Student name:__________

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) The entire process of analyzing, recording, and reporting business transactions is based on the fundamental accounting equation.

⊚ true
⊚ false

2) When using the fundamental accounting equation, an accountant must make sure that total assets are always equal to total liabilities minus owner's equity.

⊚ true
⊚ false

3) Assets always equal debts of the business plus the financial interest of the owner.

⊚ true
⊚ false

4) When cash is paid to a creditor, the firm's liabilities decrease.

⊚ true
⊚ false

5) Al Dunn Bakery bought a new oven for $1,680. Al paid $660 as a cash down payment and will pay the balance in 30 days. Total assets increased by $1,020.

⊚ true
⊚ false

6) Al Dunn Bakery

bought a new oven for $1,380. Al paid $300 as a cash down payment and will pay the balance in 30 days. Total assets increased by $1,080.

⊚ true
⊚ false

7) If the owner takes cash out of the business for personal use, the withdrawal should be recorded as an expense of the business.

⊚ true
⊚ false

8) When services are provided on credit, the total amount of liabilities increases.

⊚ true
⊚ false

9) A company has assets of $59,720 and liabilities of $29,500. The owner's equity is $89,220.

⊚ true
⊚ false

10) A company has assets of $56,320 and liabilities of $29,500. The owner's equity is $85,820.

⊚ true
⊚ false

11) The expenses for a period are reported on the balance sheet.

⊚ true

12) A double line drawn under the figures in a money column shows that the computation is complete.

⊚ true
⊚ false

13) The first step in the accounting process is the analysis of business transactions.

⊚ true
⊚ false

14) If there is an excess of expenses over revenues, the excess represents a profit.

⊚ true
⊚ false

15) A withdrawal of funds by the owner for personal use decreases owner’s equity.

⊚ true
⊚ false

16) The statement of owner's equity is prepared before the balance sheet so that the ending capital balance is available.

⊚ true
⊚ false

17) If assets are $8,000 and liabilities are $2,000, owner's equity is $6,000.

⊚ true
⊚ false

18) The amount of net income or net loss is needed to complete the statement of owner's equity.

- ⊚ true
- ⊚ false

19) The owner’s capital balance at the beginning of the period is required on the statement of owner’s equity.

- ⊚ true
- ⊚ false

20) When assets equal liabilities + owner’s equity, a company is said to break even.

- ⊚ true
- ⊚ false

21) The capital balance at the end of the period is reported on both the statement of owner’s equity and the balance sheet.

- ⊚ true
- ⊚ false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

22) The property that a business owns is referred to as its __________.

A) assets
B) liabilities
C) owner's equity
D) capital

23) The debts or obligations of a business are known as its __________.

A) assets
B) liabilities
C) owner's equity
D) capital

24) On the income statement, revenues minus expenses equals __________ for a period of time.

A) working capital
B) current assets
C) accounts receivable
D) net income or net loss

25) The financial interest of the owner in a business is called __________.

A) assets
B) owner's equity
C) liabilities
D) accounts receivable

26) The account used to record amounts that are owed for goods or services purchased on credit is known as __________.

A) merchandise inventory
B) accounts receivable
C) accounts payable
D) withdrawals

27) When a business sells services for cash, assets increase and revenue __________.

A) increases
B) decreases
C) is unchanged
D) may either increase or decrease

28) The account used to record amounts that will be collected from charge account customers in the future is referred to as __________.

A) accounts payable
B) accounts receivable
C) merchandise inventory
D) withdrawals

29) The __________ is the financial report that shows the assets, liabilities, and owner's equity of a business on a specific date.

A) statement of owner's equity
B) profit and loss statement
C) balance sheet
D) income statement

30) If assets are $17,000 and owner's equity is $10,000, liabilities are __________.

A) $7,000
B) $10,000
C) $17,000
D) $27,000

31) When a business pays cash for salaries, assets decrease and expenses __________.

A) decrease
B) increase
C) are unchanged
D) may increase or decrease

32) In a business transaction, when revenue increases, owner's equity will ___________.

A) remain unchanged
B) decrease
C) either increase or decrease
D) increase

33) In a business transaction, when expenses increase, owner's equity will __________.

A) remain unchanged
B) decrease
C) either increase or decrease
D) increase

34) Funds taken from the business by the owner for personal use are called __________.

A) withdrawals
B) assets
C) liabilities
D) expenses

35) The __________ reports the changes that have occurred in the owner's financial interest during the reporting period.

A) income statement
B) statement of owner's equity
C) profit and loss statement
D) balance sheet

36) When revenue is greater than expenses, the result is net __________.

A) receivable
B) sales
C) loss
D) income

37) When revenue and expenses are equal, the firm is said to __________.

A) break even
B) be profitable
C) experience a loss
D) experience a gain

38) The three-line heading of a financial statement shows who, what, and __________.

A) when
B) where
C) why
D) how

39) Which of the following equations is the Fundamental Accounting Equation?

A) Assets + Liabilities = Owner's Equity
B) Assets + Owner's Equity = Liabilities
C) Assets = Liabilities + Owner's Equity
D) Assets = Liabilities − Owner's Equity

40) The balance sheet shows:

A) the results of business operations.
B) all revenues and expenses.
C) the amount of net income or loss.
D) the financial position of a business at a given time.

41) The Income Statement shows:

A) the change in owner's equity for a period of time.
B) assets and liabilities.
C) the amount of net income or net loss.
D) the financial position of a business at a given time.

42) Amounts that a business must pay in the future are known as:

A) assets.
B) liabilities.
C) capital.
D) expenses.

43) Which of the following is a liability account?

A) accounts payable
B) equipment
C) fees income
D) salary expense

44) Ginger Yale Ice Company receives money from a customer on account. Recording this transaction will:

A) increase Accounts Receivable.
B) decrease G. Yale, Capital.
C) decrease Accounts Payable.
D) increase Cash.

45) If a business issues a check for $100 to purchase office supplies, what is the effect on the accounting equation?

A) Owner's Equity will increase
B) Assets will decrease
C) Owner's Equity will decrease
D) Total Assets will remain the same

46) If the following are the only accounts of Jones Supply Company, what is the missing Supplies balance?

Cash: $9,730
Supplies: ?????
Accounts Payable: $4,000
John Smith, Capital: $10,820

A) $2,910
B) $5,090
C) $14,820
D) $24,550

47) If the following are the only accounts of Jones Supply Company, what is the missing Supplies balance?

Cash: $8,000

Supplies: ?????

Accounts Payable: $4,000

John Smith, Capital: $9,000

A) $3,000
B) $5,000
C) $13,000
D) $21,000

48) When analyzing the effect of a business transaction, which of the following is not a step taken to describe the financial event?

A) identify the property
B) identify who owns the property
C) determine the location of the property
D) determine the amount of the increase or decrease

49) At the end of the first month of operations for SloMo Delivery Service, the business had the following accounts: Accounts Receivable, $11,600; Prepaid Insurance, $540; Equipment, $26,700 and Cash, $21,900. On the same date, SloMo owed the following creditors: Simpson Supply Company, $17,500; Allen Office Equipment, $15,000.The total assets for the SloMo Delivery Service are:

A) $48,600
B) $34,040
C) $33,500
D) $60,740

50) At the end of the first month of operations for SloMo Delivery Service, the business had the following accounts: Accounts Receivable, $11,350; Prepaid Insurance, $400; Equipment, $26,200 and Cash, $21,650. On the same date, SloMo owed the following creditors: Simpson Supply Company, $17,000; Allen Office Equipment, $14,500.The total assets for the SloMo Delivery Service are:

A) $21,650
B) $33,400
C) $33,000
D) $59,600

51) At the end of the first month of operations for SloMo Delivery Service, the business had the following accounts: Accounts Receivable, $11,950; Prepaid Insurance, $490; Equipment, $27,400 and Cash, $22,250. On the same date, SloMo owed the following creditors: Simpson Supply Company, $18,200; Allen Office Equipment, $15,700.The total amount of Liabilities is:

A) $27,400
B) $22,250
C) $15,700
D) $33,900

52) At the end of the first month of operations for SloMo Delivery Service, the business had the following accounts: Accounts Receivable, $11,350; Prepaid Insurance, $400; Equipment, $26,200 and Cash, $21,650. On the same date, SloMo owed the following creditors: Simpson Supply Company, $17,000; Allen Office Equipment, $14,500.The total amount of Liabilities is:

A) $31,500
B) $17,000
C) $14,500
D) $28,100

53) If the beginning capital balance for William's Consulting Service is $31,550, net income is $4,000, and the ending capital balance is $27,600, what were the withdrawals for the period?

A) $50
B) $3,950
C) $7,950
D) $27,600

54) If the beginning capital balance for William's Consulting Service is $23,000, net income is $4,000, and the ending capital balance is $20,000, what were the withdrawals for the period?

A) $1,000
B) $3,000
C) $7,000
D) $20,000

55) If during the year total assets increase by $77,000 and total liabilities decrease by $17,000, by how much did owner's equity increase/decrease?

A) $94,000 increase
B) $60,000 decrease
C) $94,000 decrease
D) $77,000 increase

56) If during the year total assets increase by $75,000 and total liabilities decrease by $16,000, by how much did owner's equity increase/decrease?

A) $91,000 increase
B) $59,000 decrease
C) $91,000 decrease
D) $75,000 increase

57) Which financial statement is reported as of a specific date?

A) Balance Sheet
B) Statement of Owner's Equity
C) Income Statement
D) Statement of Changes in Financial Position

58) The Daniel Insurance Agency reported revenues of $30,500 and expenses of $33,190 for the current period. What was the final figure reported on the company’s income statement?

A) $2,690 net loss
B) $2,690 net income
C) $30,500 net income
D) $33,190 net loss

59) The Daniel

Insurance Agency reported revenues of $29,000 and expenses of $31,000 for the current period. What was the final figure reported on the company's income statement?

A) $2,000 net loss
B) $2,000 net income
C) $29,000 net income
D) $31,000 net loss

60) The three-line heading at the top of a financial statement displays what information on the second line?

A) name of the company
B) result of the financial statement
C) name of the financial statement
D) period of time covered by the financial statement

61) If the income statement covered a six-month period ending on November 30, 2019, the third line of the income statement heading would read:

A) Month Ended November 30, 2019.
B) November 30, 2019.
C) Six-month Period Ended November 30, 2019.
D) Month of November, 2019.

62) When the owner invests equipment in a business,

A) assets increase and owner's equity decreases.
B) assets and revenue increase.
C) assets and owner's equity increase.
D) liabilities decrease and owner's equity increases.

63) When equipment is purchased on credit,

A) assets and liabilities increase.
B) assets increase and liabilities decrease.
C) assets and owner's equity increase.
D) assets and expenses increase.

64) When rent is prepaid, which of the following occurs?

A) liabilities increase
B) assets are unchanged
C) owner’s equity decreases
D) assets increase

65) If a business receives $5,000 on account from clients who owed money for services previously billed, identify the effect on the accounting equation:

A) assets decrease and liabilities increase.
B) liabilities decrease and owner's equity decreases.
C) assets remain the same and owner's equity remains the same.
D) owner's equity increases and revenue increases.

66) When the owner withdraws cash for personal use,

A) assets decrease and expenses increase.
B) assets decrease and owner's equity increases.
C) assets decrease and owner's equity decreases.
D) owner's equity decreases and revenue decreases.

67) When an electric bill is paid, which of the following increases?

A) assets
B) expenses
C) liabilities
D) owner's equity

68) Identify the account below that is classified as an asset account and would therefore appear on the left side of the accounting equation.

A) Accounts Payable.
B) Owner's Capital.

C) Accounts Receivable.

D) Fees Income.

69) Withdrawals are reported on which of the following financial statements?

A) balance sheet
B) income statement
C) profit and loss statement
D) statement of owner's equity

70) The financial statement that is prepared first is:

A) up to the accountant.
B) the income statement.
C) the balance sheet.
D) the statement of owner's equity.

71) The rent paid for <u>future</u> months is a(n):

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

72) Owner's equity is alternatively referred to as which of the following?

A) accounts payable
B) assets
C) net worth
D) withdrawals

73) Which financial statement is a representation of the accounting equation?

A) Income Statement
B) Statement of Owner's Equity
C) Balance Sheet

D) Profit and Loss Statement

74) The Statement of Owner's Equity is calculated as follows:

A) beginning capital + net income − withdrawals + additional investments = ending capital
B) beginning capital + net loss + withdrawals + additional investments = ending capital
C) beginning capital + net loss − withdrawals + additional investments = ending capital
D) beginning capital + net income + withdrawals + additional investments = ending capital

75) Which of the following statements regarding the fundamental accounting equation is accurate?

A) It is out of balance when a company has net income.
B) It is in balance after only certain transactions.
C) It is in balance after every transaction.
D) It is out of balance when a company has a net loss.

76) At the end of the first month of operations for Jackson's Catering Service, the business had the following accounts: Cash, $20,500; Prepaid Rent, $500; Equipment, $7,500 and Accounts Payable $4,000. By the end of the month, Jackson's had earned $33,800 of Revenues, and used $1,940 of Utilities Expenses, $4,300 of Rent Expense and $3,680 of Salaries Expenses. Calculate the net income to be reported by the company for this first month.

A) $33,800
B) $23,880
C) $27,560
D) $24,380

77) At the end of the first month of operations for Jackson's Catering Service, the business had the following accounts: Cash, $21,000; Prepaid Rent, $500; Equipment, $7,500 and Accounts Payable $4,000. By the end of the month, Jackson's had earned $32,000 of Revenues, and used $1,800 of Utilities Expenses, $4,000 of Rent Expense and $3,600 of Salaries Expenses. Calculate the net income to be reported by the company for this first month.

A) $32,000
B) $22,600
C) $26,200
D) $23,100

78) At the end of its first year of operations, Shapiro's Consulting Services reported net income of $27,900. They also had account balances of: Cash, $16,700; Office Supplies, $3,200, Equipment, $24,400 and Accounts Receivable, $8,000. The owner's total investment for this first year was $16,200 and the owner withdrew $2,140 for personal use. Calculate the **ending** balance to be reported on the Statement of Owner's Equity in the Owner's Capital account.

A) $60,800
B) $27,900
C) $44,100
D) $41,960

79) At the end of its first year of operations, Shapiro's Consulting Services reported net income of $27,000. They also had account balances of: Cash, $16,000; Office Supplies, $3,200, Equipment, $24,000 and Accounts Receivable, $8,000. The owner's total investment for this first year was $15,000 and the owner withdrew $2,000 for personal use. Calculate the **ending** balance to be reported on the Statement of Owner's Equity in the Owner's Capital account.

A) $58,000
B) $27,000
C) $42,200
D) $40,000

80) At the end of its first year of operations, Shapiro's Consulting Services reported net income of $27,000. They also had account balances of: Cash, $16,000; Office Supplies, $3,200; Equipment, $24,000 and Accounts Receivable, $8,000. The owner’s total investment for this first year was $15,000 and the owner withdrew $2,000 for personal use. What are the total liabilities of Shapiro’s Consulting Services at the end of the first year of operations?

A) $11,200
B) $27,000
C) $24,200
D) $42,000

81) Which of these accounts would appear on a firm’s income statement?

A) assets and liabilities
B) revenues and expenses
C) assets and revenues
D) liabilities and expenses

82) Owner's equity is:

A) the amount taken out of a business by the owner for personal use.
B) the financial interest of the owner of a business.
C) the amount the owner owes the business.
D) the revenues less the expenses.

83) Pepper Company reported revenues of $12,600, supplies expense of $3,000, and net income of $2,000 for the most recent period. If the company’s only other expense was Rent Expense, what was its balance at the end of the period?

A) $7,600
B) $9,600
C) $14,600
D) $15,600

84) Pepper Company reported revenues of $12,000, supplies expense of $3,000, and net income of $2,000 for the most recent period. If the company's only other expense was Rent Expense, what was its balance at the end of the period?

A) $7,000
B) $9,000
C) $14,000
D) $15,000

85) The balance sheet shows each of the following <u>except</u> the:

A) net income of the business.
B) amount and types of property the business owns.
C) owner's interest.
D) amount owed creditors.

86) The Balance Sheet heading includes each of the following <u>except:</u>

A) firm's name.
B) firm's address.
C) title of the report.
D) date of the report.

87) What is the correct order in which to prepare the three financial statements?

A) Balance Sheet; Income Statement; Statement of Owner's Equity
B) Income Statement; Statement of Owner's Equity; Balance Sheet
C) Income Statement; Balance Sheet; Statement of Owner's Equity
D) Statement of Owner's Equity; Balance Sheet; Income Statement

88) Which of the following is an example of an expense?

A) an owner withdrawal for personal use
B) the payment of a creditor on account
C) the payment of the monthly utility bill
D) the receipt of cash from a credit customer

89) Revenue by definition is:

A) an amount a business must pay in the future.
B) amounts earned from the sale of goods or services.
C) the payment of amounts owed to creditors.
D) the collection of amounts owed by customers.

Answer Key

Test name: ch2.01

1) TRUE

2) FALSE

3) TRUE

4) TRUE

5) TRUE

6) TRUE

7) FALSE

8) FALSE

9) FALSE

10) FALSE

11) FALSE

12) TRUE

13) TRUE

14) FALSE

15) TRUE

16) TRUE

17) TRUE

18) TRUE

19) TRUE

20) FALSE

21) TRUE

22) A

23) B

24) D

25) B

26) C

27) A

28) B

29) C

30) A

31) B

32) D

33) B

34) A

35) B

36) D

37) A

38) A

39) C

40) D

41) C

42) B

43) A

44) D

45) D

46) B

47) B

48) C

49) D

50) D

51) D

52) A

53) C

54) C

55) A

56) A

57) A

58) A

59) A

60) C

61) C

62) C

63) A

64) B

65) C

66) C

67) B

68) C

69) D

70) B

71) A

72) C

73) C

74) A

75) C

76) B

77) B

78) D

79) D

80) A

81) B

82) B

83) A

84) A

85) A

86) B

87) B

88) C

89) B