

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, 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 LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement
2. The recording process becomes more efficient and informative if all transactions are recorded in one account.
Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement
3. When the volume of transactions is large, recording them in tabular form is more efficient than using journals and ledgers.
Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement
4. An account is often referred to as a T-account because of the way it is constructed.
Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement
5. A debit to an account indicates an increase in that account.
Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement
6. If a revenue account is credited, the revenue account is increased.
Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement
7. The normal balance of all accounts is a debit.
Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement
8. Debit and credit can be interpreted to mean increase and decrease, respectively.
Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement
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 LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement
10. A credit balance in a liability account indicates that an error in recording has occurred.
Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement
11. The drawing account is a subdivision of the owner's capital account and appears as an expense on the income statement.
Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement, Reporting
12. Revenues are a subdivision of owner's capital.
Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement
13. Under the double-entry system, revenues must always equal expenses.
Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement
14. Transactions are entered in the ledger first and then they are analyzed in terms of their effect on the accounts.
Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement
15. Business documents can provide evidence that a transaction has occurred.
Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement
16. Each transaction must be analyzed in terms of its effect on the accounts before it can be recorded in a journal.

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

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

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

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

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

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

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

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

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

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

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

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

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

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

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting

24. The account titles used in journalizing transactions need not be identical to the account titles in the ledger.

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

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

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

26. 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 LO3 BT: C K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

27. 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 LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

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

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

29. After a transaction has been posted, the reference column in the journal should not be blank.

Ans: T LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

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

Ans: T LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

31. 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 LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

2 - 4 Test Bank for Accounting Principles, IFRS, First Edition

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

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

33. The journal provides a chronological record of transactions.

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

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

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

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

Ans: T LO3 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

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

Ans: T LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

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

Ans: F LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

MULTIPLE CHOICE QUESTIONS

38. An account consists of

- a. one part.
- b. two parts.
- c. three parts.
- d. four parts.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

39. The left side of an account is

- a. blank.
- b. a description of the account.
- c. the debit side.
- d. the balance of the account.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

40. Which one of the following is **not** a part of an account?

- a. Credit side
- b. Trial balance
- c. Debit side
- d. Title

Ans: b LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

41. An account is a part of the financial information system and is described by all **except** which one of the following?

- a. An account has a debit and credit side.
- b. An account is a source document.
- c. An account may be part of a manual or a computerized accounting system.
- d. An account has a title.

Ans: b LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

42. The right side of an account

- a. is the correct side.
- b. reflects all transactions for the accounting period.
- c. shows all the balances of the accounts in the system.
- d. is the credit side.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

43. An account consists of

- 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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 amount of the debits must equal the amount of the credits.
- there must only be two accounts affected by any transaction.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

54. Debits

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

Ans: b LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

- Owner's Drawings
- Cash
- Accounts Receivable
- Service Revenue

Ans: d LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

61. Which of the following statements is true?
- 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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: b LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

2 - 10 Test Bank for Accounting Principles, IFRS, First Edition

70. In the first month of operations, the total of the debit entries to the cash account amounted to ₺14,000 and the total of the credit entries to the cash account amounted to ₺8,000. The cash account has a(n)
- ₺8,000 credit balance.
 - ₺14,000 debit balance.
 - ₺6,000 debit balance.
 - ₺6,000 credit balance.

Ans: c LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

Solution: ₺14,000 – ₺8,000 = ₺6,000
(Tot. of debit entries – Tot. of credit entries = Debit bal.)

71. Asuka Mail Service purchased equipment for ¥200,000. Asuka paid ¥50,000 in cash and signed a note for the balance. Asuka debited the Equipment account, credited Cash and
- nothing further must be done.
 - debited the Capital account for ¥150,000.
 - credited another asset account for ¥50,000.
 - credited a liability account for ¥150,000.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

Solution: ¥200,000 – ¥50,000 = ¥150,000
(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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

73. On January 14, Bali Industries purchased supplies of R\$9,000 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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

76. Liverpool Limited pays its employees twice a month, on the 7th and the 21st. On June 21, Liverpool Limited 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 LO1 BT: K Difficulty: Medium TOT: 1 min. AACSB: None AICPA FC: Measurement

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 LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: RT AICPA BB: CT AICPA FN: 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 did Qwik Company show as total credits on its trial balance?

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

Ans: b LO1 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Analytic AICPA FC: Measurement

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 did Bertoli Company show as total credits on its trial balance?

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

Ans: b LO1 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Analytic AICPA FC: Measurement

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 Loeng Investments invested cash of ¥5,000,000. Loeng had cash revenues of ¥1,600,000 and paid expenses of ¥2,100,000. Assuming no other transactions impacted the cash account, what is the balance in Cash at February 29?
- a. ¥500,000 credit
 - b. ¥500,000 debit
 - c. ¥4,500,000 debit
 - d. ¥5,500,000 debit

Ans: c LO1 BT: AP Difficulty: Easy TOT: 1 min. AACSB: Analytic AICPA FC: Measurement

Solution: $¥5,000,000 + ¥1,600,000 - ¥2,100,000 = ¥4,500,000$
(Beg. bal. + Cash rev. - Exp. pd. = End bal.)

81. At January 31, 2020, the balance in Kumal Equipment's supplies account was INR78,000. During February, Kumal purchased supplies of INR90,000 and used supplies of INR115,000. At the end of February, the balance in the supplies account should be
- a. INR53,000 debit.
 - b. INR103,000 debit.
 - c. INR53,000 credit.
 - d. INR83,000 debit.

Ans: a LO2 BT: AP Difficulty: Easy TOT: 1 min. AACSB: Analytic AICPA FC: Measurement

Solution: $\text{INR}78,000 + \text{INR}90,000 - \text{INR}115,000 = \text{INR}53,000 \text{ debit}$
(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 LO1 BT: AP Difficulty: Easy TOT: 1 min. AACSB: Analytic AICPA FC: Measurement

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

83. At October 1, 2020, Medina Laundromat had an accounts payable balance of HK\$500,000. During the month, the company made purchases on account of HK\$350,000 and made payments on account of HK\$480,000. At October 31, 2020, the accounts payable balance is
- HK\$370,000.
 - HK\$330,000.
 - HK\$630,000.
 - HK\$1,330,000.

Ans: a LO1 BT: AP Difficulty: Easy TOT: 1 min. AACSB: Analytic AICPA FC: Measurement

Solution: $\text{HK\$}500,000 + \text{HK\$}350,000 - \text{HK\$}480,000 = \text{HK\$}370,000$
 (Beg. bal. + Purch. on acct. – Pmts. made = End. bal.)

84. During 2020, its first year of operations, Alberto 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?
- €0
 - €8,000 credit
 - €30,000 credit
 - €22,000 debit

Ans: b LO1 BT: AP Difficulty: Medium TOT: 1 min. AACSB: Analytic AICPA FC: Measurement

Solution: $\text{€}0 + (\text{€}65,000 - \text{€}35,000) - \text{€}22,000 = \text{€}8,000$
 [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 LO1 BT: AP Difficulty: Easy TOT: 1 min. AACSB: Analytic AICPA FC: Measurement

86. At September 1, 2020, Hotel Suites Limited 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 LO1 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Analytic AICPA FC: Measurement

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

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

Ans: d LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

2 - 14 Test Bank for Accounting Principles, IFRS, First Edition

88. 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 LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

89. In recording business transactions, evidence that an accounting transaction has taken place is obtained from

- a. business documents.
- b. the taxing authority.
- c. the public relations department.
- d. government agencies.

Ans: a LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

90. 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

- a. the company's bank.
- b. owner's equity.
- c. ledger accounts.
- d. financial statements.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

91. The first step in the recording process is to

- a. prepare financial statements.
- b. analyze each transaction for its effect on the accounts.
- c. post to a journal.
- d. prepare a trial balance.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

92. Evidence that would **not** help with determining the effects of a transaction on the accounts would be a(n)

- a. cash register sales tape.
- b. bill.
- c. advertising brochure.
- d. check.

Ans: c LO2 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

93. After transaction information has been recorded in the journal, it is transferred to the

- a. trial balance.
- b. income statement.
- c. book of original entry.
- d. ledger.

Ans: d LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

94. 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 LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

95. The final step in the recording process is to transfer the journal information to the
- a. trial balance.
 - b. financial statements.
 - c. ledger.
 - d. file cabinets.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

96. The recording process occurs
- a. once a year.
 - b. once a month.
 - c. repeatedly during the accounting period.
 - d. infrequently in a manual accounting system.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

97. A compound journal entry involves
- a. two accounts.
 - b. three accounts.
 - c. three or more accounts.
 - d. four or more accounts.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: d LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: a LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

2 - 16 Test Bank for Accounting Principles, IFRS, First Edition

100. 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 LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: b LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: c LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: d LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: b LO2 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

- 105 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 LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: d LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

107. 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 LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

108. 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 LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

109. On June 1, 2020 Ben Caseski 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 LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: d LO2 BT: AN Difficulty: Easy TOT: 1 min. AACSB: Analytic AICPA FC: Measurement

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

Ans: d LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

2 - 18 Test Bank for Accounting Principles, IFRS, First Edition

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

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

113. 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 LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: a LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

115. Management could determine the amounts due from customers by examining which ledger account?
- Service Revenue
 - Accounts Payable
 - Accounts Receivable
 - Supplies

Ans: c LO3 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

116. The ledger accounts should be arranged in
- chronological order.
 - alphabetical order.
 - financial statement order.
 - order of appearance in the journal.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

118. On August 13, 2020, Accounting Services Limited 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	
Supplies	300	
Accounts Payable.....		2,000

Ans: d LO3 BT: AP Difficulty: Medium TOT: 1 min. AACSB: Analytic AICPA FC: Measurement

119. 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 LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

120. MGolito purchased equipment for R\$2,300 cash. As a result of this event,

- owner's equity decreased by R\$2,300.
- total assets increased by R\$2,300.
- total assets remained unchanged.
- owner's equity decreased and total assets increased by R\$2,300.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

121. 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 LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

122. 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 LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: a LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

124. The procedure of transferring journal entries to the ledger accounts is called
- journalizing.
 - analyzing.
 - reporting.
 - posting.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: a LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

126. 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 LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

127. 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 LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: b LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

129. The explanation column of the general ledger
- a. is completed without exception.
 - b. is nonexistent.
 - c. is used infrequently.
 - d. shows account titles.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

130. A numbering system for a chart of accounts
- a. is prescribed by IFRS.
 - b. is uniform for all businesses.
 - c. usually starts with income statement accounts.
 - d. usually starts with statement of financial position accounts.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: d LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: d LO4 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: d LO4 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

2 - 22 Test Bank for Accounting Principles, IFRS, First Edition

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

Ans: c LO4 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

135. If the sum of the debit column equals the sum of the credit column in a trial balance, it indicates
- a. no errors have been made.
 - b. no errors can be discovered.
 - c. that all accounts reflect correct balances.
 - d. the mathematical equality of the accounting equation.

Ans: d LO4 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: c LO4 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: c LO4 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: d LO4 BT: C Difficulty: Medium TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

140. 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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

141. 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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

142. 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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

143. 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 LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

144. Which of the following is **false** about a journal?

- a. It discloses in one place the complete effects of a transaction.
- b. It provides a chronological record of transactions.
- c. 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 LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

145. Haselhof Limited 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 LO2 BT: K Difficulty: Medium TOT: 1 min. AACSB: None AICPA FC: Measurement

2 - 24 Test Bank for Accounting Principles, IFRS, First Edition

146. Cora Crawley 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 LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

147. 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 LO2 BT: C Difficulty: Medium TOT: 1.5 min. AACSB: None AICPA FC: Measurement

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

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

149. 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 LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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 uncovers errors in journalizing and posting.
 - A trial balance is useful in the preparation of financial statements.

Ans: b LO4 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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

Ans: d LO4 BT: C Difficulty: Medium TOT: 1 min. AACSB: None AICPA FC: Measurement

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

- a. The account.
- b. Debit and credit rules.
- c. Steps in the recording process.
- d. All of these answer choices are correct.

GAAP, Ans: d LO5 BT: K Difficulty: Easy TOT: 1 min. AACSB: Diversity AICPA FC: Measurement AICPA BB: International Perspective

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.

GAAP, Ans: d LO5 BT: K Difficulty: Easy TOT: 1 min. AACSB: Diversity AICPA FC: Measurement AICPA BB: International Perspective

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.

GAAP, Ans: c LO5 BT: K Difficulty: Easy TOT: 1 min. AACSB: Diversity AICPA FC: Measurement AICPA BB: International Perspective

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.

GAAP, Ans: a LO5 BT: K Difficulty: Easy TOT: 1 min. AACSB: Diversity AICPA FN: Measurement AICPA BB: International Perspective

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.

GAAP, Ans: a LO5 BT: K Difficulty: Easy TOT: 1 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting

157. Under GAAP, the trial balance

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

GAAP, Ans: a LO5 BT: K Difficulty: Easy TOT: 1 min. AACSB: Diversity AICPA FC: Measurement AICPA BB: International Perspective

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.

GAAP, Ans: b LO5 BT: K Difficulty: Easy TOT: 1 min. AACSB: Diversity AICPA FC: Measurement AICPA BB: International Perspective

COMPLETION STATEMENTS

159. An _____ is a record of increases and decreases in specific assets, liabilities, and owner's equity items.
160. 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.
161. _____, _____, and _____ have debit normal account balances whereas _____, _____, and _____ have credit normal account balances.
162. The four subdivisions of owner's equity are: _____, _____, _____, and _____.
163. The basic steps in the recording process are: _____ each transaction, enter the transaction in a _____, and transfer the _____ information to appropriate accounts in the _____.
164. A sales slip, a check, and a cash register tape are examples of _____ used as evidence that a transaction has taken place.
165. An accounting record where transactions are initially recorded in chronological order is called a _____.
166. When three or more accounts are required in one journal entry, the entry is referred to as a _____ entry.
167. The entire group of accounts and their balances maintained by a company is called the _____.
168. A two column list of all accounts and their balances at a given time is a _____.

Answers to Completion Statements

- | | |
|---|-------------------------|
| 159. account | 164. business documents |
| 160. debiting, crediting | 165. journal |
| 161. Assets, expenses, owner's drawings, owner's capital, liabilities, revenues | 166. compound |
| 162. owner's capital, owner's drawings, revenues, expenses | 167. general ledger |
| 163. analyze, journal, journal, ledger | 168. trial balance |

LO1-4 BT: K Difficulty: Easy TOT: 8 min. AACSB: None AICPA FC: Measurement

MATCHING

169. 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 |

LO1-4 BT: K Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement

SHORT-ANSWER ESSAY QUESTIONS

S-A E 170

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 170

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.

LO1 BT: C Difficulty: Medium TOT: 5 min. AACSB: Communication AICPA FC: Reporting AICPA PC: Communication

S-A E 171

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 171

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.

LO1 BT: C Difficulty: Medium TOT: 5 min. AACSB: Communication AICPA FC: Reporting AICPA PC: Communication

S-A E 172

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 172

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.

LO1 BT: S Difficulty: Hard TOT: 10 min. AACSB: Communication AICPA FC: Measurement, Reporting AICPA PC: Communication

S-A E 173

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 173

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.

LO4 BT: AN Difficulty: Medium TOT: 5 min. AACSB: Communication AICPA FC: Measurement, Communication AICPA PC: Communication

S-A E 174

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 174

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.

LO2 BT: S Difficulty: Medium TOT: 7 min. AACSB: Communication AICPA FC: Measurement, Reporting AICPA PC: Communication

S-A E 175

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 175

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.

LO2 BT: C Difficulty: Medium TOT: 5min. AACSB: Communication AICPA FC: Measurement, Reporting AICPA PC: Communication

S-A E 176

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

Solution 176

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.

LO2 BT: C Difficulty: Medium TOT: 5 min. AACSB: Communication AICPA FC: Measurement, Reporting AICPA PC: Communication

S-A E 177

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 177

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.

LO3 BT: C Difficulty: Easy TOT: 5 min. AACSB: Communication AICPA FC: Measurement, Reporting AICPA PC: Communication

S-A E 178

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 178

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 178 (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.

LO3 BT: S Difficulty: Medium TOT: 5 min. AACSB: Communication AICPA FC: Measurement, Reporting AICPA PC: Communication

S-A E 179

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 179

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.

LO2, 3 BT: S Difficulty: Medium TOT: 7 min. AACSB: Communication AICPA FC: Measurement, Reporting AICPA PC: Communication

S-A E 180 (Ethics)

Martina Afillero was appointed the manager of Acero Properties, a recently formed company that manages residential rental properties. Daniela Cono 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. Martina believes that it is important to maintain a presence in the social life of the city. In this, she sharply differs from her father, Matias Afillero. Matias has set up Acero Properties in order to test his daughter's management skills before allowing her to manage the more lucrative commercial property business. Matias provided the capital for Acero, and maintains close contact with the company. He allowed his daughter, however, to hire her own employees.

S-A E 180 (cont.)

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

Required:

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

Solution 180

1. The stakeholders in this situation include
Matias Afillero
Daniela Cono
Martina Afillero
Bankers and others who might rely on the financial statements
2. Ms. Cono 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. Cono was hired by Martina, and though she may agree with her business methods, she cannot be a party to such deceit.

LO1 BT: E Difficulty: Medium TOT: 7 min. AACSB: Ethics AICPA FC: Reporting AICPA PC: Professional Demeanor

S-A E 181 (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 181

- 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 181 (cont.)

- 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.

LO1 BT: S Difficulty: Hard TOT: 10 min. AACSB: Communication AICPA FC: Measurement, Reporting AICPA PC: Communication