Chapter 02 - Analyzing Business Transactions

TRUE/FALSE

1. When a company receives a product previously ordered, a recordable transaction has occurred.

   ANS: T PTS: 1 DIF: Easy OBJ: 1
   NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
   KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

2. When a business pays a new employee for the first time, a recordable transaction has occurred.

   ANS: T PTS: 1 DIF: Easy OBJ: 1
   NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
   KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

3. The valuation issue deals with how the components of a transaction should be categorized.

   ANS: F PTS: 1 DIF: Easy OBJ: 1
   NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
   KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

4. In accounting, *to value* means to record a transaction or event.

   ANS: F PTS: 1 DIF: Easy OBJ: 1
   NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
   KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

5. The cost principle is a solution to the recognition issue.

   ANS: F PTS: 1 DIF: Easy OBJ: 1
   NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
   KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

6. The recognition issue deals with *when* a business transaction should be recorded.

   ANS: T PTS: 1 DIF: Easy OBJ: 1
   NAT: AACSB Analytic LOC: Recall KEY: Measurement issues
   MSC: ACBSP-APC-06-Recording Transactions

7. The most generally accepted value used in accounting is market value.

   ANS: F PTS: 1 DIF: Easy OBJ: 1
   NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
   KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

8. Cost Value is the exchange price associated with a business transaction at the time the transaction is recognized.

   ANS: F PTS: 1 DIF: Easy OBJ: 1
   NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
   KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

9. The classification issue involves the assignment of accounts to business transactions.

ANS: T PTS: 1 DIF: Easy OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

10. When a company makes an order, a transaction has occurred.

ANS: F PTS: 1 DIF: Easy OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

11. All business transactions require the application of two basic accounting concepts: recording a transaction at the right time and placing the right value on it.

ANS: F PTS: 1 DIF: Easy OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

12. Purchase requisitions are recognized in the accounting records.

ANS: F PTS: 1 DIF: Moderate OBJ: 1
NAT: AACSB Analytic LOC: Comprehension
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

13. When a company purchases goods that it will resell, it must record the goods in an asset account.

ANS: T PTS: 1 DIF: Moderate OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

14. A credit to an asset account means that asset account has been increased.

ANS: F PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: T accounts MSC: ACBSP-APC-05-Accounting Cycle

15. A debit has a favorable effect on an account.

ANS: F PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: T accounts MSC: ACBSP-APC-05-Accounting Cycle

16. For a T account, an account balance is the difference in total dollars between total debit footings and total credit footings.

ANS: T PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: T accounts MSC: ACBSP-APC-05-Accounting Cycle

17. Column totals are called *account balances*.

ANS: F PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: T accounts MSC: ACBSP-APC-05-Accounting Cycle

18. A decrease in a liability is recorded by a debit.

ANS: T PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: T accounts | Analyze transactions MSC: ACBSP-APC-05-Accounting Cycle

19. An increase in an asset is recorded by a debit.

ANS: T PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: T accounts | Analyze transactions MSC: ACBSP-APC-05-Accounting Cycle

20. The double-entry system is possible because all business transactions have two equal and opposite aspects.

ANS: T PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Analyze transactions MSC: ACBSP-APC-05-Accounting Cycle

21. A decrease in a dividend account is recorded with a credit.

ANS: T PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Analyze transactions | Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

22. An increase in revenue is recorded with a credit.

ANS: T PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Analyze transactions | Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

23. Dividends should appear on the balance sheet.

ANS: F PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Dividends MSC: ACBSP-APC-05-Accounting Cycle

24. The dividends account has a normal credit balance.

ANS: F PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Account balances MSC: ACBSP-APC-05-Accounting Cycle

25. Revenues have a normal debit balance.

ANS: F PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Account balances MSC: ACBSP-APC-05-Accounting Cycle

26. Retained Earnings has a normal debit balance.

ANS: F PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Account balances MSC: ACBSP-APC-05-Accounting Cycle

27. Accounts Payable has a normal debit balance.

ANS: F PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Account balances MSC: ACBSP-APC-05-Accounting Cycle

28. A basic storage unit for accounting data is the account.

ANS: T PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Accounts MSC: ACBSP-APC-05-Accounting Cycle

29. When stockholders make an investment, the Common Stock account is debited.

ANS: F PTS: 1 DIF: Easy OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Analyze transactions MSC: ACBSP-APC-05-Accounting Cycle

30. When a dividend is declared and paid, the Dividends account is credited and Cash is debited.

ANS: F PTS: 1 DIF: Easy OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Analyze transactions MSC: ACBSP-APC-06-Recording Transactions

31. Liabilities are established with debits and eliminated with credits.

ANS: F PTS: 1 DIF: Easy OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Analyze transactions | effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

32. When payment is received for services not yet rendered, no entry is recorded until that service has been rendered.

ANS: F PTS: 1 DIF: Easy OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Analyze transactions MSC: ACBSP-APC-05-Accounting Cycle

33. When revenue has been earned, an entry can often be recorded before the related cash has been collected.

ANS: T PTS: 1 DIF: Easy OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Analyze transactions MSC: ACBSP-APC-05-Accounting Cycle

34. A contract is an example of a source document.

ANS: T PTS: 1 DIF: Easy OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Analyze transactions MSC: ACBSP-APC-05-Accounting Cycle

35. Wages payable is a type of liability.

ANS: T PTS: 1 DIF: Easy OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Liabilities MSC: ACBSP-APC-05-Accounting Cycle

36. Dividends are classified as an expense.

ANS: F PTS: 1 DIF: Easy OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Owner's equity MSC: ACBSP-APC-05-Accounting Cycle

37. Unearned revenues are classified as assets on the balance sheet.

ANS: F PTS: 1 DIF: Easy OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Liabilities MSC: ACBSP-APC-05-Accounting Cycle

38. Another word for *expense* is *debt*.

ANS: F PTS: 1 DIF: Easy OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Accounts MSC: ACBSP-APC-05-Accounting Cycle

39. Office supplies are classified as an asset.

ANS: T PTS: 1 DIF: Easy OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Assets MSC: ACBSP-APC-05-Accounting Cycle

40. Investments by stockholders are recorded in the Common Stock account, not in the Retained Earnings account.

ANS: T PTS: 1 DIF: Easy OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Owner's equity MSC: ACBSP-APC-06-Recording Transactions

41. Revenue should be recorded when the related cash has been collected, not when it has been earned.

ANS: F PTS: 1 DIF: Easy OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Measurement issues MSC: ACBSP-APC-05-Accounting Cycle

42. Expenses should be recorded when they have been incurred, not when they are paid.

ANS: T PTS: 1 DIF: Easy OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

43. A net income of $10,000 means that the business received $10,000 more in cash from its customers than it spent to run the business.

ANS: F PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Recording transactions MSC: ACBSP-APC-05-Accounting Cycle

44. Accounts Receivable and Accounts Payable are used when there is a time delay between a transaction and its related cash flow.

ANS: T PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Recording transactions MSC: ACBSP-APC-05-Accounting Cycle

45. Generally, before Accounts Payable is credited, it is debited.

ANS: F PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Analyze transactions | Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

46. Generally, before Accounts Receivable is credited, it is debited.

ANS: T PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Analyze transactions | Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

47. In a trial balance, accounts are listed in the order they appear on the financial statements.

ANS: T PTS: 1 DIF: Easy OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

48. A trial balance is normally prepared at the end of each week.

ANS: F PTS: 1 DIF: Easy OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

49. When the columns of the trial balance equal each other, it means that no errors have occurred in recording and posting the transactions.

ANS: F PTS: 1 DIF: Easy OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

50. A transposition error will cause the trial balance to be out of balance by an amount that is evenly divisible by 7.

ANS: F PTS: 1 DIF: Easy OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

51. Recording an account with a debit balance as a credit, or vice versa, will cause the trial balance to be out of balance by an amount that is evenly divisible by 2.

ANS: T PTS: 1 DIF: Easy OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

52. The ledger is a chronological record of all transactions.

ANS: F PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Recording transactions MSC: ACBSP-APC-05-Accounting Cycle

53. Entering transactions into the journal is called *posting*.

ANS: F PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Recording transactions MSC: ACBSP-APC-05-Accounting Cycle

54. In a journal entry, debits are always recorded before credits.

ANS: T PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Recording transactions MSC: ACBSP-APC-05-Accounting Cycle

55. In a journal entry, credits are always indented.

ANS: T PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Recording transactions MSC: ACBSP-APC-05-Accounting Cycle

56. In a journal entry, the Post. Ref. column is always left blank.

ANS: F PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

57. It is sometimes correct for a compound entry's debit totals and credit totals to be unequal.

ANS: F PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

58. The journal account form has a Balance column.

ANS: F PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

59. One might see “J2” correctly placed in the Post. Ref. column of the journal.

ANS: F PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

60. Despite the advantages of a computer accounting information system, the ledger still must be maintained manually.

ANS: F PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

61. Journal entries are typically posted only at the end of the year.

ANS: F PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

62. In a financial report, a single line is placed below the final total(s).

ANS: F PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Communication | AICPA FN Reporting LOC: Recall
KEY: Financial statements | Recording transactions
MSC: ACBSP-APC-05-Accounting Cycle

63. Another name for the *ledger* is the *book of original entry*.

ANS: F PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

64. The general journal makes finding accounts in the ledger easier.

ANS: F PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Chart of accounts MSC: ACBSP-APC-05-Accounting Cycle

65. All companies use the same standard set of accounts.

ANS: F PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Chart of accounts MSC: ACBSP-APC-05-Accounting Cycle

66. The accounts in a chart of accounts are normally listed in order of their account number.

ANS: T PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Chart of accounts MSC: ACBSP-APC-05-Accounting Cycle

67. The numbering scheme of a chart of accounts usually contains gaps.

ANS: T PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Chart of accounts MSC: ACBSP-APC-05-Accounting Cycle

68. The amount of profit would always be equal to the ending cash balance.

ANS: F PTS: 1 DIF: Moderate OBJ: 6

NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Business goals MSC: ACBSP-APC-05-Accounting Cycle

69. One can obtain a clear picture of a company's liquidity by referring to its income statement.

ANS: F PTS: 1 DIF: Moderate OBJ: 6
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Liquidity and current liabilities MSC: ACBSP-APC-05-Accounting Cycle

70. One can obtain a clear picture of a company's liquidity by referring to its statement of cash flows.

ANS: T PTS: 1 DIF: Moderate OBJ: 6
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Liquidity and current liabilities MSC: ACBSP-APC-05-Accounting Cycle

MULTIPLE CHOICE

1. A purchase is recognized in the accounting records when
   a. an order is placed with the seller
   b. the purchase requisition is sent to the purchasing department.
   c. title transfers from the seller to the buyer.
   d. the buyer receives the bill from the seller

ANS: C PTS: 1 DIF: Easy OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

2. Which of the following is *not* a measurement issue in accounting?
   a. When to record a business transaction
   b. How to classify the items of a business transaction
   c. What value to place on a business transaction
   d. Where to record a business transaction

ANS: D PTS: 1 DIF: Easy OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

3. The issue of deciding when to record a transaction is solved by
   a. properly classifying the transaction.
   b. determining a point of recognition.
   c. assigning actual cost to the transaction.
   d. assigning a recurring order date.

ANS: B PTS: 1 DIF: Easy OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

4. Which of the following is *not* a measurement issue in accounting?
   a. Valuation
   b. Recognition
   c. Evaluation
   d. Classification

ANS: C PTS: 1 DIF: Easy OBJ: 1

NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

5. Fair value relates most closely to the
   a. recognition point.
   b. recognition issue.
   c. valuation issue.
   d. classification issue.

ANS: C PTS: 1 DIF: Easy OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

6. The practice of recording transactions at cost is called
   a. cost classification.
   b. the cost principle.
   c. the valuation issue.
   d. cost recognition.

ANS: B PTS: 1 DIF: Easy OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

7. Which of the following business events is *not* a transaction?
   a. Signing a contract
   b. Paying wages
   c. Receiving goods
   d. Purchasing a service

ANS: A PTS: 1 DIF: Moderate OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

8. When a business records revenue when it has been earned, it is addressing the measurement issue of
   a. recognition.
   b. evaluation.
   c. classification.
   d. valuation.

ANS: A PTS: 1 DIF: Moderate OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

9. When a business reports an asset at an inflated dollar amount, it has violated the measurement issue of
   a. recognition.
   b. valuation.
   c. classification.
   d. realization.

ANS: B PTS: 1 DIF: Moderate OBJ: 1
NAT: AACSB Analytic LOC: Comprehension
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

10. When a business correctly records its expenses and assets, it has correctly addressed the measurement issue of

a. communication.
b. classification.
c. valuation.
d. recognition.

ANS: B PTS: 1 DIF: Moderate OBJ: 1
NAT: AACSB Analytic LOC: Comprehension
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

11. Which of the following is a business event that is *not* considered a recordable transaction?
a. A company receives a product previously ordered.
b. A company pays an employee for work performed.
c. A customer inquires about the availability of a service.
d. A customer purchases a service.

ANS: C PTS: 1 DIF: Moderate OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

12. Which of the following is a business event that is considered a recordable transaction?
a. A company hires a new employee.
b. A customer purchases merchandise.
c. A customer inquires about the availability of a product.
d. The purchasing department sends a purchase order to the supplier.

ANS: B PTS: 1 DIF: Moderate OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

13. Which of the following is an illustration of the classification issue?
a. At what amount should an old machine be shown on the balance sheet?
b. At what point should the purchase of art supplies be recorded?
c. Should tools be recorded as an asset or as an expense?
d. At what point should a bill be paid for the purchase of an item?

ANS: C PTS: 1 DIF: Moderate OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

14. Which of the following events does not require a journal entry?
a. Purchase of a one-year insurance policy
b. Agreement to perform a service at a future date
c. Performance of a service agreed to at a past date
d. Payment for a service performed previously

ANS: B PTS: 1 DIF: Moderate OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Analyze transactions MSC: ACBSP-APC-06-Recording Transactions

15. Which of the following accounts has a normal credit balance?
a. Dividends
b. Automotive Equipment
c. Advertising Fees Earned
d. Interest Expense

ANS: C PTS: 1 DIF: Easy OBJ: 2

NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Account balances MSC: ACBSP-APC-05-Accounting Cycle

16. Which of the following accounts has a normal debit balance?
    a. Dividends
    b. Common Stock
    c. Accounts Payable
    d. Retained Earnings

ANS: A PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Account balances MSC: ACBSP-APC-05-Accounting Cycle

17. Which of the following accounts has a normal debit balance?
    a. Revenues Earned
    b. Accounts Payable
    c. Inventory
    d. Retained Earnings

ANS: C PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Account balances MSC: ACBSP-APC-05-Accounting Cycle

18. Which of the following accounts has a normal credit balance?
    a. Accounts Receivable
    b. Common Stock
    c. Wages Expense
    d. Dividends

ANS: B PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Account balances MSC: ACBSP-APC-05-Accounting Cycle

19. Which of the following accounts has a normal debit balance?
    a. Wages Payable
    b. Fees Earned
    c. Rent Expense
    d. Common Stock

ANS: C PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Account balances MSC: ACBSP-APC-05-Accounting Cycle

20. Which of the following accounts is decreased with a debit?
    a. Accounts Payable
    b. Accounts Receivable
    c. Rent Expense
    d. Dividends

ANS: A PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

21. Which of the following accounts is decreased with a credit?

a. Advertising Fees Earned
b. Utilities Expense
c. Common Stock
d. Loan Payable

ANS: B PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

22. Which of the following accounts is increased with a debit?
a. Common Stock
b. Rent Payable
c. Legal Fees Earned
d. Dividends

ANS: D PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

23. Which of the following accounts is increased with a credit?
a. Cash
b. Revenues Earned
c. Rent Expense
d. Dividends

ANS: A PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

24. Which account does *not* affect retained earnings?
a. Dividends
b. Sales Revenue
c. Rent Expense
d. Common Stock

ANS: D PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

25. Which pair of accounts follows the rules of debit and credit in the same manner?
a. Revenue from Services and Equipment
b. Inventory and Advertising Expense
c. Repair Expense and Accounts Payable
d. Common Stock and Cash

ANS: B PTS: 1 DIF: Moderate OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Account balances MSC: ACBSP-APC-05-Accounting Cycle

26. Which pair of accounts follows the rules of debit and credit in the opposite manner?
a. Fixed Assets and Dividends

b. Advertising Expense and Equipment
c. Dividends and Medical Fees Earned
d. Rent Payable and Common Stock

ANS: C PTS: 1 DIF: Moderate OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Account balances MSC: ACBSP-APC-05-Accounting Cycle

27. If Accounts Receivable has debit postings of $58,000, credit postings of $44,000, and a normal ending balance of $48,000, which of the following was its beginning balance?
a. $62,000 Dr.
b. $34,000 Dr.
c. $34,000 Cr.
d. $62,000 Cr.

ANS: B
$48,000 = X + $58,000 - $44,000
X = $34,000 Dr.

PTS: 1 DIF: Moderate OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: T accounts MSC: ACBSP-APC-05-Accounting Cycle

28. If Accounts Payable has debit postings of $34,000, credit postings of $28,000, and a normal ending balance of $12,000, what was its beginning balance?
a. $18,000 Cr.
b. $6,000 Cr.
c. $18,000 Dr.
d. $6,000 Dr.

ANS: A
$12,000 = X + $28,000 - $34,000
X = $18,000 Cr.

PTS: 1 DIF: Moderate OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: T accounts MSC: ACBSP-APC-05-Accounting Cycle

29. To determine the balance of a particular account, one should refer to the
a. source documents.
b. chart of accounts.
c. book of original entry.
d. ledger.

ANS: D PTS: 1 DIF: Moderate OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Account balances MSC: ACBSP-APC-05-Accounting Cycle

30. All of the following are examples of source documents *except*
a. checks.
b. contracts.
c. ledgers.
d. receipts.

ANS: C PTS: 1 DIF: Easy OBJ: 3

NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Analyze transactions MSC: ACBSP-APC-05-Accounting Cycle

31. When collection is made on Accounts Receivable,
    a. stockholders' equity increases.
    b. total assets decrease.
    c. total assets remain the same.
    d. total assets increase.

ANS: C PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Analyze transactions | Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

32. If office equipment is sold at cost in exchange for a promissory note,
    a. total liabilities decrease.
    b. stockholders' equity decrease.
    c. total assets decrease.
    d. total assets remain the same.

ANS: D PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Analyze transactions | Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

33. The declaration and payment of a dividend will
    a. decrease net income.
    b. increase liabilities.
    c. not affect total assets.
    d. decrease stockholders' equity.

ANS: D PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Analyze transactions | Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

34. Payment on a portion of Accounts Payable will
    a. decrease total liabilities
    b. decrease net income.
    c. increase total liabilities.
    d. increase total assets

ANS: A PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Analyze transactions | Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

35. A $4,000 machine is purchased by paying $1,000 cash and issuing a promissory note for the remainder. The journal entry should include a
    a. credit to Machinery.
    b. credit to Notes Payable.
    c. credit to Notes Receivable.
    d. debit to Cash.

ANS: B PTS: 1 DIF: Moderate OBJ: 3

NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Analyze transactions | Recording entries
MSC: ACBSP-APC-06-Recording Transactions

36. Which of the following transactions increases both assets and stockholders' equity?
    a. Payment received from a credit customer
    b. Received a bank loan
    c. Rendered a service, payment not yet received
    d. Declared and paid a dividend

ANS: C PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Analyze transactions | Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

37. Which of the following accounts will *not* affect stockholders' equity?
    a. Rent Expense
    b. Dividends
    c. Equipment
    d. Sales Revenue

ANS: C PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Analyze transactions | Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

38. A dividend will reduce which of the following accounts?
    a. Dividends
    b. Retained Earnings
    c. Common Stock
    d. Accounts Payable

ANS: B PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Analyze transactions | Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

39. Which of the following transactions affects retained earnings?
    a. Declaration and payment of dividends
    b. Prepayment of rent
    c. Investments by stockholders
    d. Obtaining a new loan

ANS: A PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: analyze transactions | Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

40. The Office Supplies account is classified as a(n)
    a. expense.
    b. stockholders' equity account.
    c. asset.
    d. liability, if the supplies have not yet been paid for.

ANS: C PTS: 1 DIF: Moderate OBJ: 3

NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Assets MSC: ACBSP-APC-05-Accounting Cycle

41. The Unearned Fees account is classified as a(n)
    a. liability.
    b. revenue.
    c. asset.
    d. dividend.

ANS: A PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Liabilities MSC: ACBSP-APC-05-Accounting Cycle

42. Which of the following accounts is an asset?
    a. Retained Earnings
    b. Notes Payable
    c. Prepaid Rent
    d. Supplies Expense

ANS: C PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Assets MSC: ACBSP-APC-05-Accounting Cycle

43. Which of the following accounts is *not* a stockholders' equity account?
    a. Common Stock
    b. Retained Earnings
    c. Unearned Fees
    d. Dividends

ANS: C PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Owner's equity MSC: ACBSP-APC-05-Accounting Cycle

44. Which of the following accounts is a liability?
    a. Unexpired Insurance
    b. Insurance Expense
    c. Prepaid Insurance
    d. Unearned Insurance Fees

ANS: D PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Liabilities MSC: ACBSP-APC-05-Accounting Cycle

45. Cash is received for services not yet performed. This transaction affects an asset account and a(n)
    a. asset account.
    b. liability account.
    c. revenue account.
    d. expense account.

ANS: B PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Assets | Liabilities MSC: ACBSP-APC-05-Accounting Cycle

46. Unearned revenues are recorded by companies that
    a. receive money in advance of the performance of a service.

b. pay money at the time the performance of a service is complete.
c. receive money at the time the performance of a service is complete.
d. pay money in advance of the performance of a service.

ANS: A PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Analyze transactions | Liabilities MSC: ACBSP-APC-05-Accounting Cycle

47. Office supplies become expenses
a. when they are consumed (used up).
b. when cash is paid for them.
c. at no time, since they are an asset.
d. when they are initially acquired.

ANS: A PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Analyze transactions MSC: ACBSP-APC-05-Accounting Cycle

48. Which of the following accounts is classified differently from the others listed?
a. Accounts Receivable
b. Retained Earnings
c. Prepaid Rent
d. Cash

ANS: B PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Assets MSC: ACBSP-APC-05-Accounting Cycle

49. Which of the following accounts is classified differently from the others listed?
a. Utilities Payable
b. Unearned Revenue
c. Accounts Payable
d. Rent Expense

ANS: D PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Liabilities MSC: ACBSP-APC-05-Accounting Cycle

50. For which of the following accounts would a related Accumulated Depreciation account be recorded?
a. Office Equipment
b. Land
c. Office Supplies
d. Prepaid Rent

ANS: A PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Assets MSC: ACBSP-APC-06-Recording Transactions

51. Which of the following accounts might be used when there is a time delay between a transaction and its related cash flow?
a. Accounts Payable
b. Unearned Revenue
c. Equipment
d. Prepaid Utilities

ANS: A PTS: 1 DIF: Moderate OBJ: 3

NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Analyze transactions | Liabilities MSC: ACBSP-APC-05-Accounting Cycle

52. A transaction in which six months' rent is paid in advance results in which of the following journal entries?
    a. Prepaid Rent – Debit; Cash – Credit
    b. Rent Receivable – Debit; Cash – Credit
    c. Rent Revenue – Debit; Cash – Credit
    d. Rent Expense– Debit; Cash – Credit

ANS: A PTS: 1 DIF: Challenging OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Analysis
KEY: Analyze transactions MSC: ACBSP-APC-06-Recording Transactions

53. Which of the following events does *not* result in the recording of an expense?
    a. Payment of insurance six months in advance
    b. Purchase of gasoline for fill-up of a company car
    c. Receipt of a bill from the electricity company
    d. Payment of wages

ANS: A PTS: 1 DIF: Challenging OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Analysis
KEY: Analyze transactions MSC: ACBSP-APC-06-Recording Transactions

54. A company receives money in advance of performing a service. What is the journal entry for the transaction?
    a. Unearned Revenue – Debit; Accounts Payable – Credit
    b. Cash – Debit; Unearned Revenue – Credit
    c. Cash – Debit; Prepaid Fees – Credit
    d. Cash – Debit; Accounts Receivable. – Credit

ANS: B PTS: 1 DIF: Challenging OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Analysis
KEY: Analyze transactions | Recording entries
MSC: ACBSP-APC-06-Recording Transactions

55. When a company has performed a service but has not yet received payment, what is the required journal entry to be recorded?
    a. Accounts Receivable – Debit; Revenue from Services – Credit
    b. Revenue from Services – Debit; Cash – Credit
    c. Unearned Revenue from Services – Debit; Accounts Receivable – Credit
    d. Revenue from Services – Debit; Accounts Receivable – Credit

ANS: A PTS: 1 DIF: Challenging OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Analysis
KEY: Analyze transactions | Recording entries
MSC: ACBSP-APC-06-Recording Transactions

56. When a company receives an electric bill but does not pay it right away, what is the required journal entry to be recorded?
    a. Utilities Expense – Debit; Accounts Receivable – Credit
    b. No entry is required until the bill is paid.
    c. Utilities Expense – Debit; Accounts Payable – Credit
    d. Accounts Payable – Debit; Utilities Expense – Credit

ANS: C PTS: 1 DIF: Challenging OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Analysis
KEY: Analyze transactions | Recording entries
MSC: ACBSP-APC-06-Recording Transactions

57. When a magazine company receives advance payment for a subscription, what is the required journal entry to be recorded?
    a. Cash – Debit; Unearned Subscriptions Revenue – Credit
    b. Accounts Receivable – Debit; Unearned Subscriptions Revenue – Credit
    c. Cash – Debit; Subscriptions Revenue – Credit
    d. Subscriptions Revenue – Debit; Cash – Credit

ANS: A PTS: 1 DIF: Challenging OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Analysis
KEY: Analyze transactions | Recording entries
MSC: ACBSP-APC-06-Recording Transactions

58. When a service has been performed, but no cash has been received, which of the following statements is *true*?
    a. The entry would include a debit to Accounts Receivable.
    b. No journal entry would be made.
    c. The entry would include a debit to Accounts Payable.
    d. The entry would include a credit to Unearned Revenue.

ANS: A PTS: 1 DIF: Challenging OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Analysis
KEY: Analyze transactions | Recording entries
MSC: ACBSP-APC-06-Recording Transactions

59. Which of the following transactions increases liabilities and decreases stockholders' equity?
    a. Declaration and payment of a dividend
    b. Advance payment made for insurance
    c. Receipt of a phone bill to be paid at a later time
    d. Payment of a liability

ANS: C PTS: 1 DIF: Challenging OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Analysis
KEY: Analyze transactions | Effects of transactions on accounting equation
MSC: ACBSP-APC-06-Recording Transactions

60. The primary purpose of the trial balance is to test the
    a. recording of transactions.
    b. analysis of transactions.
    c. equality of debit and credit balances in the ledger.
    d. equality of debit and credit entries in the journal.

ANS: C PTS: 1 DIF: Easy OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

61. Which of the following gives the correct sequence of accounting procedures?
    a. Financial statements, trial balance, ledger, journal
    b. Financial statements, journal, ledger, trial balance
    c. Journal, ledger, trial balance, financial statements
    d. Ledger, trial balance, journal, financial statements

ANS: C PTS: 1 DIF: Moderate OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

62. Which of the following errors will *not* cause the debit and credit columns of the trial balance to be unequal?
 a. A debit entry was recorded in the wrong account.
 b. A debit was entered in an account as a credit.
 c. The account balance was carried to the wrong column of the trial balance.
 d. The balance of an account was incorrectly computed.

ANS: A PTS: 1 DIF: Moderate OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

63. Which of the following errors will *not* cause the debit and credit columns of a trial balance to be unequal?
 a. A debit was posted to an account as a credit.
 b. A journal entry was posted twice.
 c. The trial balance was incorrectly summed.
 d. Only part of a journal entry was posted.

ANS: B PTS: 1 DIF: Moderate OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

64. Which of the following errors will cause a trial balance to be out of balance?
 a. The bookkeeper forgot to journalize a transaction.
 b. The bookkeeper forgot to post a journal entry to the ledger.
 c. A credit was posted to an account as a debit.
 d. A debit to Office Equipment was incorrectly debited to Office Supplies.

ANS: C PTS: 1 DIF: Moderate OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

65. Which of the following errors will cause a trial balance to be out of balance?
 a. Posting a debit to Land as a debit to Machinery
 b. Placing a debit balance amount into the credit balance column of the ledger
 c. Omitting an entire transaction
 d. Incorrectly recording the purchase of land for cash as a debit to Cash and a credit to Land

ANS: B PTS: 1 DIF: Moderate OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

66. Which of the following errors will cause the trial balance to be out of balance?
 a. An entire transaction was entered in the general journal as $27 instead of $72.
 b. An entire transaction was omitted from the general journal.
 c. The balance of an account was incorrectly computed.
 d. A debit entry was entered in the wrong debit account.

ANS: C PTS: 1 DIF: Moderate OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

67. A $150 debit item is accidentally posted as a credit. The trial balance column totals will therefore differ by
a. $0.
b. $75.
c. $150.
d. $300.

ANS: D PTS: 1 DIF: Moderate OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

68. A $95 credit item is posted as a debit. The trial balance column totals therefore will differ by
a. $190.
b. $380.
c. $95.
d. $0.

ANS: A PTS: 1 DIF: Moderate OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

69. Here is the trial balance for Sebastian Corporation:

Sebastian Corporation **Trial Balance** **January 31, 2013**		
Cash	$11,000	
Accounts Receivable	4,000	
Art Supplies	6,000	
Office Supplies	10,000	
Prepaid Rent	14,000	
Prepaid Insurance	10,000	
Art Equipment	10,000	
Office Equipment	6,000	
Accounts Payable		$20,000
Common Stock		10,000
Retained Earnings		10,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	10,000	
Telephone Expense	6,000	
	$ A	$ B

On the trial balance, total assets equal
a. $91,000.
b. $87,000.
c. $71,000.
d. $51,000.

ANS: C
Assets = $11,000 + $4,000 + $6,000 + $10,000 + $14,000 + $10,000 + $10,000 + $6,000 = $71,000

PTS: 1 DIF: Moderate OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

70. Here is the trial balance for Sebastian Corporation:

Sebastian Corporation Trial Balance January 31, 2013		
Cash	$6,000	
Accounts Receivable	4,000	
Art Supplies	6,000	
Office Supplies	10,000	
Prepaid Rent	14,000	
Prepaid Insurance	10,000	
Art Equipment	10,000	
Office Equipment	6,000	
Accounts Payable		$20,000
Common Stock		10,000
Retained Earnings		10,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	10,000	
Telephone Expense	6,000	
	$ A	$ B

If the balance of the Dividends account were $72,000 and the balance of the Wages Expense account were $10,000, what would be the amount of B?
a. $96,000
b. $122,000
c. $164,000
d. $124,000

ANS: C
A = $6,000 + $4,000 + $6,000 + $10,000 + $14,000 + $10,000 + $10,000 + $6,000 + $72,000 + $10,000 + $10,000 + $6,000 = $164,000
A = B = $164,000

PTS: 1 DIF: Challenging OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Analysis
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

71. Here is the trial balance for Sebastian Corporation:

Sebastian Corporation Trial Balance January 31, 2013		
Cash	$6,000	
Accounts Receivable	4,000	
Art Supplies	6,000	
Office Supplies	10,000	

Prepaid Rent	14,000	
Prepaid Insurance	10,000	
Art Equipment	10,000	
Office Equipment	6,000	
Accounts Payable		$20,000
Common Stock		10,000
Retained Earnings		10,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	10,000	
Telephone Expense	6,000	
	$ A	$ B

If the trial balance showed a balance of $14,000 in the Dividends account and a balance of $22,000 in the Wages Expense account, what would be the amount of Advertising Fees Earned for the period?
a. $98,000
b. $78,000
c. $108,000
d. $48,000

ANS: B
A = $6,000 + $4,000 + $6,000 + $10,000 + $14,000 + $10,000 + $10,000 + $6,000 + $14,000 + $22,000 + $10,000 + $6,000 = $118,000
A = B = $118,000
Advertising Fees Earned = $118,000 – $20,000 – $10,000 – $10,000 = $78,000

PTS: 1 DIF: Challenging OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Analysis
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

72. Here is the trial balance for Sebastian Corporation:

Sebastian Corporation **Trial Balance** **January 31, 2013**		
Cash	$6,000	
Accounts Receivable	4,000	
Art Supplies	6,000	
Office Supplies	10,000	
Prepaid Rent	14,000	
Prepaid Insurance	10,000	
Art Equipment	10,000	
Office Equipment	6,000	
Accounts Payable		$20,000
Common Stock		10,000
Retained Earnings		10,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	10,000	
Telephone Expense	6,000	

	$ A	$ B

If the trial balance showed a balance of $16,000 in the Wages Expense account and a balance of $68,000 in the Advertising Fees Earned account, what would be the amount of A?
a. $108,000
b. $88,000
c. $118,000
d. $98,000

ANS: A
B = $20,000 + $10,000 + $10,000 + $68,000 = $108,000
A = B = $108,000

PTS: 1 DIF: Challenging OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Analysis
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

73. Here is the trial balance for Sebastian Corporation:

Sebastian Corporation Trial Balance January 31, 2013		
Cash	$6,000	
Accounts Receivable	4,000	
Art Supplies	6,000	
Office Supplies	10,000	
Prepaid Rent	14,000	
Prepaid Insurance	10,000	
Art Equipment	10,000	
Office Equipment	6,000	
Accounts Payable		$20,000
Common Stock		10,000
Retained Earnings		10,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	10,000	
Telephone Expense	6,000	
	$ A	$ B

If the trial balance showed a balance of $8,000 in the Wages Expense account and a balance of $60,000 in the Advertising Fees Earned account, what would be the amount of Dividends?
a. $50,000
b. $28,000
c. $10,000
d. $38,000

ANS: C
B = $20,000 + $10,000 + $10,000 + $60,000 = $100,000
A = B = $100,000
Dividends = $100,000 – $6,000 – $4,000 – $6,000 – $10,000 – $14,000 – $10,000 – $10,000 – $6,000 – $8,000 – $10,000 – $6,000 = $10,000

PTS: 1 DIF: Challenging OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Analysis
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

74. The general journal does *not* have a column titled
    a. Debit
    b. Account Balance.
    c. Date.
    d. Post. Ref.

ANS: B PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

75. Which of the following terms does not mean the same as the others?
    a. Footing
    b. Folio
    c. LP
    d. Post. Ref.

ANS: A PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

76. To find an explanation of a transaction, one should look at the
    a. posting entry.
    b. financial statements.
    c. journal.
    d. chart of accounts.

ANS: C PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

77. Which of the following statements is *true* about a journal entry?
    a. The Post. Ref. column is filled in prior to posting.
    b. All credits are listed before any debits.
    c. The name of the month should be repeated for each entry.
    d. An explanation must follow each journal entry.

ANS: D PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Recording entries MSC: ACBSP-APC-06-Recording Transactions

78. Which of the following statements is *false* about a journal entry?
    a. It may have more than one debit or credit entry.
    b. Credits are always indented.
    c. Accounts that are increased are always listed first.
    d. A space should be skipped between journal entries.

ANS: C PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Recording entries MSC: ACBSP-APC-06-Recording Transactions

79. Which of the following statements is *true* about a journal entry?
   a. Decreases in liabilities are indented.
   b. The Post. Ref. column is left blank until entries are posted.
   c. A line is skipped between each debit and each credit.
   d. Assets are entered before liabilities.

ANS: B PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Recording entries MSC: ACBSP-APC-06-Recording Transactions

80. Which of the following statements is *not* necessarily true about a journal entry?
   a. Assets are indented.
   b. The date of the journal entry is always recorded.
   c. The Post. Ref. column is left blank until the entry is posted.
   d. All debits must be recorded before any credits.

ANS: A PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Recording entries MSC: ACBSP-APC-06-Recording Transactions

81. The process of transferring journal entry information from the journal to the ledger is called
   a. journalizing.
   b. posting.
   c. footing.
   d. analyzing.

ANS: B PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

82. The Post. Ref. column in the general journal is used to show that an amount has been posted to the ledger when which of the following is placed in it?
   a. An X
   b. Journal number
   c. Journal page number
   d. Account number

ANS: D PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

83. The principal purpose of posting is to
   a. enter transactions directly into the ledger.
   b. help identify errors made in the journal.
   c. obtain updated account balances.
   d. help determine if the financial statements are ready to be prepared.

ANS: C PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

84. Posting is performed by transferring information from the
   a. journal to the trial balance.
   b. source documents to the ledger.
   c. journal to the ledger.

d. chart of accounts to the journal.

ANS: C PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

85. Which of the following bookkeeping techniques generally is *not* acceptable?
a. A ruled line before each subtotal or total
b. Dollar signs used in journals and ledgers
c. A double line after final totals
d. A dash in the cents column to indicate zero cents

ANS: B PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Bookkeeping MSC: ACBSP-APC-05-Accounting Cycle

86. The chart of accounts is the starting point for a
a. journal.
b. trial balance.
c. ledger.
d. financial statement.

ANS: C PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Chart of accounts MSC: ACBSP-APC-05-Accounting Cycle

87. Typically, the chart of accounts begins with
a. stockholders' equity accounts.
b. asset accounts.
c. liability accounts.
d. expense accounts.

ANS: B PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Chart of accounts MSC: ACBSP-APC-05-Accounting Cycle

88. The purpose of the ledger is to
a. compile all source documentation materials that support each transaction.
b. make sure that all accounts have credit balances at all times.
c. record chronologically the day's transactions.
d. update each account.

ANS: D PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

89. Which of the following accounts might be placed first in a journal entry?
a. Bonds Payable, when it has been decreased
b. Cash, when it has been decreased
c. Unearned Revenue, when it has been increased
d. Interest Income, when it has been increased

ANS: A PTS: 1 DIF: Moderate OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Recording entries MSC: ACBSP-APC-06-Recording Transactions

90. Which of the following accounts should be credited in a journal entry?
   a. Dividends, when it has been decreased
   b. Accounts Receivable, when it has been increased
   c. Wages Expense, when it has been increased
   d. Wages Payable, when it has been decreased

ANS: A PTS: 1 DIF: Moderate OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Recording entries MSC: ACBSP-APC-06-Recording Transactions

91. Which of the following accounts probably would be listed *before* the others in a chart of accounts?
   a. Rent Expense
   b. Dividends
   c. Notes Payable
   d. Buildings

ANS: D PTS: 1 DIF: Moderate OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Chart of accounts MSC: ACBSP-APC-05-Accounting Cycle

92. Which of the following accounts probably would be listed *after* the others in a chart of accounts?
   a. Unearned Art Fees
   b. Prepaid Rent
   c. Retained Earnings
   d. Art Fees Earned

ANS: D PTS: 1 DIF: Moderate OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Chart of accounts MSC: ACBSP-APC-05-Accounting Cycle

93. Which of the following accounts will eventually be followed with an inflow of cash?
   a. Prepaid Insurance
   b. Unearned Revenue
   c. Dividends
   d. Accounts Receivable

ANS: D PTS: 1 DIF: Moderate OBJ: 6
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Analyze transactions MSC: ACBSP-APC-05-Accounting Cycle

94. Which of the following accounts will eventually be followed with an outflow of cash?
   a. Design Revenue
   b. Notes Receivable
   c. Accounts Payable
   d. Prepaid Rent

ANS: C PTS: 1 DIF: Moderate OBJ: 6
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Analyze transactions MSC: ACBSP-APC-05-Accounting Cycle

95. All of the following actions can help a business manage its cash flows *except*
   a. convince its creditors to allow payment over a period of time.
   b. pay for all expenditures immediately.
   c. be efficient in making collections from its customers.
   d. arrange for a line of credit at the bank, should the funds be needed.

ANS: B PTS: 1 DIF: Moderate OBJ: 6
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Cash flow MSC: ACBSP-APC-05-Accounting Cycle

SHORT ANSWER

1. Use this journal entry to answer the following question.

Nov.	16	Accounts Payable Cash Recorded payment of a liability	685	 685

Explain how the above journal entry relates to the measurement issues of (a) recognition, (b) valuation, and (c) classification.

ANS:
a. The transaction occurred and was recognized on November 16.
b. A valuation of $685 was placed on the transaction.
c. The accounts involved were determined to be (classified as) Accounts Payable and Cash.

PTS: 1 DIF: Moderate OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

2. Discuss the difference between business events that are transactions and those that are not. Why is the distinction important?

ANS:
Business events become transactions and are recorded when title passes from the seller to the buyer or, in the case of services, when the service is performed. The distinction is important because the recording of a transaction will have an effect on the financial position of the business.

PTS: 1 DIF: Moderate OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Business transactions MSC: ACBSP-APC-06-Recording Transactions

3. List, in order, the series of six steps that makes up the accounting cycle.

ANS:
1. Analyze business transactions from source documents.
2. Record the transactions by entering them in the general journal.
3. Post the journal entries to the ledger and prepare a trial balance.
4. Adjust the accounts and prepare an adjusted trial balance.
5. Prepare financial statements to communicate to decision makers.
6. Close the accounts and prepare a post-closing trial balance.

PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Accounting cycle MSC: ACBSP-APC-05-Accounting Cycle

4. Indicate whether each account below has a normal debit or a normal credit balance.

a. Automobiles
g. Dividends

b. Accounts Payable	h. Retained Earnings
c. Common Stock	i. Land
d. Insurance Expense	j. Interest Payable
e. Rent Expense	k. Notes Receivable
f. Revenues Earned	l. Equipment

ANS:

a. Debit	g. Debit
b. Credit	h. Credit
c. Credit	i. Debit
d. Debit	j. Credit
e. Debit	k. Debit
f. Credit	l. Debit

PTS: 1 DIF: Moderate OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Account balances MSC: ACBSP-APC-05-Accounting Cycle

5. Indicate whether each account below has a normal debit or a normal credit balance.

a. Cash	g. Interest Receivable
b. Wages Payable	h. Inventory
c. Wages Expense	i. Legal Fees Earned
d. Income Taxes Payable	j. Common Stock
e. Utilities Expense	k. Depreciation Expense
f. Notes Payable	l. Accounts Receivable

ANS:

a. Debit	g. Debit
b. Credit	h. Debit
c. Debit	i. Credit
d. Credit	j. Credit
e. Debit	k. Debit
f. Credit	l. Debit

PTS: 1 DIF: Moderate OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: T accounts | Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

6. Harris Corporation provided monthly waste-removal services for Goble Corporation, which resulted in the following transactions in Harris's records:

Cash	
Sept. 27 2,000	

Accounts Receivable	
Aug. 31 3,000	Sept. 27 2,000

Waste Removal Service Revenue	
	Aug. 31 3,000

Using T accounts, prepare the corresponding entries in Goble's records.

ANS:

Cash	
	Sept. 27 2,000

Accounts Payable	
Sept. 27 2,000	Aug. 31 3,000

Waste Removal Service Expense	
Aug. 31 3,000	

PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: T accounts | Analyze transactions MSC: ACBSP-APC-05-Accounting Cycle

7. Using the T accounts below, record the following transactions. Label each entry with the appropriate letter.

a. The stockholders contributed cash of $40,000 and a truck worth $48,000 into the business in exchange for 8,800 shares of $10 par value stock.
b. Paid two months' rent in advance, $2,400.
c. Agreed to do a hauling job for a price of $6,400.
d. Performed the hauling job. Will get paid later.
e. Received payment of $2,000 on the hauling job.
f. Purchased gasoline on credit, $40.

Cash	

Accounts Payable	

Accounts Receivable	

Common Stock	

Prepaid Rent	

Hauling Revenue	

Truck	

Gasoline Expense	

ANS:

Cash	
a) 40,000	b) 2,400
e) 2,000	

Accounts Payable	
	f) 40

Accounts Receivable	
d) 6,400	e) 2,000

Common Stock	
	a) 88,000

Prepaid Rent	
b) 2,400	

Hauling Revenue	
	d) 6,400

Truck	
a) 48,000	

Gasoline Expense	
f) 40	

c) No entry

PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: T accounts | Analyze transactions MSC: ACBSP-APC-05-Accounting Cycle

8. Briefly explain the difference between Unearned Art Fees and Art Fees Earned.

ANS:
Unearned Art Fees appears on the balance sheet as a liability, and represents an obligation to earn the payment that was received in advance. Art Fees Earned appears on the income statement as revenue, based on services rendered or goods delivered.

PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Accounts MSC: ACBSP-APC-05-Accounting Cycle

9. Briefly discuss the differences between Prepaid Insurance and Insurance Expense.

ANS:
Prepaid Insurance appears on the balance sheet as an asset and represents unexpired insurance coverage. Insurance Expense appears on the income statement and represents insurance that has expired.

PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Accounts MSC: ACBSP-APC-05-Accounting Cycle

10. By what amount, if any, would each of the following errors cause a trial balance to be out of balance?

a. A purchase of supplies of $840 was recorded as a debit to Equipment and a credit to Cash for $840.

b. An $890 balance in Prepaid Insurance was copied to the trial balance as a debit of $980.

c. A $600 balance in Accounts Payable was copied to the trial balance as a debit of $600.

ANS:
a. $0
b. $90 ($980 – $890)
c. $1,200 ($600 + $600)

PTS: 1 DIF: Moderate OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

11. If a debit to Supplies were posted as a credit, and a credit of the same amount to Cash were posted as a debit, what would be the effect, if any, on the two accounts and on the trial balance column totals?

ANS:
The Cash account would be overstated, Supplies would be understated, and the trial balance would balance.

PTS: 1 DIF: Moderate OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

12. Record the following transactions, using proper form, in the journal provided.

Mar.	2	Provided services in the amount of $2,000, receiving $600 in partial payment.
	12	Received $800 of the amount owed from March 2.

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit

ANS:

General Journal	Page 1

Date	Description	Post. Ref.	Debit	Credit
Mar. 2	Cash		600	
	Accounts Receivable		1,400	
	Service Revenue			2,000
	Received cash in partial payment of services rendered			
12	Cash		800	
	Accounts Receivable			800
	Received payment on account			

PTS: 1 DIF: Moderate OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Recording entries MSC: ACBSP-APC-06-Recording Transactions

13. Provide explanations for the following related journal entries:

a.	Cash	6,000	
	Common Stock		6,000
b.	Law Library	3,400	
	Accounts Payable		3,400
c.	Cash	600	
	Accounts Receivable	1,000	
	Legal Fees Earned		1,600
d.	Cash	500	
	Accounts Receivable		500
e.	Accounts Payable	3,400	
	Cash		3,400

ANS:
a. Stockholders invested cash into the business.
b. Purchased a law library, to be paid for at a later time.
c. Rendered $1,600 in legal services; $600 was received in cash, the remainder to be received at a later time.
d. Received $500 from amount owed for legal services.
e. Paid cash for the law library.

PTS: 1 DIF: Moderate OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Analyze transactions MSC: ACBSP-APC-05-Accounting Cycle

14. Provide explanations for the following related journal entries:

a.	Prepaid Rent	4,000	
	Cash		4,000

b.	Trucks and Automobile	36,000	
	Notes Payable		36,000
c.	Cash	600	
	Accounts Receivable		600
d.	Notes Payable	18,000	
	Cash		18,000
e.	Cash	2,500	
	Unearned Fees		2,500

ANS:
a. Made advance payment of rent.
b. Issued promissory note for purchase of company vehicle.
c. Received payment from credit customer.
d. Paid half of promissory note for purchase of company vehicle.
e. Received cash in advance of performing a service.

PTS: 1 DIF: Moderate OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Analyze transactions MSC: ACBSP-APC-05-Accounting Cycle

15. Given the following ledger account and postings, complete the Balance column. Assume no previous postings in the account.

Unearned Fees Revenue					Account No. 214	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2013						
June 3		J1		5,000		
10		J1	1,400			
12		J2		1,000		
16		J2	400			

ANS:

Unearned Fees Revenue					Account No. 214	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2013						
June 3		J1		5,000		5,000
10		J1	1,400			3,600
12		J2		1,000		4,600
16		J2	400			4,200

PTS: 1 DIF: Moderate OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

16. Given the following ledger account and postings, complete the Balance column. Assume no previous postings in the account.

Accounts Payable						Account No. 212
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2013						
Dec. 1		J1		8,200		
7		J1	2,800			
8		J2		600		
12		J2	800			

ANS:

Accounts Payable						Account No. 212
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2013						
Dec. 1		J1		8,200		8,200
7		J1	2,800			5,400
8		J2		600		6,000
12		J2	800			5,200

PTS: 1 DIF: Moderate OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

17. Given the following ledger account and postings, complete the Balance column. Assume no previous postings in the account.

Accounts Receivable						Account No. 113
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2013						
Feb. 1		J2	1,820			
3		J3		320		
9		J3		700		
14		J3	410			

ANS:

Accounts Receivable						Account No. 113
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2013						
Feb. 1		J2	1,820		1,820	
3		J3		320	1,500	
9		J3		700	800	

14	J3	410	1,210

PTS: 1 DIF: Moderate OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

18. What two purposes are served by using the Post. Ref. columns of a journal and ledger?

ANS:
The Post. Ref. columns provide cross-referencing between the journal and the ledger. That is, one can determine from what journal page an item was posted and to which account it was posted in the ledger. One also can more easily determine (by use of the Post. Ref. column) the last account posted from the journal.

PTS: 1 DIF: Moderate OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

19. Lindsay Company had the following transactions for the month of August.

5 Performed services on credit, $4,000
10 Performed services for cash, $3,500
12 Paid expenses in cash, $1,000
14 Collected on account, $2,000
19 Incurred expenses on credit, $2,500
24 Performed services on credit, $1,200
29 Paid on account, $2,000

Assuming all accounts were zero at the beginning of the month, determine the cash balance after these transactions.

ANS:
Cash balance = $3,500 – $1,000 + $2,000 – $2,000 = $2,500

PTS: 1 DIF: Moderate OBJ: 6
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Cash flows | Timing of transactions
MSC: ACBSP-APC-05-Accounting Cycle

20. Discuss why a company must pay careful attention to its cash flows and liquidity.

ANS:
Some transactions for a company generate an immediate cash inflow or outflow and some do not. A company must be careful to manage the cash account in order to guarantee that there are not more cash outflows than cash inflows during a given time period in order to maintain its liquidity.

PTS: 1 DIF: Moderate OBJ: 6
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Cash flows | Timing of transactions
MSC: ACBSP-APC-05-Accounting Cycle

MATCHING

Match each definition with the correct term below.

a. A journal entry that involves more than two accounts.
b. A list of account numbers with corresponding account titles.
c. The difficulty of deciding when a business transaction should be recorded.
d. The difference in dollars between the total debit footing and the total credit footing.
e. The chronological accounting record sometimes known as the book of original entry.
f. The basic storage units for accounting data.
g. The item that is prepared at the end of the accounting period to test if total debits equals total credits.
h. The process of transferring information from the journal to the ledger.
i. The exchange price of an actual or potential business transaction.
j. The practice of recording transactions at the exchange price at the point of recognition.

1. Compound entry
2. Accounts
3. Posting
4. Cost principle
5. Chart of accounts
6. Fair value
7. Trial balance
8. Balance
9. Journal
10. Recognition

1. ANS: A PTS: 1 DIF: Easy OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Recording transactions MSC: ACBSP-APC-06-Recording Transactions
2. ANS: F PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Accounts MSC: ACBSP-APC-05-Accounting Cycle
3. ANS: H PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle
4. ANS: J PTS: 1 DIF: Easy OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Recording transactions MSC: ACBSP-APC-06-Recording Transactions
5. ANS: B PTS: 1 DIF: Easy OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Chart of accounts MSC: ACBSP-APC-05-Accounting Cycle
6. ANS: I PTS: 1 DIF: Easy OBJ: 1
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions
7. ANS: G PTS: 1 DIF: Easy OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle
8. ANS: D PTS: 1 DIF: Easy OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: T accounts MSC: ACBSP-APC-05-Accounting Cycle
9. ANS: E PTS: 1 DIF: Easy OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Recording transactions MSC: ACBSP-APC-06-Recording Transactions
10. ANS: C PTS: 1 DIF: Easy OBJ: 1

NAT: AACSB Analytic | AICPA FN Measurement LOC: Recall
KEY: Measurement issues MSC: ACBSP-APC-06-Recording Transactions

PROBLEM

1. Explain why the dollar amount of total stockholders' equity probably will not equal the dollar amount that would remain if all the assets were sold and all the liabilities were then settled.

   ANS:
   The valuation of assets on the balance sheet is based primarily on historical cost, not on liquidation value. The proceeds from the sale of assets most likely would differ from the amount originally paid.

   PTS: 1 DIF: Challenging OBJ: 1
   NAT: AACSB Analytic | AICPA FN Measurement LOC: Critical Thinking
   KEY: Effects of transactions on accounting equation
   MSC: ACBSP-APC-06-Recording Transactions

2. Amalgamated Campus Stores, Inc. (ACS) employed student representatives to market grooming aids, casual clothes, and other such products on college campuses. The representatives organized parties at which they displayed samples of all the products. Students who bought products paid the representative, who in turn ordered the products and paid ACS for them. When the products arrived, the student representatives delivered them to the buyers. The representatives paid ACS less than they charged the buyers. The difference represented the earnings of the representatives, who were not employees of ACS. Wall Street investors admired ACS because the company had enjoyed several years of rapid growth in sales and earnings.

   Last year, the president of ACS predicted further increases in sales of 30 percent. By December, however, it was apparent that the forecasted sales goals would not be met. So during the last two weeks of December, ACS shipped $23 million of merchandise to the sales representatives to be held for future sales parties. The company billed the student representatives and recorded the shipments as sales. In this way, ACS was able to meet its sales goal for the year.

   Were these merchandise shipments properly recorded as sales?

   ANS:
   The shipments were improperly recorded as sales. The goods had not been ordered by or sold to actual customers, and the student representatives had the right to return all the products unconditionally. In this type of arrangement, to report shipments as legitimate sales is certainly unethical and can be, as in this case, illegal when the intent is to deceive. It may turn out that most of the $23 million of products will be returned during January and February.

   PTS: 1 DIF: Challenging OBJ: 1
   NAT: AACSB Analytic | AICPA FN Measurement LOC: Critical Thinking
   KEY: Analyze transactions MSC: ACBSP-APC-06-Recording Transactions

3. Why is the Dividends account increased by a debit? Explain in terms of its relationship to stockholders' equity.

   ANS:
   Dividends represent a decrease in stockholders' equity. According to the rules of debit and credit, a decrease in stockholders' equity is recorded as a debit.

   PTS: 1 DIF: Moderate OBJ: 2

NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

4. For each item below, indicate whether a debit or a credit applies.

a. Decrease in Accounts Payable
b. Decrease in Land
c. Increase in Retained Earnings
d. Increase in Unearned Revenue
e. Decrease in Interest Payable
f. Increase in Prepaid Insurance
g. Increase in Wages Expense
h. Decrease in Art Supplies
i. Increase in Advertising Fees Earned

ANS:
a. Debit
b. Credit
c. Credit
d. Credit
e. Debit
f. Debit
g. Debit
h. Credit
i. Credit

PTS: 1 DIF: Moderate OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

5. For each item below, indicate whether a debit or a credit applies.

a. Increase in Art Fees Earned
b. Decrease in Prepaid Rent
c. Decrease in Unearned Fees
d. Increase in Common Stock
e. Increase in Depreciation Expense
f. Increase in Interest Receivable
g. Decrease in Retained Earnings
h. Increase in Dividends
i. Increase in Notes Payable

ANS:
a. Credit
b. Credit
c. Debit
d. Credit
e. Debit
f. Debit
g. Debit
h. Debit
i. Credit

PTS: 1 DIF: Moderate OBJ: 2
NAT: AACSB Analytic | AICPA FN Measurement LOC: Comprehension
KEY: Effects of transactions on accounting equation
MSC: ACBSP-APC-05-Accounting Cycle

6. Use the following descriptive phrases to determine the account name that would be used for each. In addition, classify the account as an asset (A), liability (L), stockholders' equity (SE), revenue (R), or expense (E).

a. Amount due to creditor for merchandise purchased
b. Coins and currency
c. Property to be used in the business
d. An amount paid to stockholders resulting from profits
e. Income recorded for performance of legal services
f. Amount due to bank for loan to purchase building
g. Stationery, pencils, etc., purchased but not yet used
h. Stationery, pencils, etc., that have been consumed (used)
i. An insurance premium paid covering the next two years
j. Representation of stockholders' investments in a business

ANS:
a. Accounts Payable (L)
b. Cash (A)
c. Land (A)
d. Dividends (SE)
e. Legal Fees Earned (R)
f. Mortgage Payable (L)
g. Office Supplies (A)
h. Office Supplies Expense (E)
i. Prepaid Insurance (A)
j. Common Stock (SE)

PTS: 1 DIF: Moderate OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Accounts MSC: ACBSP-APC-05-Accounting Cycle

7. The following transactions are for Cockrell Company.

a. Opened business by issuing common stock for $40,000 cash.
b. Billed customers for services rendered, $8,000.
c. Paid for six months' subscription in advance, $2,000.
d. Received advertising bill, to be paid next week, $400.
e. Dividends of $3,200 were declared and paid.
f. Received $6,000 from customers billed in b.
g. Paid half of advertising bill.
h. Received $800 in advance of performing a service.

Record the above transactions in T Accounts and then calculate (1) the ending balance of Cash, (2) the ending balance of Accounts Receivable, (3) total liabilities, and (4) net income for the period.

ANS:

Cash	
a) 40,000	c) 2,000
f) 6,000	e) 3,200
h) 800	g) 200

Common Stock	
	a) 40,000

Accounts Receivable	
b) 8,000	f) 6,000

Service Revenue	
	b) 8,000

Prepaid Subscriptions	
c) 2,000	

Advertising Expense	
d) 400	

Accounts Payable	
g) 200	d) 400

Dividends	
e) 3,200	

Unearned Service Revenue	
	h) 800

1. $41,400 debit ($40,000 + $6,000 + $800 – $2,000 – $3,200 – $200)
2. $2,000 debit ($8,000 – $6,000)
3. $1,000 ($400 + $800 – $200)
4. $7,600 ($8,000 – $400)

PTS: 1 DIF: Challenging OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Analysis
KEY: T accounts | Analyze transactions MSC: ACBSP-APC-05-Accounting Cycle

8. The following transactions are available for Carlson Company.

a. Opened business by issuing common stock for $36,000.
b. Paid one year's insurance in advance, $2,400.
c. Billed customers for services rendered, $6,000.
d. Received utility bill, to be paid next month, $400.
e. Received $800 in advance of performing a service.
f. Received $4,400 from customers billed in c.
g. Paid $300 on the utility bill of d.
h. Dividends of $2,000 were declared and paid.

Record the above transactions in T Accounts and then calculate (1) net income for the period, as well as the ending balances of (2) total assets, (3) total liabilities, and (4) Cash.

ANS:

Cash	
a) 36,000	b) 2,400
e) 800	g) 300
f) 4,400	h) 2,000

Common Stock	
	a) 36,000

Accounts Receivable	

Service Revenue	

c) 6,000	f) 4,400

	c) 6,000

Prepaid Insurance

b) 2,400	

Utility Expense

d) 400	

Accounts Payable

g) 300	d) 400

Dividends

h) 2,000	

Unearned Service Revenue

	e) 800

1. $5,600 ($6,000 – $400)
2. $40,500 ($36,000 + $800 + $4,400 + $6,000 + $2,400 – $2,400 – $300 – $2,000 – $4,400)
3. $900 ($400 + $800 – $300)
4. $36,500 ($36,000 + $800 + $4,400 – $2,400 – $300 – $2,000)

PTS: 1 DIF: Challenging OBJ: 3
NAT: AACSB Analytic | AICPA FN Measurement LOC: Analysis
KEY: T accounts | Analyze transactions MSC: ACBSP-APC-05-Accounting Cycle

9. From the following alphabetical list of account balances, all of which are normal, for Union Corporation on July 31, 2013, prepare a trial balance in proper form (the amount of Dividends must be computed).

Accounts Payable	$1,000
Accounts Receivable	400
Cash	160
Common Stock	180
Dividends	?
Equipment	1,400
Prepaid Advertising	40
Retained Earnings	120
Revenue Earned	800
Wages Expense	140
Wages Payable	100

ANS:

Union Corporation Trial Balance July 31, 2013		
Cash	$ 160	
Accounts Receivable	400	
Prepaid Advertising	40	
Equipment	1,400	
Accounts Payable		$ 1,000
Wages Payable		100
Common Stock		180
Retained Earnings		120

Dividends	60	
Revenue Earned		800
Wages Expense	140	
	$2,200	$2,200

(Dividends = $2,200 – $160 – $400 – $40 – $1,400 – $140)

PTS: 1 DIF: Challenging OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Analysis
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

10. From the following alphabetical list of account balances, all of which are normal, for Aloha Corporation on September 30, 2013, prepare a trial balance in proper form (the amount of Dividends must be computed).

Accounts Payable	$ 780
Accounts Receivable	460
Cash	400
Common Stock	800
Dividends	?
Equipment	1,380
Prepaid Advertising	20
Retained Earnings	400
Revenue Earned	1,000
Wages Expense	60
Wages Payable	20

ANS:

Aloha Corporation Trial Balance September 30, 2013		
Cash	$ 400	
Accounts Receivable	460	
Prepaid Advertising	20	
Equipment	1,380	
Accounts Payable		$ 780
Wages Payable		20
Common Stock		800
Retained Earnings		400
Dividends	680	
Revenue Earned		1,000
Wages Expense	60	
	$3,000	$3,000

(Dividends = $3,000 – $400 – $460 – $20 – $1,380 – $60)

PTS: 1 DIF: Challenging OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Analysis
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

11. Using the alphabetical list of account balances presented below, all of which are normal, prepare a trial balance for Garland Corporation at June 30, 2013, in proper order. Compute the balance of the Cash account.

Accounts Payable	$280
Accounts Receivable	560
Cash	?
Common Stock	400
Equipment	800
Office Expense	360
Retained Earnings	480
Service Revenue	600

ANS:

Garland Corporation Trial Balance June 30, 2013		
Cash	$ 40	
Accounts Receivable	560	
Equipment	800	
Accounts Payable		$ 280
Common Stock		400
Retained Earnings		480
Service Revenue		600
Office Expense	360	
	$1,760	$1,760

(Cash = $1,760 – $560 – 800 – 360)

PTS: 1 DIF: Moderate OBJ: 4
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Prepare trial balance MSC: ACBSP-APC-05-Accounting Cycle

12. In the journal provided, prepare journal entries without explanations for the following transactions. Write “no entry” if none is needed.

a. Received a $3,000 invoice for this month's rent. Payment will not be made right away.
b. Paid $3,200 for insurance premiums to cover the next six months.
c. A $700 dividend is declared and paid.
d. The rent invoice (in a) is paid.
e. Purchased land for $120,000. The company paid half in cash and issued a promissory note for the other half.

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit

ANS:

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit
	a. Rent Expense Rent Payable (or Accounts Payable)		3,000	 3,000
	b. Prepaid Insurance Cash		3,200	 3,200
	c. Dividends Cash		700	 700
	d. Rent Payable (or Accounts Payable) Cash		3,000	 3,000
	e. Land Cash Notes Payable		120,000	 60,000 60,000

PTS: 1 DIF: Moderate OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Recording entries MSC: ACBSP-APC-06-Recording Transactions

13. In the journal provided, prepare journal entries (in good form) for the following transactions. If no entry is required, write “no entry.” Omit explanations.

Apr.	1	Investors opened a dry cleaning service, called Same Day Cleaners, by depositing $60,000 into a business bank account and receiving 60,000 shares of $1 par value stock in exchange.
	3	Paid two years rent in advance, $14,400.
	6	Purchased dry cleaning equipment for $40,000. Paid $8,000 in cash, the remainder to be paid in two weeks.
	9	Hired a part-time worker, to be paid $300 per week, starting tomorrow.
	17	Paid the worker's weekly wage.
	17	Recorded cash received for services performed during the week, $3,000.
	20	Paid for the remainder of the equipment purchased on April 6.
	21	Received $200 in advance of cleaning and boxing a wedding gown.
	23	Performed $500 of dry cleaning services for Asa's Tuxedo Shop. It will remit payment in three days.
	24	Paid the weekly wages.
	26	Received payment from Asa's Tuxedo Shop.
	30	Received a telephone bill for $100, which will be paid in two weeks.

General Journal	Page 1

Date	Description	Post. Ref.	Debit	Credit

ANS:

General Journal					Page 1
Date		Description	Post. Ref.	Debit	Credit
Apr.	1	Cash		60,000	
		Common Stock			60,000
	3	Prepaid Rent		14,400	
		Cash			14,400
	6	Dry Cleaning Equipment		40,000	
		Cash			8,000
		Accounts Payable			32,000
	9	No entry			
	17	Wages Expense		300	
		Cash			300

17	Cash Dry Cleaning Revenue		3,000	 3,000
20	Accounts Payable Cash		32,000	 32,000
21	Cash Unearned Dry Cleaning Revenue		200	 200
23	Accounts Receivable Dry Cleaning Revenue		500	 500
24	Wages Expense Cash		300	 300
26	Cash Accounts Receivable		500	 500
30	Telephone Expense Accounts Payable		100	 100

PTS: 1 DIF: Moderate OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Recording entries MSC: ACBSP-APC-06-Recording Transactions

14. In the journal provided, prepare journal entries (in good form) for the following transactions. If no entry is required, write "no entry." Omit explanations.

July	1	Investors opened a dry cleaning service, called Jolly Cleaners, by depositing $200,000 into a business bank account and receiving 100,000 shares of $2 par value stock in exchange.
	3	Paid one year of rent in advance, $22,400.
	6	Purchased dry cleaning equipment for $60,000. Paid $25,000 in cash, the remainder to be paid in two weeks.
	10	Hired a worker, to be paid $800 per week.
	17	Paid the worker's weekly wage.
	17	Recorded cash received for services rendered during the week, $10,000.
	20	Paid for the remainder of the equipment purchased on May 6.
	21	Received $300 in advance of cleaning and boxing a wedding gown.
	23	Performed $1,200 of dry cleaning services for Weddings Unlimited. It will remit payment in three days.
	24	Paid the weekly wages.
	26	Received payment from Weddings Unlimited.
	30	Received an electricity bill for $350, which will be paid in two weeks.

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit

ANS:

General Journal					Page 1
Date		Description	Post. Ref.	Debit	Credit
July	1	Cash		200,000	
		Common Stock			200,000
	3	Prepaid Rent		22,400	
		Cash			22,400
	6	Dry Cleaning Equipment		60,000	
		Cash			25,000
		Accounts Payable			35,000
	10	No entry			
	17	Wages Expense		800	
		Cash			800
	17	Cash		10,000	
		Dry Cleaning Revenue			10,000
	20	Accounts Payable		35,000	

	Cash			35,000
21	Cash Unearned Dry Cleaning Revenue		300	 300
23	Accounts Receivable Dry Cleaning Revenue		1,200	 1,200
24	Wages Expense Cash		800	 800
26	Cash Accounts Receivable		1,200	 1,200
30	Utility Expense Accounts Payable		350	 350

PTS: 1 DIF: Moderate OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Recording entries MSC: ACBSP-APC-06-Recording Transactions

15. In the journal provided, prepare journal entries (in good form) for the following transactions. If no entry is required, write “no entry.” Omit explanations.

Mar.	1	Investors opened a dance school, called Yolonda's Dance Studio, by depositing $15,000 into a business bank account in exchange for 15,000 shares of $1 par value stock.
	2	Paid three months' rent in advance, $1,800.
	4	Hired a part-time assistant, to be paid $250 per week, starting next week.
	6	Purchased sound equipment for $2,000. Paid $400 in cash, the remainder to be paid in installments of $800 every two weeks.
	8	Signed up five students, who will begin lessons on March 10, at $80 per week per student.
	17	Received the first week's tuition from four students; the fifth student will remit payment in three days.
	17	Paid the assistant his first week's wages.
	20	Received payment from the fifth student.
	21	Paid the first installment on the sound equipment purchased on March 6.
	23	Received an electric bill of $100, to be paid April 1.

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit

ANS:

General Journal					Page 1
Date		Description	Post. Ref.	Debit	Credit
Mar.	1	Cash		15,000	
		Common Stock			15,000
	2	Prepaid Rent		1,800	
		Cash			1,800
	4	No entry			
	6	Sound Equipment		2,000	
		Cash			400
		Accounts Payable			1,600
	8	No entry			
	17	Cash		320	
		Accounts Receivable		80	
		Tuition Revenue			400
	17	Wages Expense		250	
		Cash			250
	20	Cash		80	
		Accounts Receivable			80
	21	Accounts Payable		800	
		Cash			800

23	Utilities Expense		100	
	Accounts Payable			100

PTS: 1 DIF: Moderate OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Recording entries MSC: ACBSP-APC-06-Recording Transactions

16. In the journal provided, prepare journal entries (in good form) for the following transactions. If no entry is required, write "no entry." Omit explanations.

Nov.	1	Investors opened a dance school called Olga's Dance Studio by depositing $24,000 into a business bank account in exchange for 24,000 shares of $1 par value stock.
	2	Paid three months' rent in advance, $2,400.
	4	Hired a part-time assistant, to be paid $275 per week.
	6	Purchased sound equipment for $4,200. Paid $600 in cash, the remainder to be paid in installments of $1,200 every two weeks.
	8	Signed up ten students, who will begin lessons on November 10, at $100 per week per student.
	17	Received the first week's tuition from nine students; the tenth student will remit payment in three days.
	17	Paid the assistant his first week's wages.
	20	Received payment from the tenth student.
	20	Paid the next installment on the sound equipment purchased on November 6.
	23	Received an electric bill of $150, to be paid on December 1.

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit

ANS:

General Journal					Page 1
Date		Description	Post. Ref.	Debit	Credit
Nov.	1	Cash Common Stock		24,000	 24,000
	2	Prepaid Rent Cash		2,400	 2,400
	4	No entry			
	6	Sound Equipment Cash Accounts Payable		4,200	 600 3,600
	8	No entry			
	17	Cash Accounts Receivable Tuition Revenue		900 100	 1,000
	17	Wages Expense Cash		275	 275
	20	Cash Accounts Receivable		100	 100
	20	Accounts Payable Cash		1,200	 1,200
	23	Utilities Expense Accounts Payable		150	 150

PTS: 1 DIF: Moderate OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Recording entries MSC: ACBSP-APC-06-Recording Transactions

17. Post the following transaction.

General Journal	Page 14

Date		Description	Post. Ref.	Debit	Credit
2013					
July	20	Accounts Receivable		415	
		Commissions Earned			415
		Commission earned on sale of painting			

Accounts Receivable						Account No. 112
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2013						

Commissions Earned						Account No. 411
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2013						

ANS:

General Journal					Page 14
Date		Description	Post. Ref.	Debit	Credit
2013					
July	20	Accounts Receivable	112	415	
		Commissions Earned	411		415
		Commission earned on sale of painting			

Accounts Receivable							Account No. 112
Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2013							
July	20		J14	415		415	

Commissions Earned							Account No. 411
Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2013							
July	20		J14		415		415

PTS: 1 DIF: Moderate OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

18. Post the following transaction.

General Journal				Page 8
Date	Description	Post. Ref.	Debit	Credit
2013				
May 12	Land		5,000	
	Notes Payable			5,000
	Issued note for purchase of land			

Land						Account No. 141
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2013						

Notes Payable						Account No. 211
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2013						

ANS:

General Journal				Page 8
Date	Description	Post. Ref.	Debit	Credit
2013				
May 12	Land	141	5,000	
	Notes Payable	211		5,000
	Issued note for purchase of land			

Land						Account No. 141
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2013						

May 12		J8	5,000		5,000	

Notes Payable					Account No. 211	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2013 May 12		J8		5,000		5,000

PTS: 1 DIF: Moderate OBJ: 5
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Posting transactions MSC: ACBSP-APC-05-Accounting Cycle

19. Lindsay Company had the following transactions for the month of August.

5 Performed services on credit, $8,000
10 Performed services for cash, $7,000
12 Paid expenses in cash, $2,000
14 Collected on account, $4,000
19 Incurred expenses on credit, $5,000
24 Performed services on credit, $2,400
29 Paid on account, $4,000

Enter the above transactions in the following T accounts. Determine the cash balance after transactions, the amount still to be received, and the amount still to be paid.

Cash	

Accounts Payable	

Accounts Receivable	

Revenue	

Expenses	

ANS:

Cash	
7,000	2,000
4,000	4,000

Accounts Payable	
4,000	5,000

Accounts Receivable	
8,000	4,000
2,400	

Revenue	
	8,000
	7,000
	2,400

Expenses	
2,000	
5,000	

Cash balance after transactions: $7,000 + $4,000 – $2,000 – $4,000 = $5,000
Amount still to be received: $8,000 + $2,400 – $4,000 = $6,400
Amount still to be paid: $5,000 – $4,000 = $1,000

PTS: 1 DIF: Moderate OBJ: 6
NAT: AACSB Analytic | AICPA FN Measurement LOC: Application
KEY: Cash flows | Timing of transactions
MSC: ACBSP-APC-05-Accounting Cycle