

Financial Accounting, 10e (Harrison/Horngren/Thomas)
Chapter 2 Transaction Analysis

2.1 Learning Objective 2-1

1) A transaction is any event that has a financial impact on the business and that can be measured reliably.

Answer: TRUE

Diff: 1

LO: 2-1

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

2) Which of the following is NOT a business transaction?

A) A company buys goods on account.

B) A company sells land for cash.

C) A company fired 10 percent of the employees due to lackluster sales.

D) A company borrows money from the bank.

Answer: C

Diff: 2

LO: 2-1

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

2.2 Learning Objective 2-2

1) The account is the basic summary device used in accounting.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

2) An accounts receivable usually specifies an interest rate.

Answer: FALSE

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

3) Assets include cash, land, and accounts payable.

Answer: FALSE

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement, Reporting

4) Prepaid expenses are an asset.

Answer: TRUE

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement, Reporting

5) A record of all the changes in a particular asset during a period of time is found in a(n):

A) transaction.

B) trial balance.

C) prior period's balance sheet.

D) account.

Answer: D

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

6) All of the following accounts would be considered assets EXCEPT for:

A) Cash.

B) Retained Earnings.

C) Prepaid Expenses.

D) Notes Receivable.

Answer: B

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

7) Which account includes bank account balances in multiple checking accounts?

- A) Accounts Receivable
- B) Notes Receivable
- C) Cash
- D) Prepaid Expenses

Answer: C

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

8) Which of the following is a CORRECT statement?

- A) Shareholders' equity is also called Proprietorship Equity.
- B) A proprietorship has more than one capital account.
- C) A partnership has a separate owner's equity account for each partner.
- D) Retained earnings is the owner's investment in the corporation.

Answer: C

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

9) Notes payable, accounts payable, taxes payable and salaries payable are all examples of:

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

Answer: A

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement, Reporting

10) Which transaction increases stockholders' equity?

- A) sale of common stock
- B) declared dividends
- C) Total expenses for the period exceed total revenues for the period.
- D) payment of operating expenses

Answer: A

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

11) Which transaction decreases stockholders' equity?

- A) sale of common stock
- B) purchase of equipment with cash
- C) Total revenues for the period exceed total expenses for the period.
- D) Total expenses for the period exceed total revenues for the period.

Answer: D

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

12) Which transaction decreases stockholders' equity?

- A) purchase inventory on account
- B) provided services on account
- C) provided services and received cash from the customer immediately
- D) Employees worked one week and were paid at the end of the week.

Answer: D

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

2.3 Learning Objective 2-3

1) If a company declares and pays a dividend to its stockholders, both cash and expenses will decrease.

Answer: FALSE

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

2) Generally companies will prepare financial statements:

- A) after every transaction.
- B) only when both the balance sheet and income statement are affected.
- C) at the end of the accounting period.
- D) at the close of every business day.

Answer: C

Diff: 1

LO: 2-3

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

3) When services are performed on account:

- A) cash is increased.
- B) revenue will not be recorded until the cash is received from the customer.
- C) accounts receivable is increased.
- D) accounts payable is increased.

Answer: C

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

4) A company received cash in exchange for issuing stock. This transaction increased assets and:

- A) increased expenses.
- B) increased revenues.
- C) increased liabilities.
- D) increased stockholders' equity.

Answer: D

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

5) When a business purchases land with a note payable:

- A) both assets and stockholders' equity are increased.
- B) assets are decreased and stockholder's equity is increased.
- C) both assets and liabilities are increased.
- D) assets are increased and liabilities are decreased.

Answer: C

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

6) The debt created by a business when it makes a purchase of inventory on account is a(n):

- A) revenue.
- B) account receivable.
- C) note payable.
- D) account payable.

Answer: D

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

7) Which of the following transactions will increase Stockholders' Equity?

- A) The company pays a dividend to its shareholders.
- B) The company issues common stock to new shareholders.
- C) The company purchases equipment.
- D) The company makes a payment on account.

Answer: B

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

8) Which of the following transactions will increase one asset and decrease another asset?

- A) The purchase of office supplies on account.
- B) The performance of services on account.
- C) The purchase of equipment for cash.
- D) The performance of services for cash.

Answer: C

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

9) A company performed services for a customer for cash. This transaction increased assets and:

- A) decreased stockholders' equity.
- B) increased liabilities.
- C) increased expenses.
- D) increased revenues.

Answer: D

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

10) A company receives an utility bill and immediately pays it. With this transaction:

- A) stockholders' equity is decreased.
- B) expenses are decreased.
- C) assets are increased.
- D) liabilities are increased.

Answer: A

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

11) Company Z sells land for the same amount it paid for it three years ago. When the company records this transaction:

- A) assets and stockholders' equity are increased.
- B) one asset is increased and another asset is decreased.
- C) one liability is increased and another liability is decreased.
- D) assets are increased and liabilities are decreased.

Answer: B

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking, Legal/Regulatory

AICPA Functional: Measurement

12) When a company borrows money from the bank, which type of account(s) is(are) increased?

- A) asset account only
- B) Retained Earnings only
- C) liability account only
- D) asset and liability accounts

Answer: D

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

13) A company performs services for a client on account. When the company receives the cash from the customer one month later:

- A) a revenue account is increased.
- B) a liability account is decreased.
- C) there is no change in total assets.
- D) an expense account is decreased.

Answer: C

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

14) When a company borrows cash from the bank:

- A) total assets remain the same.
- B) liabilities are increased.
- C) retained earnings is decreased.
- D) total liabilities remain the same.

Answer: B

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

15) When a company pays an amount it owes a creditor:

- A) assets are decreased and net income is decreased.
- B) assets are decreased and liabilities are increased.
- C) liabilities are decreased and net income is increased.
- D) assets are decreased and liabilities are decreased.

Answer: D

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

16) Muddle Company performs a service for one of its customers and immediately collects the cash. This transaction will:

- A) have no effect on liabilities.
- B) decrease net income.
- C) decrease Retained Earnings.
- D) increase Accounts Receivable.

Answer: A

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

17) Purchasing supplies on account would:

- A) increase total assets and decrease total liabilities.
- B) increase total liabilities and decrease total assets.
- C) increase total assets and increase total liabilities.
- D) increase total liabilities and increase stockholders' equity.

Answer: C

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

18) Paying a repair bill as soon as it was received would:

- A) increase expenses.
- B) increase liabilities.
- C) increase owners' equity.
- D) decrease revenues.

Answer: A

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

19) If a company buys inventory on account:

- A) cash would decrease.
- B) accounts payable would increase.
- C) net income would increase.
- D) common stock would decrease.

Answer: B

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

20) Receiving a payment from a customer on account:

- A) increases stockholders' equity.
- B) has no effect on total assets.
- C) decreases stockholders' equity.
- D) decreases liabilities.

Answer: B

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

21) Which of the following transactions would decrease an asset and decrease stockholders' equity?

- A) The payment of an account payable
- B) The performance of a service for a client on account
- C) The borrowing of money from the bank for thirty days
- D) The declaration and payment of a dividend to the shareholders

Answer: D

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

22) Performing services on account:

- A) decreases both assets and liabilities.
- B) increases assets and decreases stockholders' equity.
- C) decreases revenues and decreases stockholders' equity.
- D) increases both net income and stockholders' equity.

Answer: D

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

23) To compute the ending balance of Retained Earnings:

- A) the beginning balance in Retained Earnings will be negative for a new business.
- B) net loss for the period is subtracted from the beginning balance of Retained Earnings.
- C) Dividends are added to the beginning balance of Retained Earnings.
- D) common stock sold during the period is added to the beginning balance of Retained Earnings.

Answer: B

Diff: 3

LO: 2-3

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

24) To compute ending Retained Earnings on the Statement of Retained Earnings:

- A) net loss is added to the beginning Retained Earnings and declared dividends are subtracted from the beginning Retained Earnings.
- B) net income and dividends are both added to beginning Retained Earnings.
- C) net loss and dividends are both added to beginning Retained Earnings.
- D) net income is added to the beginning Retained Earnings.

Answer: D

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

25) When preparing the financial statements with a spreadsheet obtained from transaction analysis:

- A) assets, liabilities, and revenues are reported on the balance sheet.
- B) the balance sheet reports the beginning balance of retained earnings.
- C) assets, liabilities, and stockholders' equity are reported on the balance sheet.
- D) assets, liabilities, and dividends are reported on the balance sheet.

Answer: C

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

26) Lori Nichols opened an engineering office and titled the business Engineering Enterprises P.C. During its first month of operations, it completed the following transactions:

- I. Lori invested \$30,000 in the business, which in turn issued common stock to her.
- II. The business purchased equipment on account for \$6,000.
- II. The business provided engineering services on account, \$10,000.
- III. The business paid salaries to the receptionist, \$1,000.
- IV. The business received cash from a customer as payment on account \$6,000.
- V. The business borrowed \$8,000 from the bank, issuing a note payable.

At the end of the month, Cash would equal:

- A) \$30,000.
- B) \$37,000.
- C) \$43,000.
- D) \$61,000.

Answer: C

Explanation: C) Investment \$30,000 - Salaries Paid \$1,000 + Customer Collection \$6,000 + Cash from Loan \$8,000 = \$43,000

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

27) Linda Keller opened an engineering office and titled the business Engineering Enterprises P.C. During its first month of operations, it completed the following transactions:

- I. Linda invested \$30,000 in the business, which in turn issued common stock to her.
- II. The business purchased equipment on account for \$60,000.
- II. The business provided engineering services on account, \$10,000.
- III. The business paid salaries to the receptionist, \$2,000.
- IV. The business received cash from a customer as payment on account \$6,000.
- V. The business borrowed \$8,000 from the bank, issuing a note payable.

At the end of the month, total liabilities would be:

- A) \$8,000.
- B) \$60,000.
- C) \$68,000.
- D) \$70,000.

Answer: C

Explanation: C) Accounts Payable \$60,000 + Note Payable \$8,000 = \$68,000

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

28) A company completed the following transactions during the month of October:

- I. Purchased office supplies on account, \$4,000.
- II. Provided services for cash, \$20,000.
- III. Provided services on account, \$32,000.
- IV. Collected cash from a customer on account \$27,000.
- V. Paid the monthly rent of \$3,000.

What was the company's total revenue for the month?

- A) \$20,000
- B) \$32,000
- C) \$52,000
- D) \$79,000

Answer: C

Explanation: C) \$20,000 + \$32,000 = \$52,000

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

29) A company completed the following transactions during the month of October:

- I. Purchased office supplies on account, \$4,000.
- II. Provided services for cash, \$20,000.
- III. Provided services on account, \$12,000.
- IV. Collected cash from a customer on account \$7,000.
- V. Paid the monthly rent of \$13,000.

What was the company's net income for the month?

- A) \$12,000
- B) \$19,000
- C) \$32,000
- D) \$45,000

Answer: B

Explanation: B) Service Revenue \$20,000 + Service Revenue \$12,000 - Rent Expense \$13,000 = \$19,000

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

30) A company had credit sales of \$30,000 and cash sales of \$20,000 during the month of May. Also during May, the company paid wages of \$21,000 and utilities of \$8,000. It also received payments from customers on account totaling \$4,000. What was the company's net income for the month?

- A) \$20,000
- B) \$21,000
- C) \$50,000
- D) \$79,000

Answer: B

Explanation: B) Sales Revenue \$30,000 + Sales Revenue \$20,000 - Wage Expense \$21,000 - Utilities Expense \$8,000 = \$21,000

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

31) A company had credit sales of \$30,000 and cash sales of \$10,000 during the month of May. Also during May, the company paid wages of \$12,000 and utilities of \$1,800. It also received payments from customers on account totaling \$4,000. At the beginning of May, the company had a cash balance of \$25,000. What is the company's Cash balance at the end of May?

- A) \$21,200
- B) \$25,200
- C) \$35,000
- D) \$39,000

Answer: B

Explanation: B) Beginning Balance Cash \$25,000 + Cash Sales \$10,000 - Wages paid \$12,000 - Utilities paid \$1,800 + Cash Collected from Customers \$4,000 = \$25,200

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

32) Jenkins Company began business in June when stockholders invested \$80,000 in the business, which in turn issued its common stock to them. Jenkins Company then purchased a building for \$40,000 cash and inventory for \$20,000 cash, performed services for clients for \$10,000 cash, purchased supplies for \$5,000 cash, and paid utilities of \$2,000 cash. What is the amount of Cash at the end of June?

- A) \$20,000
- B) \$23,000
- C) \$30,000
- D) \$43,000

Answer: B

Explanation: B) Issue Stock \$80,000 - Buy Building \$40,000 - Buy Inventory \$20,000 + Service Revenue \$10,000 - Supplies paid \$5,000 - Utilities paid \$2,000 = \$23,000

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

33) A company received \$30,000 cash and issued common stock in exchange. In transaction analysis, how does this transaction affect the accounting equation?

- A) Add \$30,000 to Cash account and add \$30,000 to Retained Earnings account.
- B) Add \$30,000 to Cash account and add \$30,000 to Revenue account.
- C) Add \$30,000 to Dividends account and subtract \$30,000 to Retained Earnings account.
- D) Add \$30,000 to Cash account and add \$30,000 to Common Stock account.

Answer: D

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

34) A company purchased supplies of \$1,000 on account. In transaction analysis, how does this transaction affect the accounting equation?

- A) Add \$1,000 to Supplies account and add \$1,000 to Notes Payable account.
- B) Add \$1,000 to Supplies account and subtract \$1,000 from Cash account.
- C) Add \$1,000 to Supplies Expense account and add \$1,000 to Notes Payable account.
- D) Add \$1,000 to Supplies account and add \$1,000 to Accounts Payable account.

Answer: D

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

35) A company performed tax services for a client on account. The amount billed to the client was \$5,000. In transaction analysis, how does this transaction affect the accounting equation?

- A) Add \$5,000 to Cash account and add \$5,000 to Service Revenue account.
- B) Add \$5,000 to Cash account and add \$5,000 to Retained Earnings account.
- C) Add \$5,000 to Accounts Receivable account and add \$5,000 to Retained Earnings account.
- D) Add \$5,000 to Accounts Payable account and add \$5,000 to Service Revenue account.

Answer: C

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

36) On May 1, a company provided legal services for a new client. The lawyer asked for \$1,000 and the client paid with a check on May 1 before leaving the office. In transaction analysis, how does this transaction affect the accounting equation?

- A) Add \$1,000 to Cash and add \$1,000 to Service Revenue account.
- B) Add \$1,000 to Cash account and add \$1,000 to Retained Earnings account.
- C) Add \$1,000 to Cash account and subtract \$1,000 from Accounts Receivable account.
- D) Add \$1,000 to Cash account and subtract \$1,000 from Accounts Payable account.

Answer: B

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 37) A company paid \$2,500 for supplies purchased earlier in the month on account. In transaction analysis, how does this transaction affect the accounting equation?
- A) Add \$2,500 to Supplies account and add \$2,500 to Supplies Expense account.
 - B) Add \$2,500 to Supplies Expense account and subtract \$2,500 from Cash account.
 - C) Add \$2,500 to Supplies Expense account and add \$2,500 to Cash account.
 - D) Subtract \$2,500 from Accounts Payable account and subtract \$2,500 from Cash account.

Answer: D

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 38) On August 15, a customer paid \$3,000 for services provided a month earlier. The customer was billed on August 1. In transaction analysis, how does this transaction affect the accounting equation?

- A) Add \$3,000 to Cash account and add \$3,000 to Service Revenue account.
- B) Add \$3,000 to Cash account and add \$3,000 to Retained Earnings account.
- C) Add \$3,000 to Cash account and subtract \$3,000 from Accounts Receivable account.
- D) Add \$3,000 to Accounts Payable account and add \$3,000 to Cash account.

Answer: C

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 39) A company received a utility bill for \$500 and decided to pay it next month due to a shortage of cash. In transaction analysis, how does this transaction affect the accounting equation?

- A) Add \$500 to Utilities Expense account and add \$500 to Cash account.
- B) Subtract \$500 from Cash account and add \$500 to Accounts Payable account.
- C) Add \$500 to Accounts Receivable account and subtract \$500 from Retained Earnings account.
- D) Add \$500 to Accounts Payable account and subtract \$500 from Retained Earnings account.

Answer: D

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 40) A company went to the bank and borrowed \$10,000 on a long-term note. In transaction analysis, how does this transaction affect the accounting equation?
- A) Add \$10,000 to Cash account and add \$10,000 to Accounts Payable account.
 - B) Add \$10,000 to Cash account and add \$10,000 to Notes Payable account.
 - C) Add \$10,000 to Cash account and add \$10,000 to Retained Earnings account.
 - D) Add \$10,000 to Accounts Receivable account and add \$10,000 to Accounts Payable account.

Answer: B

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 41) A receptionist worked one month and was paid \$2,000 at the end of the month. In transaction analysis, how does this transaction affect the accounting equation?

- A) Add \$2,000 to Cash account and add \$2,000 to Accounts Payable account.
- B) Add \$2,000 to Accounts Receivable account and subtract \$2,000 from Cash account.
- C) Add \$2,000 to Salary Expense and subtract \$2,000 from Retained Earnings account.
- D) Subtract \$2,000 from Cash account and subtract \$2,000 from Retained Earnings account.

Answer: D

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 42) A company declared and paid dividends of \$500. In transaction analysis, how does this transaction affect the accounting equation?

- A) Add \$500 to Revenue account and add \$500 to Cash account.
- B) Add \$500 to Dividends account and add \$500 to Accounts Receivable account.
- C) Subtract \$500 from Retained Earnings account and subtract \$500 from Cash account.
- D) Add \$500 to Dividend Expense account and subtract \$500 from Cash account.

Answer: C

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

43) In transaction analysis, revenues and expenses that arise in different transactions are recorded in the _____ column of the accounting equation.

- A) Cash
- B) Common Stock
- C) Dividends
- D) Retained Earnings

Answer: D

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

44) In transaction analysis, the declaration and payment of dividends is recorded in the _____ and _____ columns of the accounting equation.

- A) Dividends, Cash
- B) Expenses, Accounts Receivable
- C) Expenses, Accounts Payable
- D) Retained Earnings, Cash

Answer: D

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

45) We have used transaction analysis and the accounting equation to record several transactions for a company. The transactions are now recorded on a multi-column spreadsheet of the assets, liabilities and stockholders' equity of the company. If you wanted to prepare an income statement with this spreadsheet, which column would you use?

- A) Cash column
- B) Accounts Payable column
- C) Dividends column
- D) Retained Earnings column

Answer: D

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

46) We have used transaction analysis and the accounting equation to record several transactions for a company. The transactions are now recorded on a multi-column spreadsheet of the assets, liabilities, and stockholders' equity of the company. If you wanted to prepare a statement of cash flows with this spreadsheet, which column would you use?

- A) Cash column
- B) Accounts Receivable column
- C) Retained Earnings column
- D) Revenue column

Answer: A

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

47) We have used transaction analysis and the accounting equation to record several transactions for a company. The transactions are now recorded on a multi-column spreadsheet of the assets, liabilities and stockholders' equity of the company. If you wanted to prepare a balance sheet with this spreadsheet, which column(s) would you use?

- A) final balances of asset columns only
- B) final balances of liability columns only
- C) final balances of stockholders' equity columns only
- D) all of the above

Answer: D

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

48) A multiple-step income statement reports different types of income that include:

- A) sales revenue and service revenue.
- B) income tax expense, utilities expense, rent expense.
- C) gross profit, operating income and net income.
- D) cost of goods sold and operating expenses.

Answer: C

Diff: 3

LO: 2-3

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

49) Beckowsik Company began business in June and completed the following transactions:

- A) Received \$50,000 cash and issued common stock to the stockholders.
- B) Purchased supplies for \$5,000 on account.
- C) Paid utilities bill of \$2,000 for the month.
- D) Performed services for a customer and billed the customer \$6,000.
- E) Received \$3,000 from the customer on account.
- F) Paid for the supplies purchased on account.
- G) Purchased equipment for \$10,000 on account.
- H) Declared and paid dividends of \$2,200.

Required:

1. Record the effects of the above transactions on the accounting equation.
2. Prove the accounting equation using the final balances in the accounts.

Answer:

1.

Trans.	Cash	Accts. Rec.	Supplies	Equip- ment	Accts. Pay.	Common Stock	Retained Earnings	
A	+50,000					+50,000		
B			+5,000		+5,000			
C	(2,000)						(2,000)	Utilities Expense
D		+ 6,000					+6,000	Service Revenue
E	+3,000	(3,000)						
F	(5,000)				(5,000)			
G				+10,000	+10,000			
H	(2,200)						(2,200)	Dividends
Totals	<u>43,800</u>	<u>3,000</u>	<u>5,000</u>	<u>10,000</u>	<u>10,000</u>	<u>50,000</u>	<u>1,800</u>	

2. Accounting Equation:

Cash \$43,800 + Accounts Receivable \$3,000 + Supplies \$5,000 + Equipment \$10,000
=Accounts Payable \$10,000 + Common Stock \$50,000 + Retained Earnings \$1,800 = \$61,800

Diff: 3

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

50) Indicate whether the account is an asset (A), liability (L), stockholders' equity (SE), revenue (R) or expense (E) account. Also indicate if the account would appear on the Balance Sheet (BS), Income Statement (IS), Statement of Cash Flows(CF) or the Statement of Retained Earnings (SRE).

	ACCOUNT	TYPE OF ACCOUNT	FINANCIAL STATEMENT
1.	Equipment		
2.	Common Stock		
3.	Accounts Payable		
4.	Service Revenue		
5.	Salary Expense		
6.	Inventory		
7.	Accounts Receivable		
8.	Retained Earnings		
9.	Notes Payable		
10.	Prepaid Insurance		
11.	Dividends		
12.	Cash		

Answer:

	ACCOUNT	TYPE OF ACCOUNT	FINANCIAL STATEMENT
1.	Equipment	A	BS
2.	Common Stock	SE	BS
3.	Accounts Payable	L	BS
4.	Service Revenue	R	IS
5.	Salary Expense	E	IS
6.	Inventory	A	BS
7.	Accounts Receivable	A	BS
8.	Retained Earnings	SE	BS, SRE
9.	Notes Payable	L	BS
10.	Prepaid Insurance	A	BS
11.	Dividends	SE	SRE, CF
12.	Cash	A	BS, CF

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

2.4 Learning Objective 2-4

1) The double-entry system of accounting records the dual effects of transactions on the entity.

Answer: TRUE

Diff: 1

LO: 2-4

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

2) At the end of the period, the difference between the total credits and the total debits is the balance in the account.

Answer: TRUE

Diff: 1

LO: 2-4

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

3) The left hand side of a T account is the debit side and the right hand side is the credit side.

Answer: TRUE

Diff: 1

LO: 2-4

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

4) An account with a normal debit balance is most often an asset or revenue account.

Answer: FALSE

Diff: 2

LO: 2-4

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

5) Accounts receivable is increased with a credit.

Answer: FALSE

Diff: 2

LO: 2-4

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

6) Assets, revenues, and dividends are all increased by debits.

Answer: FALSE

Diff: 2

LO: 2-4

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

7) Common Stock and Retained Earnings are increased by debits.

Answer: FALSE

Diff: 2

LO: 2-4

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

8) If the sum of the credits to an account exceed the sum of the debits to the account, the account will have a credit balance.

Answer: TRUE

Diff: 1

LO: 2-4

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

9) The left side of a T-account is always the:

A) increase side.

B) decrease side.

C) debit side.

D) credit side.

Answer: C

Diff: 1

LO: 2-4

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

10) An important rule to remember when working with T accounts is:

- A) when you debit an account, you are entering an amount of the right-hand side on the T account.
- B) an increase to accounts payable will be recorded as a debit.
- C) to credit an account means to enter an amount on the right-hand side of the T account.
- D) the debit side of a T account is on the right-hand side of the T account for assets and expenses.

Answer: C

Diff: 2

LO: 2-4

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

11) Which of the following statements about the rules of debits and credits is CORRECT?

- A) An asset is increased by a credit.
- B) Dividends are decreased by debits.
- C) A liability is increased by a debit.
- D) Revenue is increased by a credit.

Answer: D

Diff: 3

LO: 2-4

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

12) Decreases in stockholders' equity that result from the cost of operating the business are:

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

Answer: C

Diff: 2

LO: 2-4

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

13) An important rule of debits and credits is:

- A) credits increase a revenue account.
- B) debits decrease an asset account
- C) revenues are increased by a debit.
- D) expenses are increased by a credit.

Answer: A

Diff: 2

LO: 2-4

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

14) Which accounts are increased by debits?

- A) Cash and Accounts Payable
- B) Salaries Expense and Common Stock.
- C) Accounts Receivable and Utilities Expense
- D) Accounts Payable and Service Revenue

Answer: C

Diff: 3

LO: 2-4

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

15) Company A received cash and issued stock to a new stockholder. In recording this transaction:

- A) Cash would be debited.
- B) Common Stock would be debited.
- C) Cash would be credited.
- D) Retained Earnings would be credited.

Answer: A

Diff: 2

LO: 2-4

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

16) Complete the following chart indicating if the account is increased with a debit or a credit.

ACCOUNT	INCREASED WITH A:
Accounts Receivable	
Accounts Payable	
Common Stock	
Dividends	
Service Revenue	
Interest Expense	
Interest Revenue	
Note Payable	
Retained Earnings	
Inventory	
Short-term Investments	

Answer:

ACCOUNT	INCREASED WITH A:
Accounts Receivable	Debit
Accounts Payable	Credit
Common Stock	Credit
Dividends	Debit
Service Revenue	Credit
Interest Expense	Debit
Interest Revenue	Credit
Note Payable	Credit
Retained Earnings	Credit
Inventory	Debit
Short-term Investments	Debit

Diff: 2

LO: 2-4

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

2.5 Learning Objective 2-5

1) When preparing a journal entry, debits are always listed before credits.

Answer: TRUE

Diff: 1

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

2) The journal is the book of original entry.

Answer: TRUE

Diff: 1

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

3) Information is taken from the journal and then posted to the ledger.

Answer: TRUE

Diff: 2

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

4) The total debits to an account must equal the total credits to the account.

Answer: FALSE

Diff: 2

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

5) In a journal entry, the sum of the debits must always equal the sum of the credits.

Answer: TRUE

Diff: 1

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

6) Journal entries can have more than two accounts as long as the total debits equal the total credits.

Answer: TRUE

Diff: 2

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

7) Each journal entry should contain a brief description of the transaction.

Answer: TRUE

Diff: 1

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

8) The balance of an account can be determined by adding all of the debits, adding all of the credits, and then subtracting the two amounts.

Answer: TRUE

Diff: 1

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

9) Entering a transaction in the journal is also known as booking the journal entry.

Answer: TRUE

Diff: 1

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

10) Posting accounting transactions avoids the necessity of journalizing transactions.

Answer: FALSE

Diff: 1

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

11) Accounting transactions are initially recorded in the:

A) T-account.

B) ledger.

C) journal.

D) financial statements.

Answer: C

Diff: 2

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

12) The first step in recording a transaction in the journal is:

- A) determining whether each account is increased or decreased by the transaction.
- B) copying the information from the journal to the ledger.
- C) entering the debit side of the journal entry on the left margin and the credit side is indented to the right.
- D) specifying each account affected by the transaction and classifying the account by type.

Answer: D

Diff: 2

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

13) The process of copying the information from the journal to the trial balance is:

- A) called posting.
- B) not undertaken.
- C) called journalizing.
- D) used to prepare the financial statements.

Answer: B

Diff: 2

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

14) In order to see a complete transaction in one place, you would need to look at the:

- A) trial balance.
- B) ledger.
- C) journal.
- D) financial statements.

Answer: C

Diff: 2

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

15) Entries are listed in the journal:

- A) alphabetically.
- B) chronologically.
- C) with income statement accounts first and then balance sheet accounts.
- D) in order of importance.

Answer: B

Diff: 2

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

16) An account will have a debit balance if:

- A) the amount of the credits exceeds the amount of the debits.
- B) the amount of the debits exceeds the amount of the credits.
- C) the account has more debit entries than credit entries.
- D) it is a liability account.

Answer: B

Diff: 2

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

17) What is the last step in the journalizing process?

- A) Record the transaction in the journal.
- B) Post the transaction to the ledger.
- C) Determine whether each account is increased or decreased by the transaction.
- D) Specify each account affected by the transaction and classify each account by type.

Answer: A

Diff: 2

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

18) Which of the following items would NOT be included in the journal entry for a transaction?

- A) The names of the employees involved in the transaction
- B) The date the transaction occurred
- C) The titles of the accounts debited
- D) The dollar amount of the transaction

Answer: A

Diff: 2

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

19) The proper order for the accounting process is:

- A) posting, transaction occurs, journalizing.
- B) transaction occurs, posting, journalizing.
- C) transaction occurs, transaction analyzed, journalizing, and posting.
- D) transaction occurs, posting, transaction analyzed, journalizing.

Answer: C

Diff: 2

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

20) The ledger:

- A) is a grouping of all of the balance sheet accounts only.
- B) is a grouping of all the income statement accounts only.
- C) contains all the accounts used by a business.
- D) contains only the permanent accounts used by a business.

Answer: C

Diff: 2

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

21) Posting is:

- A) copying the information from the journal to the trial balance.
- B) entering the data into the journal.
- C) copying the information from the journal to the ledger.
- D) copying the information from the ledger to the financial statements.

Answer: C

Diff: 2

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

22) Every journal entry:

- A) must increase at least one account and decrease at least one account.
- B) must debit at least one account and credit at least one account.
- C) is recorded in either the journal or the ledger.
- D) affects both an income statement account and a balance sheet account.

Answer: B

Diff: 2

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

23) In order to determine the balance in an account, you must look at the:

- A) source documents.
- B) journals.
- C) ledger.
- D) book of original entry.

Answer: C

Diff: 2

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

24) When an expense account is increased:

- A) an amount is entered on the credit side of the expense account.
- B) an amount is entered on the debit side of the expense account.
- C) cash must always be credited.
- D) stockholders' equity is not affected.

Answer: B

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

25) The entry to record the purchase of supplies on account would include a credit to:

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

Answer: B

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

26) A transaction that would include a credit to Cash is:

- A) the purchase of supplies on account.
- B) the payment of an account payable.
- C) the collection of cash from an account receivable.
- D) provide services and receive cash from the customer.

Answer: B

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

27) If a journal entry debits Accounts Payable and credits Cash, it can be determined that:

- A) Cash will have a credit balance.
- B) Accounts Payable increased.
- C) Cash increased.
- D) Accounts Payable decreased.

Answer: D

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

28) The payment for advertising costs for a monthly advertising campaign in the current month would include a:

- A) debit to Cash.
- B) debit to Prepaid Advertising.
- C) debit to Advertising Expense.
- D) credit to Advertising Revenue.

Answer: C

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

29) A journal entry that debits Cash and credits Accounts Receivable indicates that:

- A) payment was received on account.
- B) payment was made on account.
- C) revenue increased.
- D) revenue decreased.

Answer: A

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

30) An owner makes an investment of cash into the business and receives shares of stock. This transaction would include a:

- A) debit to Common Stock and a credit to Cash.
- B) debit to Cash and a credit to Common Stock.
- C) debit to Retained Earnings and a credit to Cash.
- D) debit to Common Stock and a credit to Retained Earnings.

Answer: B

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

31) A transaction that includes a debit to an expense and a credit to a liability indicates that:

- A) revenues increased.
- B) expenses decreased.
- C) liabilities increased.
- D) cash decreased.

Answer: C

Diff: 3

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

32) The purchase of equipment involving a cash down payment and a promise to pay the balance in the future would include:

- A) a debit to Cash and a credit to Equipment.
- B) a debit to Note Payable and a credit to Cash.
- C) a credit to Cash and a credit to Accounts Payable.
- D) a debit to Cash and a debit to Note Payable.

Answer: C

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

33) The purchase of office computers for cash would include a debit to:

- A) Cash and a credit to Office Equipment.
- B) Office Equipment and a credit to Accounts Payable.
- C) Accounts Receivable and credit to Office Equipment.
- D) Office Equipment and a credit to Cash.

Answer: D

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

34) A company sold land for the same price that they paid for it last year. When entering this transaction in the journal, there will be a:

- A) credit to Land.
- B) debit to Land.
- C) debit to Accounts Payable.
- D) credit to Accounts Receivable.

Answer: A

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

35) A partner in the partnership called Sturm Company purchased a new yacht with his own funds. Sturm Company would:

- A) debit an asset account.
- B) credit a revenue account.
- C) credit a liability account.
- D) not record the transaction in their books.

Answer: D

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

36) Jaye Company purchased a new building by signing a note for \$20,000. The entry to record the transaction is:

A)

Cash	20,000	
Note Payable		20,000

B)

Building	20,000	
Cash		20,000

C)

Note Payable	20,000	
Cash		20,000

D)

Building	20,000	
Notes Payable		20,000

Answer: D

Diff: 3

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

37) When posting a journal entry to the ledger, we transfer:

- A) the dollar amount of debits in the journal entry to the appropriate accounts.
- B) the dollar amounts of credits in the journal entry to the appropriate accounts.
- C) the name of the person who prepared the journal entry.
- D) A and B.

Answer: D

Diff: 2

LO: 2-5

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

38) A business paid \$40,000 cash to purchase equipment. The business would:

- A) debit Equipment for \$40,000 and credit Accounts Payable for \$40,000.
- B) debit Equipment for \$40,000 and credit Cash for \$40,000.
- C) debit Cash for \$40,000 and credit Note Payable for \$40,000.
- D) debit Accounts Payable for \$40,000 and credit Cash for \$40,000.

Answer: B

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

39) A business purchased office supplies of \$10,000 using a note. The business would:

- A) debit Supplies for \$10,000 and credit Accounts Payable for \$10,000.
- B) debit Supplies for \$10,000 and credit Notes Payable for \$10,000.
- C) debit Note Receivable for \$10,000 and credit Supplies for \$10,000.
- D) debit Note Receivable for \$10,000 and credit Supplies Expense for \$10,000.

Answer: B

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

40) A business purchased office supplies of \$10,000 on account. The business would:

- A) debit Accounts Receivable for \$10,000 and credit Supplies for \$10,000.
- B) debit Supplies for \$10,000 and credit Cash for \$10,000.
- C) debit Accounts Payable for \$10,000 and credit Supplies for \$10,000.
- D) debit Supplies for \$10,000 and credit Accounts Payable for \$10,000.

Answer: D

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 41) A business paid \$1,900 on account. The journal entry would:
- A) debit Accounts Receivable for \$1,900 and credit Revenue for \$1,900.
 - B) debit Accounts Payable for \$1,900 and credit Cash for \$1,900.
 - C) debit Cash for \$1,900 and credit Retained Earnings for \$1,900.
 - D) debit Cash for \$1,900 and credit Accounts Payable for \$1,900.

Answer: B

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 42) Two employees worked a week and the business paid salaries of \$1,200. The journal entry would:

- A) debit Cash for \$1,200 and credit Salaries Payable for \$1,200.
- B) debit Accounts Payable for \$1,200 and credit Cash for \$1,200.
- C) debit Accounts Payable for \$1,200 and credit Salary Payable for \$1,200.
- D) debit Salary Expense for \$1,200 and credit Cash for \$1,200.

Answer: D

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 43) A business sold equipment for \$40,000 cash. They purchased the equipment one day earlier for \$40,000 but changed their plans.

- A) Debit Equipment for \$40,000 and credit Cash for \$40,000.
- B) Debit Equipment for \$40,000 and credit Retained Earnings for \$40,000.
- C) Debit Cash for \$40,000 and credit Equipment for \$40,000.
- D) Debit Retained Earnings for \$40,000 and credit Equipment for \$40,000.

Answer: C

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

44) On May 1, a business rendered legal services to a client and billed the client \$2,200. The client promised to pay the business in one week. What journal entry does the business record on May 1?

- A) Debit Cash for \$2,200 and credit Service Revenue for \$2,200.
- B) Debit Cash for \$2,200 and credit Retained Earnings for \$2,200.
- C) Debit Accounts Receivable for \$2,200 and credit Service Revenue for \$2,200.
- D) Debit Accounts Payable for \$2,200 and credit Cash for \$2,200.

Answer: C

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

45) On May 10, a business collected \$2,200 on account. What journal entry is needed on May 10?

- A) Debit Accounts Payable for \$2,200 and credit Accounts Receivable for \$2,200.
- B) Debit Accounts Receivable for \$2,200 and credit Revenue for \$2,200.
- C) Debit Cash for \$2,200 and credit Accounts Receivable for \$2,200.
- D) Debit Accounts Payable for \$2,200 and credit Revenue for \$2,200.

Answer: C

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

46) A business received the utility bill for \$525, and immediately paid it. What journal entry is prepared?

- A) Debit Accounts Payable for \$525 and credit Cash for \$525.
- B) Debit Utilities Payable for \$525 and credit Cash for \$525.
- C) Debit Utilities Expense for \$525 and credit Cash for \$525.
- D) Debit Operating Expense for \$525 and credit Accounts Payable for \$525.

Answer: C

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

47) Latinovich Legal Services had the following transactions during its first month of operations:

May 1 Latinovich Legal Services received \$20,000 cash and issued common stock to the stockholders.

May 1 Paid the May rent, \$5,000.

May 3 Purchased equipment on account for \$3,000.

May 5 Purchased supplies for \$2,000 on account.

May 8 Performed services for a client and received cash of \$11,800.

May 12 Performed services for a client and billed the customer \$12,200. The customer promised to pay within 10 days.

May 15 Paid for the equipment purchased May 3 on account.

May 22 Received payment from a customer on account, \$12,200.

May 28 Borrowed \$10,000 from First National Bank for business use.

May 30 Employees worked for one month and were paid \$3,000 at the end of the month.

May 31 Received and paid the utility bill of \$1,800.

Required: Record the transactions of the business in a journal. Include an explanation for each entry.

Answer:

Date	Account	Dr	Cr
May 1	Cash	20,000	
	Common Stock		20,000
	Issued common stock.		
1	Rent expense	5,000	
	Cash		5,000
	Paid May rent.		
3	Equipment	3,000	
	Accounts Payable		3,000
	Purchased equipment on account.		
5	Supplies	2,000	
	Accounts payable		2,000
	Purchased supplies on account.		
8	Cash	11,800	
	Service Revenue		11,800
	Performed services.		
12	Accounts Receivable	12,200	
	Service Revenue		12,200
	Performed services on account.		
15	Accounts payable	3,000	
	Cash		3,000
	Paid cash on account.		
22	Cash	12,200	
	Accounts Receivable		12,200
	Collected cash on account.		
28	Cash	10,000	
	Note Payable		10,000
	Borrowed from bank.		
30	Salary Expense	3,000	
	Cash		3,000
	Paid salaries for month.		

31	Utility Expense	1,800	
	Cash		1,800
	Paid utility expense.		

Diff: 2

LO: 2-5

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

2.6 Learning Objective 2-6

1) Accounts are listed in random order in a trial balance.

Answer: FALSE

Diff: 1

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

2) A trial balance is one of a company's major financial statements.

Answer: FALSE

Diff: 1

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement, Reporting

3) Although a trial balance can be prepared at any time, the most common time is at the end of the accounting period.

Answer: TRUE

Diff: 2

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

4) When a trial balance is out of balance due to a transposition error, the difference between total debits and total credits will be evenly divisible by 2.

Answer: FALSE

Diff: 2

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

5) When a trial balance is out of balance due to a slide-type error, the difference between total debits and total credits will be evenly divisible by 9.

Answer: TRUE

Diff: 2

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

6) A bookkeeper posted the same journal entry twice. This will cause the trial balance to be out of balance.

Answer: FALSE

Diff: 2

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

7) The financial statements can be prepared from the trial balance.

Answer: TRUE

Diff: 2

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement, Reporting

8) The normal balance of an expense account is a _____ because expenses decrease _____.

A) debit, assets

B) debit, expenses

C) debit, Retained Earnings

D) credit, Retained Earnings

Answer: C

Diff: 2

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 9) The normal balance of an account:
- A) falls on the side where decreases are recorded.
 - B) falls on the side where increases are recorded.
 - C) must be computed after every transaction.
 - D) cannot be computed in a manual accounting system.

Answer: B

Diff: 2

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

- 10) The normal balance of a revenue account is a _____ because revenues increase _____.

- A) credit, assets
- B) debit, expenses
- C) debit, Retained Earnings
- D) credit, Retained Earnings

Answer: D

Diff: 2

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

- 11) When computing the normal balance of an account:

- A) salaries expense should have a credit balance.
- B) accounts payable should have a credit balance.
- C) equipment should have a credit balance.
- D) notes payable should have a debit balance.

Answer: B

Diff: 2

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

12) Which error will be uncovered by a trial balance?

- A) The bookkeeper recorded the same journal entry three times.
- B) The bookkeeper forgot to record a journal entry for a large amount.
- C) The bookkeeper recorded both the debit and credit of a journal entry as \$200 instead of \$700.
- D) The bookkeeper recorded a journal entry with a debit of \$400 and a credit of \$400, as a debit of \$400 and a credit of \$40.

Answer: D

Diff: 2

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

13) The trial balance is used to determine if:

- A) total assets equal total liabilities.
- B) total debits of all the accounts equal total credits of all the accounts.
- C) total debits of the income statement accounts equal the total credits of the income statement accounts.
- D) total debits of the balance sheet accounts equal the total credits of the balance sheet accounts.

Answer: B

Diff: 2

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

14) A bookkeeper forgot to post a credit to Accounts Receivable, but did post the debit part of the journal entry correctly. Then:

- A) the trial balance would still balance.
- B) total debits would exceed total credits on the trial balance.
- C) total credits would exceed total debits on the trial balance.
- D) total debits and total credits would both be incorrect on the trial balance.

Answer: B

Diff: 3

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

15) If a posting error has occurred whereby a debit is posted as a credit, then the out-of-balance amount on the trial balance will be evenly divisible by:

- A) 11.
- B) 9.
- C) 2.
- D) 5.

Answer: C

Diff: 2

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

16) If the trial balance does not balance, several steps can be taken to find the error. Which step will probably NOT help you find the error?

- A) Tracing each account back and forth from the journal to the ledger.
- B) Divide the out-of-balance amount by 2.
- C) Divide the out-of-balance amount by 9.
- D) Divide the out-of-balance amount by 5.

Answer: D

Diff: 2

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

17) A chart of accounts:

- A) is used by an organization to determine the balance in all of their accounts.
- B) lists all of the accounts of an organization in alphabetical order.
- C) must be the same for all organizations.
- D) lists all of an organization's accounts and account numbers.

Answer: D

Diff: 2

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

- 18) Which of the following statements regarding a trial balance is TRUE?
- A) A trial balance may be prepared at any time during the accounting period.
 - B) A trial balance is a list of all accounts used in a business with their balances.
 - C) A trial balance shows that total debits equals total credits.
 - D) All of the above are true.

Answer: D

Diff: 2

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

- 19) A trial balance has which of the following features?

- A) Totals for balance sheet accounts only
- B) Totals for income statement accounts only
- C) Totals for all accounts listed in the ledger
- D) Totals for all asset and liability accounts only

Answer: C

Diff: 1

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

- 20) Which of the following is a CORRECT statement about a chart of accounts?

- A) It lists the income statement accounts first.
- B) It can be used to determine the balance in an account.
- C) It is a tool used by accountants to help prepare the financial statements.
- D) It lists the balance sheet accounts first.

Answer: D

Diff: 2

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

- 21) Which account has a normal debit balance?

- A) Salaries payable
- B) Common Stock
- C) Advertising Expense
- D) Service revenue

Answer: C

Diff: 2

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

22) The normal balance of the Accounts Receivable account is a _____ because it is a(n) _____ account.

- A) credit; liability
- B) debit; stockholders' equity
- C) credit; expense
- D) debit; asset

Answer: D

Diff: 2

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

23) When using a four-column ledger account format, the pair of columns on the far right is used to show the:

- A) names of the accounts being debited and credited.
- B) transaction dates and journal reference.
- C) account balance.
- D) debit and credit amounts posted from journal entries.

Answer: C

Diff: 2

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

24) Andy Company had a Cash balance on May 1 of \$27,000. At the end of May, the Cash balance had increased to \$28,000. During the month of May, Andy received cash of \$46,000 from various sources. Based on this information, cash payments for the month of May were:

- A) \$27,000.
- B) \$28,000.
- C) \$45,000.
- D) \$55,000.

Answer: C

Explanation: C) $\$27,000 + \$46,000 - \$28,000 = \$45,000$

Diff: 3

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

25) Yellow Company had a balance of \$30,000 in Accounts Payable at the beginning of June, and purchased \$100,000 of merchandise on account during the month. At the end of June, Yellow's Account Payable balance was \$28,000. What amount did Yellow pay on account during June?

- A) \$62,000
- B) \$72,000
- C) \$100,000
- D) \$102,000

Answer: D

Explanation: $D) \$30,000 + \$100,000 - \$28,000 = \$102,000$

Diff: 3

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

26) The Accounts Receivable account for Johnny's Mechanic Shop had a beginning balance of \$32,000. During the month, Johnny made sales on account of \$42,000. The ending balance in the Accounts Receivable account is \$30,000. What are cash collections for the month?

- A) \$32,000
- B) \$42,000
- C) \$44,000
- D) \$74,000

Answer: C

Explanation: $C) \$32,000 + \$42,000 - \$30,000 = \$44,000$

Diff: 3

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

27) The Diamond Store began business on June 1. During the month of June, it had cash payments of \$9,000. At the end of June, it had a \$14,000 balance in Cash. Based on this information, the cash receipts for the month of June were:

- A) \$5,000.
- B) \$14,000.
- C) \$23,000.
- D) \$32,000.

Answer: C

Explanation: $C) 0 + x - \$9,000 = \$14,000; x = \$23,000$

Diff: 3

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

28) Simmons Company began the month with a balance of \$80,000 in Accounts Receivable. An analysis of the account determined that sales on account for the month totaled \$110,000. At the end of the month, the balance in Accounts Receivable was \$85,000. From this information, it can be determined that Simmons Company had collections from customers on account of:

- A) \$30,000.
- B) \$55,000.
- C) \$95,000.
- D) \$105,000.

Answer: D

Explanation: D) $\$80,000 + \$110,000 - \$85,000 = \$105,000$

Diff: 3

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

29) The accounts of Local Company at May 31, 2015 are as follows:

Account	Balance
Accounts Payable	\$23,500
Accounts Receivable	\$15,600
Cash	\$68,000
Common Stock	\$32,000
Dividends	\$3,000
Insurance Expense	\$2,100
Retained Earnings	\$25,800
Salary Expense	\$1,100
Sales Revenue	\$10,000
Supplies	\$1,500

What are the first four lines, in proper order, on the trial balance at May 31, 2015?

- A) Accounts Payable, Accounts Receivable, Cash, Common Stock
- B) Sales Revenue, Salary Expense, Insurance Expense, Supplies
- C) Cash, Accounts Receivable, Supplies, Accounts Payable
- D) Accounts Payable, Notes Payable, Common Stock, Retained Earnings

Answer: C

Diff: 3

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

30) The accounts of Yardy Company are as follows on November 30, 2015:

Account	Balance
Accounts Payable	\$23,500
Accounts Receivable	\$15,600
Cash	\$68,000
Common Stock	\$32,000
Dividends	\$3,000
Insurance Expense	\$2,100
Retained Earnings	\$25,800
Salary Expense	\$1,100
Sales Revenue	\$10,000
Supplies	\$1,500

What is the total of the debit column in the trial balance at November 30, 2015?

- A) \$84,300
- B) \$88,300
- C) \$91,300
- D) \$182,600

Answer: C

Explanation: C) Cash \$68,000 + Accounts Receivable \$15,600 + Supplies \$1,500 + Dividends \$3,000 + Insurance Expense \$2,100 + Salary Expense \$1,100 = \$91,300

Diff: 3

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

31) When listing the accounts on the trial balance, we list the _____ accounts first and then the _____ accounts.

- A) income statement; cash flow statement
- B) asset; liability
- C) income statement; balance sheet
- D) revenues; stockholders' equity

Answer: B

Diff: 3

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

32) An example of a transposition error is writing:

- A) \$400 as \$40
- B) \$1,000 as \$2,000
- C) \$300 as \$600
- D) \$1,200 as \$2,100

Answer: D

Diff: 3

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

33) An example of a slide-type error is writing:

- A) \$1,200 as \$2,100.
- B) \$300 as \$600.
- C) \$1,000 as \$2,000.
- D) \$400 as \$40.

Answer: D

Diff: 3

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

34) A company did not record the receipt and payment of an utility bill for \$500. Is the trial balance out of balance?

- A) No.
- B) Yes, by \$500.
- C) Yes, by \$1,000.
- D) Yes, by an indeterminate amount.

Answer: A

Diff: 3

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

35) A company posted a \$2,000 debit to Cash as \$200. The credit of \$2,000 to Service Revenue in the entry was posted correctly. Is the trial balance out of balance?

- A) No.
- B) Yes, by \$200.
- C) Yes, by \$1,800.
- D) Yes, by \$2,000.

Answer: C

Diff: 3

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

36) A company omitted a journal entry to record service revenue of \$5,000 on account. Is the trial balance out of balance?

- A) No.
- B) Yes, by \$5,000.
- C) Yes, by \$10,000.
- D) Yes, by an indeterminate amount.

Answer: A

Diff: 3

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

37) A company recorded a cash receipt on account incorrectly. They debited Accounts Receivable for \$500 and credited Cash for \$500. Is the trial balance out of balance?

- A) No.
- B) Yes, by \$500.
- C) Yes, by \$1,000.
- D) Yes, by \$1,500.

Answer: A

Diff: 3

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

38) When listing the assets in the trial balance, the number for Accounts Receivable was transposed. The correct balance is \$4,100 and the number written is \$1,400. Is the trial balance out of balance?

- A) No.
- B) Yes, by \$1,400.
- C) Yes, by \$2,700.
- D) Yes, by \$4,100.

Answer: C

Diff: 3

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

39) A company recorded a cash payment incorrectly. They debited Accounts Receivable for \$1,000 and credited Cash for \$1,000. The correct entry would debit Accounts Payable for \$1,000 and credit Cash for \$1,000. Is the trial balance out of balance?

- A) No.
- B) Yes, by \$1,000.
- C) Yes, by \$2,000.
- D) Yes, by an indeterminate amount.

Answer: A

Diff: 3

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

40) When listing the accounts on the trial balance, where is the account Dividends listed?

- A) It is not listed on the trial balance.
- B) After Retained Earnings.
- C) After Service Revenue or Sales Revenue.
- D) After all the expense accounts.

Answer: B

Diff: 3

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

41) Information for the trial balance is obtained from the:

- A) journal.
- B) ledger.
- C) balance sheet.
- D) income statement.

Answer: B

Diff: 3

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

42) The dollar amounts listed on the trial balance are obtained from the:

- A) beginning balances in the ledger accounts.
- B) ending balances in the ledger accounts.
- C) last period's balance sheet.
- D) last period's income statement.

Answer: B

Diff: 3

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

43) The trial balance is used to prepare the:

- A) balance sheet only.
- B) income statement only.
- C) statement of retained earnings only.
- D) all of the above.

Answer: D

Diff: 3

LO: 2-6

AACSB: Reflective Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

44) Put an "X" in the appropriate box to indicate if the normal balance of an account is a Debit or a Credit balance.

	NORMAL BALANCE	NORMAL BALANCE
	IS A DEBIT	IS A CREDIT
ACCOUNTS		
Cash		
Service Revenue		
Accounts Receivable		
Accounts Payable		
Utilities Expense		
Common Stock		
Notes Payable		
Land		
Retained Earnings		
Dividends		
Rent Expense		

Answer:

	NORMAL BALANCE	NORMAL BALANCE
	IS A DEBIT	IS A CREDIT
ACCOUNTS		
Cash	X	
Service Revenue		X
Accounts Receivable	X	
Accounts Payable		X
Utilities Expense	X	
Common Stock		X
Notes Payable		X
Land	X	
Retained Earnings		X
Dividends	X	
Rent Expense	X	

Diff: 2

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

45) Wrobell Company has the following incorrect trial balance available on December 31, 2015:

Account	Debit	Credit
Cash	\$27,900	
Accounts Receivable	\$12,800	
Inventory	\$17,300	
Supplies	\$400	
Land	\$41,000	
Accounts Payable		\$21,600
Common Stock		\$47,100
Sales Revenue		\$33,800
Salary Expense	\$2,200	
Rent Expense	\$1,000	
Utility Expense	\$1,000	
Totals	<u>\$103,600</u>	<u>\$102,500</u>

The following errors in the trial balance were made:

1. Recorded \$200 cash revenue received by debiting Accounts Receivable for \$200 and crediting Revenue for \$200.
2. Posted a \$1,000 credit to Accounts Payable as \$100.
3. Understated Common Stock by \$200.
4. Omitted a journal entry that debits Insurance Expense for \$3,700 and credits Cash for \$3,700.

Prepare a correct trial balance at December 31, 2015. A proper heading is not required.

Answer:

Account	Debit	Credit
Cash	\$24,400	
Accounts Receivable	\$12,600	
Inventory	\$17,300	
Supplies	\$400	
Land	\$41,000	
Accounts Payable		\$22,500
Common Stock		\$47,300
Sales Revenue		\$33,800
Salary Expense	\$2,200	
Rent Expense	\$1,000	
Utility Expense	\$1,000	
Insurance Expense	\$3,700	
Totals	<u>\$103,600</u>	<u>\$103,600</u>

Diff: 2

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

46) Timothy Company has the following trial balance at December 31, 2015:

Account	Debit	Credit
Cash	\$31,200	
Accounts Receivable	4,000	
Supplies	300	
Land	40,000	
Accounts Payable		1,300
Short-term Notes Payable		45,000
Common Stock		10,000
Retained Earnings		18,500
Dividends	1,800	
Service Revenue		7,600
Salary Expense	3,000	
Rent Expense	1,500	
Interest Expense	400	
Utilities Expense	200	
Totals	<u>\$82,400</u>	<u>\$82,400</u>

Prepare a balance sheet at December 31, 2015.

Answer: Timothy Company
Balance Sheet
December 31, 2015

Assets:

Current Assets:

Cash	\$31,200	
Accounts Receivable	4,000	
Supplies	<u>300</u>	
Total Current Assets		\$35,500
Long-term Assets:		
Land		<u>40,000</u>
Total Assets		<u>\$75,500</u>
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts Payable	<u>\$1,300</u>	
Short-term Notes Payable	<u>45,000</u>	
Total Current Liabilities		\$46,300
Stockholders' Equity:		
Common Stock	<u>10,000</u>	
Retained Earnings*	<u>19,200</u>	
Total Stockholders' Equity		<u>29,200</u>
Total Liabilities & Stockholders' Equity		<u>\$75,500</u>

*Retained Earnings = Beginning Balance Retained Earnings \$18,500 - Dividends \$1,800 + Service Revenue \$7,600 - Salary Expense \$3,000 - Rent Expense \$1,500 - Interest Expense \$400 - Utilities Expense \$200 = \$19,200

Diff: 2

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Reporting

47) Slowly Company had the following transactions during its first month of operations:

- June 1 The company received cash of \$35,000 and issued common stock to the shareholders.
2 Borrowed \$20,000 from the bank and signed a long-term note payable.
8 Purchased equipment with a short-term note payable for \$10,000.
9 Rendered services billed at \$3,000 and received cash of \$3,000.
10 Performed services for a client on account, \$6,500.
12 Employees worked two weeks and were paid salaries of \$1,000.
15 Paid the short-term note payable from the June 8 purchase.
22 Purchased office supplies on account for \$7,000.
30 Paid amount due for office supplies.
30 Paid monthly rent of \$500, due on the last day of the month for the month of June.
30 Paid the monthly income taxes of \$2,200.
30 The Board of Directors declared and paid dividends of \$1,000.

REQUIRED:

1. Journalize the entries. Omit the explanations.
2. Prepare a single-step income statement for the first month of operations.
3. Prepare a statement of retained earnings for the first month of operations.

Answer:

Part 1.

June 1	Cash	35,000	
	Common Stock		35,000
June 2	Cash	20,000	
	Long-Term Note Payable		20,000
June 8	Equipment	10,000	
	Short-Term Note Payable		10,000
June 9	Cash	3,000	
	Service Revenue		3,000
June 10	Accounts Receivable	6,500	
	Service Revenue		6,500
June 12	Salary Expense	1,000	
	Cash		1,000
June 15	Short-Term Note Payable	10,000	
	Cash		10,000
June 22	Supplies	7,000	
	Accounts Payable		7,000
June 30	Accounts Payable	7,000	
	Cash		7,000
June 30	Rent Expense	500	
	Cash		500
June 30	Income Tax Expense	2,200	
	Cash		2,200
June 30	Dividends	1,000	
	Cash		1,000

2. Slowly Company
 Income Statement
 For the Month Ended June 30

Service Revenue	\$9,500
Expenses:	
Income Tax Expense	2,200
Salary Expense	1,000
Rent Expense	500
Total Expenses	<u>3,700</u>
Net Income	<u>\$5,800</u>

3. Slowly Company
 Statement of Retained Earnings
 For the Month Ended June 30

Retained Earnings, June 1	\$0
Add: Net Income	<u>5,800</u>
Subtotal	5,800
Less: Dividends Declared	<u>1,000</u>
Retained Earnings, June 30	<u>\$4,800</u>

Diff: 2

LO: 2-6

AACSB: Analytical Thinking

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting