting the owner's investment, drawings, revenues, and expenses:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Capital} - \text{Owner's Drawings} + \text{Revenues} - \text{Expenses}$$

This expanded equation can then be re-arranged to explain why certain accounts have debit (left-hand) balances, while other accounts have credit (right-hand) balances, as follows:

$$\text{Assets} + \text{Owner's Drawings} + \text{Expenses} = \text{Liabilities} + \text{Owner's Capital} + \text{Revenues}$$

The accounts on the left-hand side of the equation have left-hand, or debit, balances, while the accounts on the right-hand side of the equation have right-hand, or credit, balances. Accounts with debit balances are increased with debits and decreased with credits, while accounts with credit balances are increased with credits and decreased with debits.

Ans: N/A, LO: 1, Bloom: S, Difficulty: Hard, Min: 10, AACSB: Communication, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, Reporting, AICPA PC: Communication, IMA: Reporting

**S-A E 208**

Describe the process of preparing a trial balance. What is the purpose of preparing a trial balance? If a trial balance does **not** balance, identify what might be the reasons why it does not balance. If the trial balance does balance, does that insure that the ledger accounts are correct? Explain.

**Solution 208**

The process of preparing a trial balance consists of (1) listing the account titles and their debit or credit balances in the order in which they appear in the general ledger, (2) totaling the debit and credit columns, and (3) proving the equality of the total debits and total credits. The primary purpose of the trial balance is to prove the equality of the debits and credits after posting. A trial balance also uncovers errors in journalizing and posting because errors in journalizing and posting cause a trial balance not to balance. A trial balance does not prove that all transactions have been recorded or that the ledger is correct. The trial balance may balance even when (1) an entire transaction is not journalized, (2) a correct journal entry is not posted, (3) a journal entry is posted twice, (4) incorrect accounts are used in journalizing or posting, or (5) offsetting errors are made in recording the amount of a transaction or posting to the ledger.

Ans: N/A, LO: 4, Bloom: AN, Difficulty: Moderate, Min: 5, AACSB: Communication, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, Communication, AICPA PC: Communication, IMA: Reporting

**S-A E 209**

A classmate who is a computer science major thinks that accountants are obsolete. She states that computers can do the entire process without any human assistance.

Discuss the steps in the recording process and indicate what role the computer plays in that process.

**Solution 209**

The initial step in the recording process is to analyze each transaction. This is done by analyzing the source documents to determine which accounts were affected. The computer is not able to perform this step. The second step is enter the transaction in the journal using a journal entry. The computer is not able to perform this step and does not know if the correct accounts are being debited and credited, nor if the correct amounts were entered. It is only able to test the equality of the debits and credits comprising the entry. The final step is to transfer the journal entry to the specific accounts in the ledger (posting). The computer can perform this step efficiently and effectively.

Ans: N/A, LO: 2, Bloom: S, Difficulty: Moderate, Min: 7, AACSB: Communication, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: Communication, IMA: Reporting

**S-A E 210**

Amy Pond, a fellow employee, wants to understand the basic steps in the recording process. Identify and briefly explain the steps in the order in which they occur.

**Solution 210**

The basic steps in the recording process are:

1. Analyze each transaction. In this step, business documents are examined to determine the effects of the transaction on the accounts.
2. Enter each transaction in a journal. This step is called journalizing and it results in making a chronological record of the transactions.
3. Transfer journal information to ledger accounts. This step is called posting. Posting makes it possible to accumulate the effects of journalized transactions on individual accounts.

Ans: N/A, LO: 2, Bloom: C, Difficulty: Moderate, Min: 5, AACSB: Communication, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, Reporting, AICPA PC: Communication, IMA: Reporting



**S-A E 211**

All recordable transactions are initially recorded in the journal. Discuss the contributions that the journal makes to the recording process.

**Solution 211**

The journal makes several significant contributions to the recording process: (1) It discloses in one place the complete effects of a transaction; (2) It provides a chronological record of transactions; and, (3) It helps to prevent and locate errors because the debit and credit amounts for each entry can be readily compared.

Ans: N/A, LO: 2, Bloom: C, Difficulty: Moderate, Min: 5, AACSB: Communication, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, Reporting, AICPA PC: Communication, IMA: Reporting

**S-A E 212**

A bookkeeping student has come to you for tutoring on the recording process. She is confused about the relationship between the chart of accounts and the ledger. Explain the purpose of the chart of accounts and the general ledger. In your explanation indicate the relationship between these two items as well.

**Solution 212**

The chart of accounts lists all of the accounts that a company uses and their account numbers that identify their location in the ledger. The numbering system used to identify the accounts usually starts with the balance sheet accounts followed by the income statement accounts.

The general ledger contains all of the accounts of a company and their respective balances at any point in time. The ledger is organized by account number with assets coming first, then liabilities, owner's equity, revenue, and expense accounts.

Ans: N/A, LO: 3, Bloom: C, Difficulty: Easy, Min: 5, AACSB: Communication, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, Reporting, AICPA PC: Communication, IMA: Reporting

**S-A E 213**

The process of transferring the information in the journal to the general ledger is called posting. Explain the posting process, including the importance of the journal page number and the account numbers.

**Solution 213**

The posting process begins with locating the account(s) being debited in the general ledger. Then entering the date of the entry, the journal page number where the entry originated and debit portion of the entry in the date, reference and debit columns, respectively. Once this done, the account number(s) of the account(s) being debited is (are) entered in the reference column in the journal. Next, the credit portion of the journal entry is posted to the appropriate accounts in the ledger following the same steps as noted for the debit portion.



**Solution 213 (Cont'd)**

The importance of the journal page number, in the reference column of each account in the general ledger accounts, is to indicate where to find the original entry. And, the general ledger account numbers, in the reference column of the journal, indicate that the entry has been posted.

Ans: N/A, LO: 3, Bloom: S, Difficulty: Moderate, Min: 5, AACSB: Communication, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, Reporting, AICPA PC: Communication, IMA: Reporting

**S-A E 214**

During a study session, a classmate states that it is **not** necessary to make journal entries and then post them to the ledger. She states that it is sufficient to analyze the transaction and simply record the information in T-accounts.

What is your response to this statement? Be brief, yet concise.

**Solution 214**

You have a very good point regarding the steps of the accounting cycle. If a company only has a few transactions, it might be possible to simply analyze them and then record each in T-accounts. However, nearly all businesses have many transactions each day. There must be a systematic way to process these transactions. The steps of the accounting cycle represent this process. After analyzing each transaction, a journal entry needs to be prepared. The journal represents a chronological listing of every transaction for a business. This allows users to review past transactions. Your approach does not leave a trail that can be reviewed at a later date. Once the journal entries are made, posting allows each line of the journal to be transferred into the ledger. This process increases and decreases individual accounts in the ledger. At the end of the accounting period, the balance of each account is determined and the trial balance is prepared.

Based on your approach, if someone saw a credit to cash for \$10,000 and wondered what the debit was, that person would have to go through every ledger account to locate the corresponding debit. By having a general journal, the person can view the entire transaction, thus easily seeing the account that was debited.

Your approach may work for a very simple business, but it would result in problems for the majority of businesses and accountants.

Ans: N/A, LO: 2,3, Bloom: S, Difficulty: Moderate, Min: 7, AACSB: Communication, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, Reporting, AICPA PC: Communication, IMA: Reporting

**S-A E 215 (Ethics)**

Terry Bradshaw was appointed the manager of Steelers Properties, a recently formed company that manages residential rental properties. Linda Cohen is the accountant. She prepared a chart of accounts based on an analysis of the expenditures of the company. One of the largest expense categories is Travel and Entertainment. Mr. Bradshaw believes that it is important to maintain a presence in the social life of the city. In this, he sharply differs from his father, John Bradshaw. The elder Mr. Bradshaw has set up Steelers Properties in order to test his son's management skills before allowing him to manage the more lucrative commercial property business. John Bradshaw provided the capital for Steelers, and maintains close contact with the company. He allowed his son, however, to hire his own employees.

**S-A E 215 (cont'd)**

Terry has asked Ms. Cohen to change the name of the Travel and Entertainment account to Property Development. He hopes to deflect his father's attention away from the amount he has spent on travel and entertainment until he has proven that his methods work. When Ms. Cohen resisted, he reminded her that he, not his father, hired her. He also reminded her that she had been enthusiastic about his business plans when she was hired.

**Required:**

1. Who are the stakeholders in this situation?
2. Should Ms. Cohen agree to the change in the Travel and Entertainment account to Property Development? Explain.

**Solution 215**

1. The stakeholders in this situation include  
Mr. John Bradshaw  
Linda Cohen  
Mr. Terry Bradshaw  
Bankers and others who might rely on the financial statements
2. Ms. Cohen definitely should not agree to the name change. The intention of the person making the change is to deceive someone who has a right to know the affairs of the business, fully and completely. Though Ms. Cohen was hired by Mr. Terry Bradshaw, and though she may agree with his business methods, she cannot be a party to such deceit.

Ans: N/A, LO: 1, Bloom: E, Difficulty: Moderate, Min: 7, AACSB: Ethics, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: Professional Behavior, IMA: Reporting

**S-A E 216 (Communication)**

A classmate is considering dropping his accounting class because he cannot understand the rules of debits and credits.

- a. Can the student be successful in the course without an understanding of the rules of debits and credits?
- b. Explain the rules of debits and credits in a way that will help him understand them.

**Solution 216**

- a. Accounting is based on the double-entry system. This system records the dual effect of each transaction in the appropriate accounts, thus keeping the accounting equation in balance. Each transaction is analyzed and recorded using this dual effect system. If you do not have this basic understanding, the remaining chapters will become increasingly more difficult. You will not have the ability to make journal entries for the many new topics in these upcoming chapters.

**Solution 216** (cont'd)

- b. You may be trying to memorize the rules of debits and credits, only to discover that this does not work. Here are some other ways to master this very important topic:
- Make sure that you understand the accounting equation. Assets equal the total of liabilities and owners' equity. Owners' equity is not an account but rather a group of accounts that includes owner's capital, revenues, expenses, and owner's drawings. Owner's capital and revenues cause owners' equity to increase while expenses and drawings cause owners' equity to decrease.
  - Next, make sure that you understand the accounting meaning of the terms debits and credits. For accounting, debit means left and credit means right. Don't try to add any more to these definitions.
  - Then, work with the rules of debits and credits. These rules determine whether a debit or credit increases or decreases an account. Start with assets. Assets increase with a debit and thus decrease with a credit. Think about the cash account—when cash is received, the account is increased with a debit. When cash is paid, the account is decreased with a credit. All of the other rules of debits and credits keep the equation in balance. Liabilities, owner's capital, and revenues are all increased with credits. Expenses and owner's drawing are the two accounts that cause owners' equity to decrease, thus they must be increased with a debit.

Ans: N/A, LO: 1, Bloom: S, Difficulty: Hard, Min: 10, AACSB: Communication, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, Reporting, AICPA PC: Communication, IMA: Reporting