

College Accounting, 14e (Slater)

Chapter 1 Accounting Concepts and Procedures

1.1 Learning Objective 1-1

1) The type of business organization that can continue indefinitely is known as a:

- A) corporation.
- B) partnership.
- C) sole proprietorship.
- D) All of the above

Answer: C

Diff: 2

LO: 1-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

2) The purpose of the accounting process is to provide financial information about:

- A) sole proprietorships.
- B) small businesses.
- C) large corporations.
- D) All of these answers are correct.

Answer: D

Diff: 1

LO: 1-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

3) Accounting provides information to:

- A) investors.
- B) government.
- C) managers.
- D) All of these answers are correct.

Answer: D

Diff: 2

LO: 1-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

4) Which of the following is a characteristic of a sole proprietorship?

- A) Business owned by more than one person
- B) Easy to form
- C) Each stockholder acts as an owner of the company
- D) Can continue indefinitely

Answer: B

Diff: 1

LO: 1-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

5) A partnership is a business which:

- A) is easy to form.
- B) ends with the death of a partner.
- C) is owned by more than one person.
- D) All of these answers are correct.

Answer: D

Diff: 1

LO: 1-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

6) Which is an advantage of a sole proprietorship form of business?

- A) There is limited personal risk.
- B) The business can continue indefinitely.
- C) The owner makes all the decisions.
- D) The business is legally separate from the owner.

Answer: C

Diff: 1

LO: 1-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

7) Which of the following is NOT a type of business organization?

- A) Corporation
- B) Partnership
- C) Sole proprietorship
- D) An Accounting organization

Answer: D

Diff: 1

LO: 1-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

8) A corporation:

- A) is legally separate from its owners.
- B) is owned by stockholders.
- C) has limited risk to stockholders.
- D) All of the above

Answer: D

Diff: 2

LO: 1-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

- 9) The Sarbanes-Oxley Act was passed to:
- A) prevent financial statement fraud at public companies.
 - B) replace inventory accounting procedures.
 - C) improve the accuracy of the company's financial reporting.
 - D) Both A and C are correct.

Answer: D

Diff: 2

LO: 1-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

- 10) A law firm would be considered a:

- A) merchandise company.
- B) manufacturer.
- C) service company.
- D) retailer.

Answer: C

Diff: 1

LO: 1-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

- 11) Generally Accepted Accounting Principles are the procedures and guidelines that must be followed every other year.

Answer: FALSE

Diff: 1

LO: 1-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

- 12) The function of accounting includes analyzing, recording, classifying, summarizing, reporting, strategic management and environmental assessment.

Answer: FALSE

Diff: 1

LO: 1-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

- 13) A sole proprietorship ends with the death of the owner.

Answer: TRUE

Diff: 1

LO: 1-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

14) Put the 7 main steps of the accounting process in order (from 1 -7) below:

_____ Interpreting
_____ Analyzing
_____ Recording
_____ Classifying
_____ Reporting
_____ Communication
_____ Summarizing

Answer:

6 Interpreting
1 Analyzing
2 Recording
3 Classifying
5 Reporting
7 Communication
4 Summarizing

Diff: 3

LO: 1-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

15) Discuss the advantages and disadvantages of sole proprietorships, partnerships and corporations.

Answer: A sole proprietorship is a business that has one owner. The advantage of a sole proprietorship is that the owner makes all of the decisions for the business. Another advantage is ease of formation. A disadvantage is that if the business cannot pay its obligations, the business owner must pay them from personal Assets. The business ends with the death of the owner or the closing of the business.

A partnership is a business owned by more than one person. Its advantage is ease of formation. The disadvantages are that partners could lose personal Assets to meet obligations of the partnership and a partnership ends with death of a partner from the partnership.

A corporation is a business owned by stockholders. The advantages are that stockholders have limited personal risk which is limited to their investment in the company. The corporation has unlimited life and the disadvantage is that a corporation is more difficult to form.

Diff: 2

LO: 1-1

AACSB: Written and Oral Communication

Learning Outcome: Define accounting terms, accounting concepts and principles

16) What is the difference between Bookkeeping and Accounting?

Answer: Bookkeeping is the recording function within the accounting process. A bookkeeper records the transactions into the company's books (more transactional), while an accountant reviews and analyzes the information including the transactions which are recorded. The accountant then takes the information and prepares the financial statements.

Diff: 2

LO: 1-1

AACSB: Written and Oral Communication

Learning Outcome: Define accounting terms, accounting concepts and principles

1.2 Learning Objective 1-2

1) Which of the following will decrease Owner's Equity?

- A) A sale of merchandise
- B) The purchase of an asset on credit
- C) An investment by the owner
- D) A withdrawal by the owner

Answer: D

Diff: 2

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

2) The purchase of supplies for cash would affect which account category?

- A) Assets
- B) Liabilities
- C) Capital
- D) Expense

Answer: A

Diff: 1

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

3) Items owned by the business such as land, supplies and equipment are:

- A) Assets.
- B) Liabilities.
- C) Owner's Equity.
- D) Expenses.

Answer: A

Diff: 1

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

4) Which of the following is NOT an Asset?

- A) Cash
- B) Accounts Receivable
- C) Buildings
- D) All of the above are Assets.

Answer: D

Diff: 1

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

5) If total liabilities increased by \$10,000 and the assets increased by \$10,000 during the accounting period, what is the change in the owner's equity amount?

- A) No effect on owner's equity
- B) Decrease of \$10,000
- C) Increase of \$20,000
- D) Decrease of \$40,000

Answer: A

Diff: 2

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

6) The claims of creditors against the Assets are:

- A) Expenses.
- B) Revenues.
- C) Liabilities.
- D) Owner's Equity.

Answer: C

Diff: 1

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

7) The Owner's Equity of Logan's Company is equal to one-half of the total Assets. Liabilities equal \$90,000. What is the amount of Owner's Equity?

- A) \$45,000
- B) \$90,000
- C) \$135,000
- D) None of these answers is correct.

Answer: B

Diff: 2

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

8) Assets are equal to:

- A) Liabilities + Owner's Equity.
- B) Liabilities - Owner's Equity.
- C) Liabilities - Revenues.
- D) Revenues - Expenses.

Answer: A

Diff: 1

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

9) The basic accounting equation is:

- A) $\text{Assets} = \text{Revenues} - \text{Expenses}$.
- B) $\text{Assets} = \text{Liabilities} - \text{Owner's Equity}$.
- C) $\text{Profit} = \text{Revenues} - \text{Expenses}$.
- D) $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$.

Answer: D

Diff: 1

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

10) An acceptable variation of the accounting equation is:

- A) $\text{Assets} - \text{Owner's Equity} = \text{Liabilities}$.
- B) $\text{Revenues} = \text{Profit} - \text{Expenses}$.
- C) $\text{Assets} = \text{Liabilities} - \text{Owner's Equity}$.
- D) All of these answers are correct.

Answer: A

Diff: 1

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

11) If total Liabilities are \$50,000 and Owner's Equity is \$35,000, the total Assets must be:

- A) \$85,000.
- B) \$15,000.
- C) \$42,500.
- D) \$70,000.

Answer: A

Diff: 1

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

12) If total Liabilities are \$2,000 and total Assets are \$16,000, Owner's Equity must be:

- A) \$14,000.
- B) \$9,000.
- C) \$16,000.
- D) \$18,000.

Answer: A

Diff: 2

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

13) How does the purchase of supplies on account affect the accounting equation?

- A) Assets increase; Liabilities decrease
- B) Assets increase; Owner's Equity increases
- C) Assets increase; Liabilities increase
- D) Liabilities increase; Owner's Equity decreases

Answer: C

Diff: 2

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

14) Mary invested cash in her new business. What effect will this have?

- A) Increase an Asset and increase a Liability
- B) Decrease an Asset and increase a Liability
- C) Increase an Asset and increase Owner's Equity
- D) Decrease an Asset and decrease Owner's Equity

Answer: C

Diff: 2

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

15) A business received \$10,000 from a customer in payment of an amount owed. The effect of the transaction on the accounting equation was to:

- A) increase one Asset, decrease another Asset.
- B) increase an Asset, increase a Liability.
- C) decrease an Asset, decrease a Liability.
- D) increase an Asset, increase Owner's Equity.

Answer: A

Diff: 2

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

16) Strum Hardware has total Assets of \$60,000. What are the total Assets if new building is purchased for \$5,000 cash?

- A) \$70,000
- B) \$65,000
- C) \$55,000
- D) \$60,000

Answer: D

Diff: 2

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

17) Harvest Moon Company has total Assets of \$37,000. If \$2,000 cash is used to purchase a new computer, the total Assets would be:

- A) \$37,000.
- B) \$35,000.
- C) \$39,000.
- D) \$2,000.

Answer: A

Diff: 2

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

18) Katie's Vegetarian Restaurant, with total Assets of \$121,000, borrows \$27,000 from the bank. Which of the following is a true statement upon borrowing the money?

- A) Total Assets are now \$148,000.
- B) Total Assets are now \$94,000.
- C) Total Assets are now \$175,000.
- D) Total Assets are now \$121,000.

Answer: A

Diff: 2

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

19) Logan's Motor Sports buys \$47,000 of supplies for cash. Which of the following is a true statement?

- A) Total Assets increase.
- B) Total Assets are unchanged.
- C) Total Assets decrease.
- D) Total Liabilities are unchanged.

Answer: B

Diff: 1

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

20) Bonnie's Baskets purchases \$3,000 worth of office equipment on open account. This causes:

- A) Cash and Capital to decrease.
- B) Office Equipment and Accounts Payable to increase.
- C) Office Equipment to decrease and Accounts Payable to increase.
- D) Accounts Payable to increase and Capital to decrease.

Answer: B

Diff: 2

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

21) Eileen's Corner Shoppe purchases a desk for cash. This causes:

- A) Cash and Capital to increase.
- B) Furniture and Cash to increase.
- C) Furniture to increase and Cash to decrease.
- D) Accounts Payable to increase and Capital to increase.

Answer: C

Diff: 1

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

22) Bob purchased a new computer for the company for cash. The transaction will:

- A) increase Computer; increase Capital.
- B) decrease Cash; increase Accounts Payable.
- C) decrease Cash; increase Computer.
- D) increase Supplies; increase Accounts Payable.

Answer: C

Diff: 1

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

23) Pat purchased \$8,000 of new electronic equipment for her BJ Company on open account. The effect on the basic accounting equation was to:

- A) increase Cash \$8,000 and increase Equipment \$8,000.
- B) increase Equipment \$8,000 and increase Accounts Payable \$8,000.
- C) decrease Cash \$8,000 and increase Accounts Payable \$8,000.
- D) decrease Cash \$8,000 and increase Equipment \$8,000.

Answer: B

Diff: 1

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

24) The balance sheet contains:

- A) Liabilities, Expenses and capital.
- B) Assets, Liabilities and Revenues.
- C) Expenses, Assets and cash.
- D) None of the above is correct.

Answer: D

Diff: 1

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

25) Which of the following items is NOT listed on the balance sheet?

- A) Accounts Payable
- B) Accounts Receivable
- C) Service Revenue
- D) Equipment

Answer: C

Diff: 1

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

26) If Total Assets are \$68,000 and Total Capital is \$30,000, Liabilities must equal:

- A) \$38,000.
- B) \$30,000.
- C) \$98,000.
- D) \$68,000.

Answer: A

Diff: 1

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

27) The purchase of supplies with both cash and on account was recorded as only an open account purchase. Due to this error:

- A) Assets would be understated.
- B) Liabilities would be overstated.
- C) Owner's Equity would be overstated.
- D) None of the above is correct.

Answer: B

Diff: 3

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

28) A purchase of a vehicle on credit would have what effect on the accounting equation?

- A) Total Assets and total Liabilities increase.
- B) Total Liabilities are overstated.
- C) Total Owner's Equity is overstated.
- D) Both A and B are correct.

Answer: A

Diff: 1

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

29) The cash purchase of a truck was recorded as a credit purchase. Due to this error:

- A) Assets were understated.
- B) Liabilities were understated.
- C) Answers A and B are both correct.
- D) None of the above is correct.

Answer: D

Diff: 3

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

30) Which of the following transactions would cause one asset to increase and another asset to decrease?

- A) The owner invested cash in the business.
- B) The business paid a creditor.
- C) The business incurred an Expense on credit.
- D) The business bought supplies for cash.

Answer: D

Diff: 2

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

31) Which of the following transactions would cause an asset to decrease and the Owner's Equity to decrease?

- A) The owner invested cash in the business.
- B) The business incurred an Expense on credit.
- C) The business bought supplies on account.
- D) None of the above.

Answer: D

Diff: 2

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

32) Which of the following would result if the owner withdrew cash from the business?

- A) Cash would increase and Capital would decrease.
- B) Cash would increase and Withdrawals would increase.
- C) Cash would decrease and Withdrawals would increase.
- D) An investment by the owner is not a business transaction.

Answer: C

Diff: 1

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

33) Which of the following would result if the business purchased equipment for cash?

- A) Supplies would increase and Cash would decrease.
- B) Supplies would increase and Capital would increase.
- C) Equipment would increase and Cash would decrease.
- D) The purchase of supplies is not a business transaction.

Answer: C

Diff: 2

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

34) Which of the following would result if a business purchased Equipment with a 40% down payment and the rest on open account?

- A) Equipment would increase and Cash would decrease.
- B) Accounts Payable would increase.
- C) Since the equipment has not been paid in full, there is nothing to record.
- D) Both A and B are correct.

Answer: D

Diff: 2

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

35) The right side of the accounting equation shows what is owed by the business.

Answer: TRUE

Diff: 1

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

36) Revenue is the same thing as cash.

Answer: FALSE

Diff: 2

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

37) The balance sheet shows the company's financial position as of a particular date.

Answer: TRUE

Diff: 2

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

38) If the Liabilities owed by a business total \$150,000, then the Assets must also total \$150,000.

Answer: FALSE

Diff: 1

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

39) The left side of the accounting equation must always be greater than the right side of the equation.

Answer: FALSE

Diff: 1

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

40) If the Assets owned by a business total \$59,000, Owner's Equity must also total \$59,000.

Answer: FALSE

Diff: 1

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

41) In a shift of Assets, the composition of the Assets changes but total Assets do not change.

Answer: TRUE

Diff: 1

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

42) If Owner's Equity totals \$73,000 and Liabilities total \$40,000, then Assets owned by a business totals \$113,000.

Answer: TRUE

Diff: 1

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

43) To distinguish the total on a financial statement, use single underline.

Answer: FALSE

Diff: 1

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

44) Creditors' claims against Assets are called Liabilities.

Answer: TRUE

Diff: 1

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

45) The three elements that make up a balance sheet are Assets, Liabilities and Owner's Equity.

Answer: TRUE

Diff: 1

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

46) The accounting equation states that total Assets must always equal total Liabilities plus Owner's Equity.

Answer: TRUE

Diff: 1

LO: 1-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

47) If Liabilities are \$22,000 and Assets are \$42,000, Owner's Equity will be \$20,000.

Answer: TRUE

Diff: 1

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

48) Record the following transactions in the basic accounting equation:

- Brian invests \$30,000 cash to begin an accounting service.
- The company buys office furniture for cash, \$900.
- The company buys additional office furniture on account, \$200.
- The company makes a payment on the office furniture, \$100.

Brian's Accounting Service

ASSETS = LIABILITIES + OWNER'S EQUITY
Cash + Office Furniture = Accounts Payable + Brian, Capital

a.

b.

c.

d.

Totals

Answer:

Brian's Accounting Service

	ASSETS		=	LIABILITIES	OWNER'S EQUITY
	Cash +	Office Furniture	=	Accounts Payable	Brian, Capital
a.	+\$30,000		=		+\$30,000
b.	- 900	+\$900	=		
c.		+ 200	=	+\$200	
d.	- 100		=	- 100	
T	<u>+\$29,100</u>	<u>+\$1,100</u>	=	<u>+\$100</u>	<u>+\$30,000</u>

Diff: 3

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

49) Mike's Photography completes the following transactions:

- Mike invests \$15,000 cash in her company.
- The company purchases equipment on account, \$600.
- The company purchases additional equipment for cash, \$300.
- The company makes a payment on account for the equipment, \$500.

Required: Record the above transactions in the basic accounting equation.

Mike's Photography

ASSETS		=	LIABILITIES	+	OWNER'S EQUITY
Cash	+ Equipment	=	Accounts Payable	+	Mike, Capital
a.		=			
b.		=			
c.		=			
d.		=			
Totals		=			

Answer:

Mike's Photography

	ASSETS		=	LIABILITIES	OWNER'S EQUITY
	Cash +	Equipment	=	Accounts Payable	Mike's, Capital
a.	+\$15,000		=		+\$15,000
b.		+\$600	=	+\$600	
c.	-300	+ 300	=		
d.	- 500		=	- 500	
T	<u>+\$14,200</u>	<u>+\$900</u>	=	<u>+\$100</u>	<u>+\$15,000</u>

Diff: 2

LO: 1-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

1.3 Learning Objective 1-3

1) The net income or net loss is calculated on the:

- balance sheet.
- statement of Owner's Equity.
- income statement.
- None of these

Answer: C

Diff: 1

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

2) Owner's withdrawals:

- A) decrease Assets.
- B) increase Expenses.
- C) increase Assets.
- D) decrease Withdrawals.

Answer: A

Diff: 2

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

3) Go Big Red Retail Store collected \$16,000 of its accounts receivable. The expanded accounting equation changes include:

- A) Cash and Capital increase \$16,000.
- B) Cash and Revenue increase \$16,000.
- C) Cash increases and Accounts Receivable decreases \$16,000.
- D) Accounts Receivable decreases and Capital increases \$16,000.

Answer: C

Diff: 1

LO: 1-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

4) If beginning capital was \$170,000, ending capital is \$93,000, and the owner's withdrawals were \$19,000, the amount of net income or net loss was:

- A) net income of \$77,000.
- B) net income of \$58,000.
- C) net loss of \$58,000.
- D) net loss of \$77,000.

Answer: B

Diff: 2

LO: 1-3

AACSB: Analytical Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

5) The payment of accounts payable would:

- A) increase both Assets and Liabilities.
- B) increase Assets and decrease Liabilities.
- C) decrease both Assets and Liabilities.
- D) decrease Assets and increase Liabilities.

Answer: C

Diff: 2

LO: 1-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

6) Ryan withdrew cash from the business to pay his personal cell phone bill. The expanded accounting equation changes include:

- A) increase in both Cash and Withdrawals.
- B) decrease in both Cash and Withdrawals.
- C) decrease in Cash and increase in Withdrawals.
- D) increase in Cash and decrease in Withdrawals.

Answer: C

Diff: 3

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

7) Revenue, Expenses, and withdrawals are subdivisions of:

- A) Assets.
- B) Liabilities.
- C) Owner's Equity.
- D) All of these answers are correct.

Answer: C

Diff: 2

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

8) Which of the following transactions affect Owner's Equity?

- A) Payment on account
- B) Equipment purchase
- C) Customer payment
- D) A withdrawal

Answer: D

Diff: 2

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

9) When services are rendered but payment is not made, which account would be increased?

- A) Accounts Receivable
- B) Accounts Payable
- C) Cash
- D) Supplies Expense

Answer: A

Diff: 2

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

10) If Ol' Fashioned Toys' Revenues are less than its Expenses during the accounting period:

- A) owner's withdrawals increase net income.
- B) net income causes Liabilities to decrease.
- C) the business will incur a net loss.
- D) owner's withdrawals increase Owner's Equity.

Answer: C

Diff: 3

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

11) If Ol' Fashioned Toys' Revenues are greater than its Expenses during the accounting period:

- A) Assets will increase more than Liabilities.
- B) Liabilities will increase more than Assets.
- C) the business will incur a loss.
- D) the business will earn a net income.

Answer: D

Diff: 3

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

12) Kim billed her legal clients \$12,000 for legal work completed during the month. This transaction will:

- A) cause a \$12,000 increase in Revenues and Liabilities.
- B) cause a \$12,000 increase in Revenues and a decrease in cash.
- C) cause a \$12,000 increase in Assets and Revenues.
- D) not be recorded until the cash is collected.

Answer: C

Diff: 2

LO: 1-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

13) Cup's Inc. paid \$15,000 in salaries and wages for February. This transaction will:

- A) increase Expenses and decrease Revenue.
- B) increase Expenses and increase Liabilities.
- C) decrease Assets and increase Expenses.
- D) increase Assets and Expenses.

Answer: C

Diff: 2

LO: 1-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

14) Crystal Clear Imagery received and paid a utility bill for \$600 for the month of November. This transaction will:

- A) increase Cash and increase Utility Expense.
- B) decrease Cash and increase Utility Expense.
- C) increase Cash and decrease Utility Expense.
- D) increase Utility Expense and decrease Revenue.

Answer: B

Diff: 1

LO: 1-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

15) If a company's Revenues are higher than its Expenses, it will cause:

- A) an increase in Owner's Equity.
- B) a decrease in Owner's Equity.
- C) an increase in Assets.
- D) net loss.

Answer: A

Diff: 3

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

16) Expenses:

- A) are costs the company incurs in carrying on operations.
- B) are a subdivision of Owner's Equity.
- C) record personal Expenses not related to the business.
- D) Both A and B are correct.

Answer: D

Diff: 2

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

17) An Expense should be recorded when:

- A) the bill is paid.
- B) a purchase is made on credit.
- C) a bill is received in the mail.
- D) All of the above are correct.

Answer: D

Diff: 1

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

18) Revenues should be recorded when:

- A) it is earned.
- B) payment is received.
- C) the invoice is sent to the customer.
- D) All of the above are correct.

Answer: A

Diff: 1

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

19) Accounting services were provided to a customer for cash. How would this affect the accounting equation?

- A) Cash and Accounts Receivable increase.
- B) Accounts Payable decreased and Capital decreased.
- C) Cash and Revenue increase.
- D) None of the above are correct.

Answer: C

Diff: 2

LO: 1-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

20) Which accounts are affected when the company pays salaries?

- A) Assets and Capital
- B) Liabilities and Revenue
- C) Assets and Expenses
- D) None of the above is correct.

Answer: C

Diff: 1

LO: 1-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

21) Which accounts are affected when the company buys a truck for cash?

- A) Assets and Revenue
- B) Liabilities and Capital
- C) Capital and Liabilities
- D) None of the above is correct.

Answer: D

Diff: 1

LO: 1-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

22) Which accounts are affected when the company provides services to a customer on credit?

- A) Assets and Capital
- B) Liabilities and Revenue
- C) Assets and Revenue
- D) None of the above is correct.

Answer: C

Diff: 2

LO: 1-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

23) Which accounts are affected when the owner withdraws cash from the business?

- A) Assets and Withdrawals
- B) Liabilities and Capital
- C) Assets and Liabilities
- D) None of the above is correct.

Answer: A

Diff: 2

LO: 1-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

24) Which of the following transactions would cause one asset to decrease and another asset to increase?

- A) The business provided services to a cash customer.
- B) The business bought supplies for cash.
- C) The owner withdrew cash from the business.
- D) All of the above are correct.

Answer: B

Diff: 2

LO: 1-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

25) Mick's Mart collects \$100 of its accounts receivable. The expanded accounting equation impact is:

- A) Cash and Capital increase \$100.
- B) Cash and Revenue increase \$100.
- C) Cash increases and Accounts Receivable decreases \$100.
- D) Accounts Receivable decreases and Capital increases \$100.

Answer: C

Diff: 1

LO: 1-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

26) Mark paid \$300 cash to partially reduce the amount owed for equipment that was previously bought on account. This transaction would:

- A) increase both Assets and Liabilities.
- B) increase Assets and decrease Liabilities.
- C) decrease both Assets and Liabilities.
- D) decrease Assets and increase Liabilities.

Answer: C

Diff: 2

LO: 1-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

27) Victoria received \$1,000 from customers in partial payment for accounting services performed previously. The recording of this transaction would:

- A) increase Cash and Victoria's Capital \$1,000.
- B) increase Cash and decrease Accounts Receivable \$1,000.
- C) increase Cash and increase Accounts Receivable \$1,000.
- D) decrease Accounts Receivable and increase Victoria's Capital \$1,000.

Answer: B

Diff: 3

LO: 1-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

28) The owner of a business paid the rent with cash. This payment reduces Cash as well as increases the Expenses of the firm.

Answer: TRUE

Diff: 2

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

29) Accounts Payable results from earning Revenue on account.

Answer: FALSE

Diff: 1

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

30) Expenses are recorded as costs of doing business whether cash was paid or not for Expenses.

Answer: TRUE

Diff: 2

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

31) Owner investment is considered Revenue for the business.

Answer: FALSE

Diff: 2

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

32) When Expenses are greater than Revenue, net loss is the result.

Answer: TRUE

Diff: 1

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

33) The four parts of Owner's Equity include capital, withdrawals, Revenues, and Expenses.

Answer: TRUE

Diff: 1

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

34) Cash withdrawals by the owner increase both equity and Liabilities.

Answer: FALSE

Diff: 1

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

35) Cash investments by the owner increases both capital and Assets.

Answer: TRUE

Diff: 1

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

36) Revenue and cash will always equal.

Answer: FALSE

Diff: 3

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

37) Withdrawals are business Expenses that are included on the income statement.

Answer: FALSE

Diff: 3

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

38) If Expenses are greater than Revenues, a net income is incurred.

Answer: FALSE

Diff: 1

LO: 1-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

39) Indicate whether each of the following represents (1) Asset, (2) Liability, or (3) Owner's Equity:

1. _____ Office Supplies
2. _____ Accounts Payable
3. _____ Capital
4. _____ Cash
5. _____ Withdrawal
6. _____ Land
7. _____ Accounts Receivable
8. _____ Expense
9. _____ Equipment
10. _____ Revenue

Answer:

1. Asset
2. Liability
3. Owner's Equity
4. Asset
5. Owner's Equity
6. Asset
7. Asset
8. Owner's Equity
9. Asset
10. Owner's Equity

Diff: 2

LO: 1-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

40) Record the following transactions into the expanded accounting equation for the Dora's Law Firm. Note that all titles have beginning balances. (You will need to determine the beginning capital balance.)

- Provided legal services for cash, \$700
- Billed customers for services rendered, \$2,500
- Received and paid the monthly utility bill, \$300
- Collected \$100 on account from customers
- Paid supplies Expense, \$250
- Withdrew \$200 cash for personal use

Dora's Law Firm

	ASSETS		=	LIAB.	OWNER'S EQUITY			
	Cash +	Accts.Rec.	=	Accts Payable	Dora's, Capital	+ Rev.	- Exp	- Dora's Withdrawal
beg.	\$900	\$100	=	\$300	??			
a.								
b.								
c.								
d.								
e.								
f.								
T								

Answer:

Dora's Law Firm

	ASSET	ASSET	=	LIAB.	OWNER'S EQUITY			
	Cash +	Accts.Rec.	=	Accts Payable	Dora's, Capital	+ Rev.	- Exp	- Dora's Withdrawal
beg.	\$900	\$100	=	\$300	\$700			
a.	+700		=			+700		
b.		+2500	=			+2500		
c.	- 300		=				+300	
d.	+1000	-1,000	=					
e.	-250		=				+250	
f.	-200		=					+200
T	\$1,850	\$1,600	=	\$300	\$700	\$3,200	\$550	\$200

Diff: 2

LO: 1-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

41) Melvin's Cleaning Service completed the following transactions:

- a. Billed clients for service, \$1,050.
- b. Completed work for clients \$400 on account.
- c. Received a bill for utilities to be paid later, \$120.
- d. Collected \$700 cash for services performed.
- e. Paid the amount due for utilities.
- f. Withdrew \$500 cash for personal use.

Required: Record the above transactions in the expanded accounting equation. Note that the items have beginning balances.

Melvin's Cleaning Service

	ASSET	ASSET	=	LIAB.	OWNER'S EQUITY			
	Cash +	Accts.Rec.	=	Accts Payable	Melvin, Capital	+Rev.	-Exp	-Melvin With.
beg.	\$800	\$85	=	\$300	\$235	\$900	\$400	\$150
a.								
b.								
c.								
d.								
e.								
f.								
T								

Answer:

Melvin's Cleaning Service

	ASSET	ASSET	=	LIAB.	OWNER'S EQUITY			
	Cash +	Accts.Rec.	=	Accts Payable	Melvin, Capital	+Rev.	-Exp	-Melvin With.
beg.	\$800	\$85	=	\$300	\$235	\$900	\$400	\$150
a.		1,050	=			1,050		
b.		400	=			400		
c.			=	120			120	
d.	700		=			700		
e.	-120		=	-120				
f.	-500		=					500
T	\$880	\$1,535	=	\$300	\$235	\$3,050	\$520	\$650

Diff: 2

LO: 1-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

1.4 Learning Objective 1-4

1) The increase or decrease in Cash is reported on the:

- A) income statement.
- B) statement of Owner's Equity.
- C) balance sheet.
- D) All of these are correct.

Answer: C

Diff: 2

LO: 1-4

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

2) Which financial statement is prepared last?

- A) Statement of Owner's Equity
- B) Balance Sheet
- C) Income Statement
- D) None of the above

Answer: B

Diff: 2

LO: 1-4

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

3) The financial statement that shows business results in terms of Revenue and Expenses is:

- A) Customer Statement.
- B) a balance sheet.
- C) a statement of Owner's Equity.
- D) None of the above.

Answer: D

Diff: 1

LO: 1-4

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

4) An accounting report that shows the changes in capital during the accounting period is:

- A) a balance sheet.
- B) an income statement.
- C) a statement of Owner's Equity.
- D) All of these answers are correct.

Answer: C

Diff: 2

LO: 1-4

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

5) Which of the following items are on both the balance sheet and the statement of Owner's Equity?

- A) Net loss
- B) Capital
- C) Additional owner's investments
- D) Owner's withdrawals

Answer: B

Diff: 2

LO: 1-4

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

6) Which account is NOT included in the asset section of the balance sheet?

- A) Supplies
- B) Utility Expense
- C) Land
- D) Computer

Answer: B

Diff: 1

LO: 1-4

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

7) The income statement is a financial statement showing the change in owners' equity.

Answer: FALSE

Diff: 1

LO: 1-4

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

8) The statement of Owner's Equity shows the change in Revenue.

Answer: FALSE

Diff: 2

LO: 1-4

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

9) The statement of Owner's Equity shows the beginning and the ending capital balance.

Answer: TRUE

Diff: 2

LO: 1-4

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

10) Total Liabilities are included in the statement of Owner's Equity.

Answer: FALSE

Diff: 1

LO: 1-4

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

11) The statement of Owner's Equity is the link between the income statement and balance sheet.

Answer: TRUE

Diff: 2

LO: 1-4

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

12) The income statement is completed before the statement of Owners' Equity.

Answer: TRUE

Diff: 2

LO: 1-4

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

13) Determine the ending capital balance of a business which had a beginning capital balance of \$2,950, additional investments of \$500, withdrawals of \$750, Revenue of \$3,800, and Expenses of \$2,600.

\$ _____

Answer: \$3,900 [$\$2,950 + \$500 - \$750 + \$3,800 - \$2,600$]

Diff: 2

LO: 1-4

AACSB: Analytical Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

14) Determine the beginning capital balance of a business having an ending capital balance of \$10,800, no additional investments, withdrawals of \$2,600, and a net income of \$4,700.

\$ _____

Answer: \$8,700 [$\$10,800 - \$4,700 + \$2,600$]

Diff: 3

LO: 1-4

AACSB: Analytical Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

15) Given the following account balances, determine the total Liabilities. Cash \$520, Accounts Receivable \$280, supplies \$300 and Capital \$500.

\$ _____

Answer: \$600 [$\$520 + \$280 + \$300 - \500]

Diff: 2

LO: 1-4

AACSB: Analytical Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

16) Calculate the Total Liabilities if the company has: Assets totaling \$600 and Capital of \$450.

\$ _____

Answer: (\$150 = $\$600 - \450)

Diff: 1

LO: 1-4

AACSB: Analytical Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

17) Calculate the Total Assets if the company has: Cash \$400, Accounts Receivable \$200, Accounts Payable \$500, Equipment \$300.

\$ _____

Answer: (\$900 = \$400 + 200 + 300)

Diff: 1

LO: 1-4

AACSB: Analytical Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

18) Use the following information to prepare 1) an income statement, 2) a statement of Owner's Equity, and 3) a balance sheet for the month ended April 30, 201x for Tallhouse Company.

J. Tallhouse, Capital (beg.)	\$3,000
Revenue	1000
Expenses	300
Withdrawals	150
Cash	4,000
Equipment	1,000
Accounts Receivable	150
Accounts Payable	2,000

Answer:

Tallhouse Company
INCOME STATEMENT
For the month ended April 30, 201x

Revenue	\$900
Expenses	600
Net Income	<u>\$300</u>

Tallhouse Company
STATEMENT OF OWNER'S EQUITY
For the month ended April 30, 201x

J. Tallhouse, Capital, April 1	\$3,000
Net Income	\$300
Less Withdrawals	<u>150</u>
Increase in Capital	<u>150</u>
J. Tallhouse Capital, April 30	<u>\$3,150</u>

Tallhouse Company
BALANCE SHEET
April 30, 201x

Assets		Liabilities and Owner's Equity	
		Liabilities	
Cash	\$4,000	Accounts Payable	\$2,000
Accounts Receivable	150	Owner's Equity	
Equipment	<u>1,000</u>	J. Tallhouse, Capital	<u>3,150</u>
Total Assets	<u>\$5,150</u>	Total Liabilities and Owner's Equity	<u>\$5,150</u>

Diff: 3

LO: 1-4

AACSB: Analytical Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

19) Prepare the financial statements for H. Logan of Logan Motorcycles from the following account balances: 1) an income statement, 2) a statement of Owner's Equity, and 3) a balance sheet for the month ended October 31, 201x. You will need to calculate the value of the Accounts Payable account (note: remember the basic accounting equation).

Cash	\$1,300
Accounts Receivable	500
Equipment	2,000
Accounts Payable	???
Travis, Capital	3,000
Revenue	1,000
Expenses	700
Travis, Withdrawal	100

Answer:

Logan Motorcycles
INCOME STATEMENT

For the month ended October 31, 201x

Revenue	\$1,000
Expenses	<u>700</u>
Net Income	<u>\$300</u>

Logan Motorcycles
STATEMENT OF OWNER'S EQUITY
For the month ended October 31, 201x

H. Logan, Capital, Oct. 1	\$3,000
Net Income	\$300
Less Withdrawals	<u>100</u>
Increase in Capital	<u>200</u>
H. Logan , Capital, Oct. 31	<u>\$3,200</u>

Logan Motorcycles
BALANCE SHEET
October 31, 201x

Assets		Liabilities and Owner's Equity	
		Liabilities	
Cash	\$1,300	Accounts Payable	\$ 600
Accounts Receivable	500	Owner's Equity	
Equipment	<u>2,000</u>	H. Logan , Capital	<u>3,200</u>
Total Assets	<u>\$3,800</u>	Total Liabilities & Owner's Equity	<u>\$3,800</u>

Diff: 3

LO: 1-4

AACSB: Analytical Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements