

**TRUE/FALSE**

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

ANS: T                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: business transactions

2. When a business hires a new employee, a recordable transaction has occurred.

ANS: F                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: business transactions

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

ANS: F                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: business transactions

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

ANS: T                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: recording transactions

5. Purchase requisitions are recognized in the accounting records.

ANS: F                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: recording transactions

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

ANS: F                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: recording transactions

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

ANS: F                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: accounting period issue

8. The recognition issue deals with *when* a user of financial statements should use accounting information.

ANS: F                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: accounting period issue

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

ANS: F                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: cost concepts

10. Fair Value is the exchange price associated with a business transaction at the time the transaction is recognized.

ANS: T                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: cost concepts

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

ANS: T                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: business transactions

12. When a company receives an order, a transaction has occurred.

ANS: F                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: business transactions

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

ANS: F                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

14. A debit has an unfavorable effect on an account.

ANS: F                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

15. 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                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

16. Column totals are called *footings*.

ANS: T                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

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

ANS: T                      PTS: 1                      OBJ: LO2

NAT: AACSB correlation: reflective      LOC: Learning Type: Recall  
KEY: bookkeeping

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

ANS: T                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective      LOC: Learning Type: Recall  
KEY: bookkeeping

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

ANS: T                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective      LOC: Learning Type: Recall  
KEY: bookkeeping

20. A decrease in the Owner's Capital account is recorded with a credit.

ANS: F                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective      LOC: Learning Type: Recall  
KEY: bookkeeping

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

ANS: T                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective      LOC: Learning Type: Recall  
KEY: bookkeeping

22. Owner's withdrawals should appear on the statement of owner's equity.

ANS: T                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective      LOC: Learning Type: Recall  
KEY: bookkeeping| owner's equity

23. The Owner's Withdrawals account has a normal credit balance.

ANS: F                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective      LOC: Learning Type: Recall  
KEY: bookkeeping

24. Expenses have a normal credit balance.

ANS: F                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective      LOC: Learning Type: Recall  
KEY: bookkeeping

25. The Owner's Capital account has a normal debit balance.

ANS: F                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective      LOC: Learning Type: Recall  
KEY: bookkeeping

26. Accounts Payable has a normal credit balance.

ANS: T                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

27. When the owner makes an investment, his or her Capital account is debited.

ANS: F                      PTS: 1                      OBJ: LO3  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

28. When a withdrawal is made, the Owner's Withdrawals account is debited and Cash is credited.

ANS: T                      PTS: 1                      OBJ: LO3  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

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

ANS: F                      PTS: 1                      OBJ: LO3  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

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

ANS: F                      PTS: 1                      OBJ: LO3  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: bookkeeping

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

ANS: T                      PTS: 1                      OBJ: LO3  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: bookkeeping

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

ANS: F                      PTS: 1                      OBJ: LO3  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: business transitions

33. When revenue has been earned, no entry is recorded until the related cash has been collected.

ANS: F                      PTS: 1                      OBJ: LO3  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: business transitions

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

ANS: T                      PTS: 1                      OBJ: LO3  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: business transitions

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

ANS: T                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

36. In a trial balance, all debits are listed before all credits.

ANS: F                      PTS: 1                      OBJ: LO4  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

37. A trial balance is normally prepared at the end of the day.

ANS: F                      PTS: 1                      OBJ: LO4  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

38. 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                      OBJ: LO4  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

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

ANS: T                      PTS: 1                      OBJ: LO4  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

40. 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 two.

ANS: T                      PTS: 1                      OBJ: LO4  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

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

ANS: F                      PTS: 1                      OBJ: LO5  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: profitability

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

ANS: F                      PTS: 1                      OBJ: LO5  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: income statement

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

ANS: T                      PTS: 1                      OBJ: LO5  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall

KEY: statement of cash flows

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

ANS: T                      PTS: 1                      OBJ: LO5  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: accounting period issue

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

ANS: F                      PTS: 1                      OBJ: LO5  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: accounting period issue

46. 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                      OBJ: LO5  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: net income

47. 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                      OBJ: LO5  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: accounts receivable

48. The journal is a chronological record of all transactions.

ANS: T                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

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

ANS: F                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

50. In a journal entry, assets are always recorded before liabilities.

ANS: F                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

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

ANS: T                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

52. In a journal entry, the Post. Ref. column is left blank until the entry has been posted.

ANS: T                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

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

ANS: F                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

54. The ledger account form has a Balance column.

ANS: T                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

55. One might see "J5" correctly placed in the Post. Ref. column of the journal.

ANS: F                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

56. Despite the advantages of a computer accounting information system, posting still must be done manually.

ANS: F                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: computerized accounting systems

57. Journal entries are typically posted to the ledger only at the end of the year.

ANS: F                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

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

ANS: T                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

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

ANS: F                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

60. The chart of accounts makes finding accounts in the ledger easier.

ANS: T                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

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

ANS: F                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: accounts

62. The accounts in a chart of accounts are normally listed in alphabetical order.

ANS: F                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: accounts

63. The numbering scheme of a chart of accounts should contain no gaps.

ANS: F                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: accounts

64. Wages payable is a type of expense.

ANS: F                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: accounts

65. An owner's withdrawals are classified as an expense.

ANS: F                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: accounts

66. Unearned revenues are classified as liabilities on the balance sheet.

ANS: T                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: accounts

67. Another word for expense is *debt*.

ANS: F                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: accounts

68. The account Office Supplies is classified as an expense.

ANS: F                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: accounts

69. Land and buildings may be combined into one account.

ANS: F                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: accounts

70. Dollar signs are not used in journals and ledgers.

ANS: T                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

### **MULTIPLE CHOICE**

1. When a business records revenue before it has been earned, it has violated the measurement issue of
- recognition.
  - evaluation.
  - classification.
  - valuation.

ANS: A                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: accounting period issue

2. When a business reports an asset at an inflated dollar amount, it has violated the measurement issue of
- recognition.
  - valuation.
  - classification.
  - realization.

ANS: B                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: assets

3. When a business erroneously records expenses as assets, it has violated the measurement issue of
- communication.
  - classification.
  - valuation.
  - recognition.

ANS: B                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: assets

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

ANS: C                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: business transactions

5. Which of the following is a business event that is considered a recordable transaction?
- A company hires a new employee.
  - A customer purchases merchandise.
  - A company orders a product from a supplier.
  - An employee sends a purchase requisition to the purchasing department.

ANS: B                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension

KEY: business transactions

6. A purchase is recognized in the accounting records when
- payment is made for the item purchased.
  - the purchase requisition is sent to the purchasing department.
  - title transfers from the seller to the buyer.
  - the buyer receives the seller's bill.

ANS: C

PTS: 1

OBJ: LO1

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: accounting period issue

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

ANS: D

PTS: 1

OBJ: LO1

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: measurement issues

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

ANS: C

PTS: 1

OBJ: LO1

NAT: AACSB correlation: reflective

LOC: Learning Type: Comprehension

KEY: accounting period issue

9. The issue of deciding when to record a transaction is solved by
- properly classifying the transaction.
  - deciding on a point of recognition.
  - assigning historical cost to the transaction.
  - analyzing the intent of management.

ANS: B

PTS: 1

OBJ: LO1

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: accounting period issue

10. Which of the following is *not* a measurement issue in accounting?
- Valuation
  - Recognition
  - Evaluation
  - Classification

ANS: C

PTS: 1

OBJ: LO1

NAT: AACSB correlation: reflective

LOC: Learning Type: Recall

KEY: measurement issues

11. The cost principle relates most closely to the
- recognition point.
  - recognition issue.

- c. valuation issue.
- d. classification issue.

ANS: C                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: measurement issues

12. 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                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: business transactions

13. If Accounts Receivable has debit postings of \$29,000, credit postings of \$22,000, and a normal ending balance of \$24,000, which of the following was its beginning balance?
- a. \$31,000 Dr.
  - b. \$17,000 Dr.
  - c. \$17,000 Cr.
  - d. \$31,000 Cr.

ANS: B                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Application  
KEY: bookkeeping

14. 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: A                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

15. Which of the following accounts is increased with a debit?
- a. Jim Webb, Capital
  - b. Rent Payable
  - c. Legal Fees Earned
  - d. Jim Webb, Withdrawals

ANS: D                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: bookkeeping

16. Which of the following accounts is increased with a credit?
- a. Supplies
  - b. Fees Earned
  - c. Supplies Expense
  - d. Jane Garcia, Withdrawals

ANS: B                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension

KEY: bookkeeping

17. If Accounts Payable has debit postings of \$17,000, credit postings of \$14,000, and a normal ending balance of \$6,000, what was its beginning balance?
- a. \$9,000 Cr.
  - b. \$3,000 Cr.
  - c. \$9,000 Dr.
  - d. \$3,000 Dr.

ANS: A                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Application  
KEY: bookkeeping

18. Which pair of accounts follows the rules of debit and credit in the same manner?
- a. Revenue from Services and Equipment
  - b. Prepaid Rent and Advertising Expense
  - c. Repair Expense and Notes Payable
  - d. Owner's Capital and Rent Expense

ANS: B                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: bookkeeping

19. Which pair of accounts follows the rules of debit and credit in the opposite manner?
- a. Prepaid Insurance and Owner's Withdrawals
  - b. Advertising Expense and Land
  - c. Owner's Withdrawals and Medical Fees Earned
  - d. Interest Payable and Owner's Capital

ANS: C                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: bookkeeping

20. Which of the following accounts has a normal credit balance?
- a. Owner's Withdrawals
  - b. Automotive Equipment
  - c. Advertising Fees Earned
  - d. Interest Expense

ANS: C                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: bookkeeping

21. Which of the following accounts has a normal debit balance?
- a. Owner's Withdrawals
  - b. Owner's Capital
  - c. Unearned Fees
  - d. Wages Payable

ANS: A                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: bookkeeping

22. Which of the following accounts has a normal debit balance?
- a. Art Fees Earned

- b. Notes Payable
- c. Prepaid Insurance
- d. Unearned Art Fees

ANS: C                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: bookkeeping

23. Which of the following accounts has a normal credit balance?

- a. Accounts Receivable
- b. Owner's Capital
- c. Wages Expense
- d. Owner's Withdrawals

ANS: B                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: bookkeeping

24. Which of the following accounts has a normal debit balance?

- a. Wages Payable
- b. Fees Earned
- c. Rent Expense
- d. Owner's Capital

ANS: C                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: bookkeeping

25. Which of the following accounts is decreased with a debit?

- a. Notes Payable
- b. Cash
- c. Interest Expense
- d. Owner's Withdrawals

ANS: A                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: bookkeeping

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

- a. Advertising Fees Earned
- b. Insurance Expense
- c. Owner's Capital
- d. Unearned Revenue

ANS: B                      PTS: 1                      OBJ: LO2  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: bookkeeping

27. When collection is made on Accounts Receivable,

- a. owner's equity increases.
- b. total assets decrease.
- c. total assets remain the same.
- d. total assets increase.

ANS: C                      PTS: 1                      OBJ: LO3                      NAT: AACSB correlation: analytic  
LOC: Learning Type: Comprehension                      KEY: bookkeeping

28. If office equipment is sold at cost in exchange for a promissory note,
- total liabilities increase.
  - total liabilities and owner's equity decrease.
  - total assets decrease.
  - total assets remain the same.

ANS: D                      PTS: 1                      OBJ: LO3                      NAT: AACSB correlation: analytic  
LOC: Learning Type: Comprehension                      KEY: bookkeeping

29. The withdrawal of cash by the owner will
- decrease net income..
  - increase liabilities.
  - not affect total assets
  - decrease owner's equity.

ANS: D                      PTS: 1                      OBJ: LO3                      NAT: AACSB correlation: analytic  
LOC: Learning Type: Comprehension                      KEY: bookkeeping

30. Payment on a portion of Accounts Payable will
- not affect owner's equity.
  - decrease net income.
  - increase total liabilities.
  - not affect total assets.

ANS: A                      PTS: 1                      OBJ: LO3                      NAT: AACSB correlation: analytic  
LOC: Learning Type: Comprehension                      KEY: bookkeeping

31. A transaction in which six months' rent is paid in advance. Which of the following journal entries records the transaction?
- Prepaid Rent – Debit; Cash – Credit
  - Rent Receivable – Debit; Cash – Credit
  - Rent Revenue – Debit; Cash – Credit
  - Rent Expense– Debit; Cash – Credit

ANS: A                      PTS: 1                      OBJ: LO3                      NAT: AACSB correlation: analytic  
LOC: Learning Type: Comprehension                      KEY: bookkeeping

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

ANS: B                      PTS: 1                      OBJ: LO1  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: bookkeeping

33. Which of the following events does *not* result in the recording of an expense?
- Withdrawal of cash by the owner
  - Purchase of gasoline for fill-up of a company car
  - Receipt of a bill from the telephone company
  - Payment of wages

ANS: A                      PTS: 1                      OBJ: LO3  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension

KEY: recording transactions

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

ANS: B

PTS: 1

OBJ: LO3

NAT: AACSB correlation: reflective

LOC: Learning Type: Comprehension

KEY: recording transactions

35. When a company has performed a service but has not yet received payment, what is the required journal entry to be recorded?
- Accounts Receivable – Debit; Revenue from Services – Credit
  - Revenue from Services – Debit; Accounts Payable – Credit
  - No entry is required until the cash is received.
  - Revenue from Services – Debit; Accounts Receivable – Credit

ANS: A

PTS: 1

OBJ: LO3

NAT: AACSB correlation: reflective

LOC: Learning Type: Comprehension

KEY: recording transactions

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

ANS: C

PTS: 1

OBJ: LO3

NAT: AACSB correlation: reflective

LOC: Learning Type: Comprehension

KEY: recording transactions

37. When a magazine company receives advance payment for a subscription, what is the required journal entry to be recorded?
- Cash – Debit; Unearned Subscriptions Revenue – Credit
  - Prepaid Subscriptions – Debit; Cash – Credit
  - Cash – Debit; Subscriptions Revenue – Credit
  - Unearned Subscriptions Revenue – Debit; Cash – Credit

ANS: A

PTS: 1

OBJ: LO3

NAT: AACSB correlation: reflective

LOC: Learning Type: Comprehension

KEY: recording transactions

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

ANS: A

PTS: 1

OBJ: LO3

NAT: AACSB correlation: reflective

LOC: Learning Type: Comprehension

KEY: recording transactions

39. Which of the following transactions decreases both assets and owner's equity?
- a. Withdrawal of cash by the owner
  - 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: A                      PTS: 1                      OBJ: LO3  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: bookkeeping

40. 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                      OBJ: LO3  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: recording transactions

41. All of the following are examples of source documents *except*
- a. checks.
  - b. invoices.
  - c. journals.
  - d. receipts.

ANS: C                      PTS: 1                      OBJ: LO3  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: business transactions

42. Which of the following transactions increases both assets and owner's equity?
- a. Receipt of payment from a credit customer
  - b. Receipt of a bank loan
  - c. Rendering of a service, payment not yet received
  - d. Withdrawal of cash by the owner

ANS: C                      PTS: 1                      OBJ: LO3  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: bookkeeping

43. Which of the following accounts will *not* affect owner's equity?
- a. Advertising Expense
  - b. Owner's Withdrawals
  - c. Land
  - d. Sales

ANS: C                      PTS: 1                      OBJ: LO3  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: accounts

44. A withdrawal of cash by the owner will reduce which of the following accounts?
- a. Owner's Withdrawals

- b. Owner's Capital
- c. Accounts Receivable
- d. Accounts Payable

ANS: B                      PTS: 1                      OBJ: LO3  
 NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
 KEY: bookkeeping

45. Which of the following does *not* affect Owner's Capital?

- a. Withdrawal of cash
- b. Earning of revenues
- c. Payment of a debt
- d. Incurring of expenses

ANS: C                      PTS: 1                      OBJ: LO3  
 NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
 KEY: bookkeeping

46. An \$80 credit item is accidentally posted as a debit. The trial balance column totals will therefore differ by

- a. \$0.
- b. \$40.
- c. \$80.
- d. \$160.

ANS: D                      PTS: 1                      OBJ: LO4                      NAT: AACSB correlation: analytic  
 LOC: Learning Type: Application                      KEY: bookkeeping

47. 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                      OBJ: LO4  
 NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
 KEY: bookkeeping

48. Here is the trial balance for McLeary Company:

| <b>McLeary Company</b><br><b>Trial Balance</b><br><b>January 31, 2010</b> |          |          |
|---------------------------------------------------------------------------|----------|----------|
| Cash                                                                      | \$ 3,000 |          |
| Accounts Receivable                                                       | 2,000    |          |
| Art Supplies                                                              | 3,000    |          |
| Office Supplies                                                           | 5,000    |          |
| Prepaid Rent                                                              | 7,000    |          |
| Prepaid Insurance                                                         | 5,000    |          |
| Art Equipment                                                             | 5,000    |          |
| Office Equipment                                                          | 3,000    |          |
| Accounts Payable                                                          |          | \$ 5,000 |
| Art McLeary, Capital                                                      |          | 15,000   |
| Art McLeary, Withdrawals                                                  | ?        |          |
| Advertising Fees Earned                                                   |          | ?        |

|                   |             |             |
|-------------------|-------------|-------------|
| Wages Expense     | ?           |             |
| Utilities Expense | 5,000       |             |
| Telephone Expense | 3,000       |             |
|                   | <u>\$ A</u> | <u>\$ B</u> |

If the balance of the Art McLeary, Withdrawals account were \$50,000 and the balance of the Wages Expense account were \$5,000, what would be the amount of B?

- a. \$62,000
- b. \$75,000
- c. \$96,000
- d. \$76,000

ANS: C                      PTS: 1                      OBJ: LO4                      NAT: AACSB correlation: analytic  
 LOC: Learning Type: Analysis                      KEY: bookkeeping

49. Here is the trial balance for McLeary Company:

| McLeary Company<br>Trial Balance<br>January 31, 2010 |             |             |
|------------------------------------------------------|-------------|-------------|
| Cash                                                 | \$ 3,000    |             |
| Accounts Receivable                                  | 2,000       |             |
| Art Supplies                                         | 3,000       |             |
| Office Supplies                                      | 5,000       |             |
| Prepaid Rent                                         | 7,000       |             |
| Prepaid Insurance                                    | 5,000       |             |
| Art Equipment                                        | 5,000       |             |
| Office Equipment                                     | 3,000       |             |
| Accounts Payable                                     |             | \$ 5,000    |
| Art McLeary, Capital                                 |             | 15,000      |
| Art McLeary, Withdrawals                             | ?           |             |
| Advertising Fees Earned                              |             | ?           |
| Wages Expense                                        | ?           |             |
| Utilities Expense                                    | 5,000       |             |
| Telephone Expense                                    | 3,000       |             |
|                                                      | <u>\$ A</u> | <u>\$ B</u> |

If the trial balance showed a balance of \$7,000 in the Art McLeary, Withdrawals account and a balance of \$15,000 in the Wages Expense account, what would be the amount of Advertising Fees Earned for the period?

- a. \$53,000
- b. \$43,000
- c. \$58,000
- d. \$28,000

ANS: B                      PTS: 1                      OBJ: LO4                      NAT: AACSB correlation: analytic  
 LOC: Learning Type: Analysis                      KEY: bookkeeping

50. Here is the trial balance for McLeary Company:

| McLeary Company |
|-----------------|
|-----------------|

| Trial Balance<br>January 31, 2010 |                 |                 |
|-----------------------------------|-----------------|-----------------|
| Cash                              | \$14,000        |                 |
| Accounts Receivable               | 2,000           |                 |
| Art Supplies                      | 3,000           |                 |
| Office Supplies                   | 5,000           |                 |
| Prepaid Rent                      | 7,000           |                 |
| Prepaid Insurance                 | 5,000           |                 |
| Art Equipment                     | 5,000           |                 |
| Office Equipment                  | 3,000           |                 |
| Accounts Payable                  |                 | \$ 5,000        |
| Art McLeary, Capital              |                 | 15,000          |
| Art McLeary, Withdrawals          | 7,000           |                 |
| Advertising Fees Earned           |                 | 54,000          |
| Wages Expense                     | 15,000          |                 |
| Utilities Expense                 | 5,000           |                 |
| Telephone Expense                 | 3,000           |                 |
|                                   | <u>\$74,000</u> | <u>\$74,000</u> |

On the trial balance, total assets equal

- \$54,000.
- \$52,000.
- \$44,000.
- \$34,000.

ANS: C

PTS: 1

OBJ: LO4

NAT: AACSB correlation: analytic

LOC: Learning Type: Analysis

KEY: bookkeeping

51. Here is the trial balance for McLeary Company:

| McLeary Company<br>Trial Balance<br>January 31, 2010 |             |             |
|------------------------------------------------------|-------------|-------------|
| Cash                                                 | \$ 3,000    |             |
| Accounts Receivable                                  | 2,000       |             |
| Art Supplies                                         | 3,000       |             |
| Office Supplies                                      | 5,000       |             |
| Prepaid Rent                                         | 7,000       |             |
| Prepaid Insurance                                    | 5,000       |             |
| Art Equipment                                        | 5,000       |             |
| Office Equipment                                     | 3,000       |             |
| Accounts Payable                                     |             | \$5,000     |
| Art McLeary, Capital                                 |             | 15,000      |
| Art McLeary, Withdrawals                             | ?           |             |
| Advertising Fees Earned                              |             | ?           |
| Wages Expense                                        | ?           |             |
| Utilities Expense                                    | 5,000       |             |
| Telephone Expense                                    | 3,000       |             |
|                                                      | <u>\$ A</u> | <u>\$ B</u> |

If the trial balance showed a balance of \$8,000 in the Wages Expense account and a balance of \$43,000 in the Advertising Fees Earned account, what would be the amount of A?

- \$63,000

- b. \$53,000
- c. \$68,000
- d. \$58,000

ANS: A                      PTS: 1                      OBJ: LO4                      NAT: AACSB correlation: analytic  
 LOC: Learning Type: Analysis                      KEY: bookkeeping

52. Here is the trial balance for McLeary Company:

| McLeary Company<br>Trial Balance<br>January 31, 2010 |             |             |
|------------------------------------------------------|-------------|-------------|
| Cash                                                 | \$ 3,000    |             |
| Accounts Receivable                                  | 2,000       |             |
| Art Supplies                                         | 3,000       |             |
| Office Supplies                                      | 5,000       |             |
| Prepaid Rent                                         | 7,000       |             |
| Prepaid Insurance                                    | 5,000       |             |
| Art Equipment                                        | 5,000       |             |
| Office Equipment                                     | 3,000       |             |
| Accounts Payable                                     |             | \$ 5,000    |
| Art McLeary, Capital                                 |             | 15,000      |
| Art McLeary, Withdrawals                             | ?           |             |
| Advertising Fees Earned                              |             | ?           |
| Wages Expense                                        | ?           |             |
| Utilities Expense                                    | 5,000       |             |
| Telephone Expense                                    | 3,000       |             |
|                                                      | <u>\$ A</u> | <u>\$ B</u> |

If the trial balance showed a balance of \$4,000 in the Wages Expense account and a balance of \$42,500 in the Advertising Fees Earned account, what would be the amount of the Art McLeary, Withdrawals account?

- a. \$37,500
- b. \$26,500
- c. \$17,500
- d. \$31,500

ANS: C                      PTS: 1                      OBJ: LO4                      NAT: AACSB correlation: analytic  
 LOC: Learning Type: Analysis                      KEY: bookkeeping

53. 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                      OBJ: LO4                      NAT: AACSB correlation: analytic  
 LOC: Learning Type: Comprehension                      KEY: bookkeeping

54. 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                      OBJ: LO4  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

55. A \$155 credit item is posted as a debit. The trial balance column totals therefore will differ by
- \$310.
  - \$620.
  - \$155.
  - \$0.

ANS: A                      PTS: 1                      OBJ: LO4                      NAT: AACSB correlation: analytic  
LOC: Learning Type: Application                      KEY: bookkeeping

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

ANS: B                      PTS: 1                      OBJ: LO4                      NAT: AACSB correlation: analytic  
LOC: Learning Type: Comprehension                      KEY: bookkeeping

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

ANS: C                      PTS: 1                      OBJ: LO4                      NAT: AACSB correlation: analytic  
LOC: Learning Type: Comprehension                      KEY: bookkeeping

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

ANS: B                      PTS: 1                      OBJ: LO4                      NAT: AACSB correlation: analytic  
LOC: Learning Type: Comprehension                      KEY: bookkeeping

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

ANS: C                      PTS: 1                      OBJ: LO4                      NAT: AACSB correlation: analytic  
LOC: Learning Type: Comprehension                      KEY: bookkeeping

60. Which of the following accounts might be used when there is a time delay between a transaction and its related cash flow?
- Accounts Payable
  - Fees Earned

- c. Cash
- d. Prepaid Rent

ANS: A                      PTS: 1                      OBJ: LO5  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: accounts

61. Which of the following accounts will eventually be followed with an inflow of cash?
- a. Prepaid Insurance
  - b. Unearned Revenue
  - c. Owner's Withdrawals
  - d. Accounts Receivable

ANS: D                      PTS: 1                      OBJ: LO5  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: accounts

62. 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                      OBJ: LO5  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: accounts

63. 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                      OBJ: LO5  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: cash flow adequacy

64. The general journal does not have a column titled
- a. Description.
  - b. Account Balance.
  - c. Date.
  - d. Post. Ref.

ANS: B                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

65. 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                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

66. To find an explanation of a transaction, one should look at the
- ledger.
  - trial balance.
  - journal.
  - chart of accounts.

ANS: C                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

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

ANS: A                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: accounts

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

ANS: B                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

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

ANS: C                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: bookkeeping

70. Which of the following accounts should be credited in a journal entry?
- Owner's Withdrawals, when it has been increased
  - Accounts Receivable, when it has been decreased
  - Wages Expense, when it has been increased
  - Wages Payable, when it has been decreased

ANS: B                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: bookkeeping

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

d. Assets are entered before liabilities.

ANS: B                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

72. Which of the following statements is *not* necessarily true about a journal entry?
- a. Liabilities are indented.
  - b. An explanation follows the journal entry.
  - 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                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

73. 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                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: posting transactions

74. 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                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: posting transactions

75. 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                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: posting transactions

76. The account most recently posted is determined most efficiently by referring to the
- a. Post. Ref. column of the ledger.
  - b. balance column of the ledger.
  - c. date column of the general journal.
  - d. Post. Ref. column of the general journal.

ANS: D                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: posting transactions

77. Posting is performed by transferring information from the
- source documents to the journal.
  - source documents to the ledger.
  - journal to the ledger.
  - ledger to the journal.

ANS: C                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: posting transactions

78. The Post. Ref. column in the general ledger shows that an amount has been posted when which of the following is placed in it?
- The journal page number
  - An X
  - A check mark
  - The account number

ANS: A                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: posting transactions

79. Which of the following bookkeeping techniques generally is *not* acceptable?
- Dollar signs on financial statements
  - Commas and periods in ruled columns
  - A double line after final totals
  - A dash in the cents column to indicate zero cents

ANS: B                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

80. The chart of accounts is the starting point for a
- journal.
  - trial balance.
  - ledger.
  - financial statement.

ANS: C                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: chart of accounts

81. Typically, the chart of accounts begins with
- revenue accounts.
  - asset accounts.
  - liability accounts.
  - expense accounts.

ANS: B                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: chart of accounts

82. The purpose of the ledger is to
- keep a record of documentation to support each transaction.
  - make sure that all assets, liabilities, etc., have credit balances at all times.

- c. record chronologically the day's transactions.
- d. maintain a separate account for each asset, liability, etc.

ANS: D                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: bookkeeping

83. Which of the following accounts probably would be listed *before* the others in a chart of accounts?
- a. Insurance Expense
  - b. Grace Peterson, Withdrawals
  - c. Notes Payable
  - d. Accumulated Depreciation, Buildings

ANS: D                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: chart of accounts

84. 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. Fran Ellis, Capital
  - d. Art Fees Earned

ANS: D                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: chart of accounts

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

ANS: C                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: assets| chart of accounts

86. The Unearned Fees account is classified as a(n)
- a. liability.
  - b. revenue.
  - c. asset.
  - d. expense.

ANS: A                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: chart of accounts| liabilities

87. Which of the following accounts is an asset?
- a. Jack Rossi, Capital
  - b. Notes Payable
  - c. Prepaid Rent
  - d. Supplies Expense

ANS: C                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: assets| chart of accounts

88. Unearned revenues are recorded by companies that
- receive money in advance of the performance of a service.
  - pay money at the time the performance of a service is complete.
  - receive money at the time the performance of a service is complete.
  - pay money in advance of the performance of a service.

ANS: A                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Recall  
KEY: recognition of liabilities

89. Office supplies become expenses
- when they are consumed (used up).
  - when they are paid for.
  - at no time, since they are an asset.
  - when they are purchased.

ANS: A                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: assets

90. Which of the following accounts is classified differently from the others listed?
- Accounts Receivable
  - Owner's Capital
  - Prepaid Rent
  - Cash

ANS: B                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: chart of accounts

91. Which of the following accounts is classified differently from the others listed?
- Notes Payable
  - Unearned Revenue
  - Accounts Payable
  - Fees Earned

ANS: D                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: chart of accounts

92. For which of the following accounts would a related Accumulated Depreciation account be recorded?
- Office Equipment
  - Land
  - Office Supplies
  - Prepaid Rent

ANS: A                      PTS: 1                      OBJ: SO6  
NAT: AACSB correlation: reflective                      LOC: Learning Type: Comprehension  
KEY: assets

## SHORT ANSWER

- Use this journal entry to answer the following question.

Nov. 16    Accounts Payable

685

    Cash

685

        Recorded payment of a liability

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

OBJ: LO1

NAT: AACSB correlation: reflective

LOC: Learning Type: Comprehension

KEY: measurement issues

2. Explain why the dollar amount of total owner's 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

OBJ: LO1

NAT: AACSB correlation: reflective

LOC: Learning Type: Critical Thinking

KEY: measurement issues

3. 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

OBJ: LO1

NAT: AACSB correlation: reflective

LOC: Learning Type: Comprehension

KEY: business transactions

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 Owner's Capital
- 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                      OBJ: LO2                      NAT: AACSB correlation: reflective  
 LOC: Learning Type: Comprehension                      KEY: bookkeeping

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 Owner's Capital
- e. Increase in Depreciation Expense, Buildings
- f. Increase in Interest Receivable
- g. Decrease in Accounts Payable
- h. Increase in Owner's Withdrawals
- 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                      OBJ: LO2                      NAT: AACSB correlation: reflective  
 LOC: Learning Type: Comprehension                      KEY: bookkeeping

6. Why is the Owner's Withdrawals account increased by a debit? Explain in terms of its relationship to owner's equity.

ANS:

Owner's withdrawals represent a decrease in owner's equity. According to the rules of debit and credit, a decrease in owner's equity is recorded as a debit.

PTS: 1                      OBJ: LO2                      NAT: AACSB correlation: reflective  
 LOC: Learning Type: Comprehension                      KEY: bookkeeping

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

- |                        |                        |
|------------------------|------------------------|
| a. Automobiles         | g. Owner's Withdrawals |
| b. Accounts Payable    | h. Unearned Revenue    |
| c. Owner's Capital     | i. Land                |
| d. Prepaid Rent        | j. Interest Payable    |
| e. Advertising Expense | k. Notes Receivable    |
| f. Service Revenue     |                        |

ANS:

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

PTS: 1

OBJ: LO2

NAT: AACSB correlation: reflective

LOC: Learning Type: Comprehension

KEY: bookkeeping

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

- |                      |                                    |
|----------------------|------------------------------------|
| a. Cash              | g. Interest Receivable             |
| b. Wages Payable     | h. Store Equipment                 |
| c. Wages Expense     | i. Legal Fees Earned               |
| d. Unearned Fees     | j. Owner's Capital                 |
| e. Prepaid Insurance | k. Depreciation Expense, Buildings |
| f. Notes Payable     |                                    |

ANS:

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

PTS: 1

OBJ: LO2

NAT: AACSB correlation: reflective

LOC: Learning Type: Comprehension

KEY: bookkeeping

9. 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 \$780 was recorded as a debit to Equipment and a credit to Cash for \$780.
- 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
- c. \$1200

PTS: 1

OBJ: LO4

NAT: AACSB correlation: analytic

LOC: Learning Type: Analysis

KEY: bookkeeping

10. 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                      OBJ: LO4                      NAT: AACSB correlation: analytic  
 LOC: Learning Type: Comprehension                      KEY: bookkeeping

11. 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.<br>Ref. | Debit | Credit |
|                 |             |               |       |        |
|                 |             |               |       |        |
|                 |             |               |       |        |
|                 |             |               |       |        |
|                 |             |               |       |        |
|                 |             |               |       |        |
|                 |             |               |       |        |
|                 |             |               |       |        |
|                 |             |               |       |        |

ANS:

| General Journal |                                                       |               |       | Page 1 |
|-----------------|-------------------------------------------------------|---------------|-------|--------|
| Date            | Description                                           | Post.<br>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 cash on account                              |               |       |        |

PTS: 1                      OBJ: SO6                      NAT: AACSB correlation: analytic  
 LOC: Learning Type: Application                      KEY: bookkeeping

12. In the journal provided, prepare journal entries without explanations for the following transactions. Write "no entry" if none is needed.
- a. Received a \$1,850 invoice for this month's rent. Payment will not be made right away.

- b. Paid \$1,600 for insurance premiums to cover the next six months.
- c. The owner, Pat Richards, withdrew \$350.
- d. The rent of a is paid.
- e. Purchased land for \$23,000. The company paid half in cash and issued a promissory note for the other half.

| General Journal |             |               |       | Page 1 |
|-----------------|-------------|---------------|-------|--------|
| Date            | Description | Post.<br>Ref. | Debit | Credit |
|                 |             |               |       |        |

ANS:

| General Journal |                                                       |               |        | Page 1           |
|-----------------|-------------------------------------------------------|---------------|--------|------------------|
| Date            | Description                                           | Post.<br>Ref. | Debit  | Credit           |
|                 | a. Rent Expense<br>Rent Payable (or Accounts Payable) |               | 1,850  | 1,850            |
|                 | b. Prepaid Insurance<br>Cash                          |               | 1,600  | 1,600            |
|                 | c. Pat Richards, Withdrawals<br>Cash                  |               | 350    | 350              |
|                 | d. Rent Payable (or Accounts Payable)<br>Cash         |               | 1,850  | 1,850            |
|                 | e. Land<br>Cash<br>Notes Payable                      |               | 23,000 | 11,500<br>11,500 |

PTS: 1                      OBJ: SO6                      NAT: AACSB correlation: analytic  
 LOC: Learning Type: Application                      KEY: bookkeeping

13. Provide explanations for the following related journal entries:

|                       |       |       |
|-----------------------|-------|-------|
| a. Cash               | 6,000 |       |
| Mike Bradley, Capital |       | 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:

- The owner invested cash into the business.
- Purchased a law library, to be paid for at a later time.
- Rendered \$1,600 in legal services; \$600 was received in cash, the remainder to be received at a later time.
- Received \$500 from c.
- Paid for the law library of b.

PTS: 1                      OBJ: SO6                      NAT: AACSB correlation: reflective  
 LOC: Learning Type: Application                      KEY: bookkeeping

14. Provide explanations for the following related journal entries:

|                     |        |        |
|---------------------|--------|--------|
| a. Prepaid Rent     | 4,000  |        |
| Cash                |        | 4,000  |
| b. Trucks           | 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:

- Made advance payment of rent.
- Issued promissory note for purchase of company truck.
- Received payment from credit customer.
- Paid half of promissory note for purchase of company truck.
- Received cash in advance of performing a service.

PTS: 1                      OBJ: SO6                      NAT: AACSB correlation: reflective  
 LOC: Learning Type: Application                      KEY: bookkeeping

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

| Unearned Art Fees |      |            |       |        | Account No. 213 |        |
|-------------------|------|------------|-------|--------|-----------------|--------|
| Date              | Item | Post. Ref. | Debit | Credit | Balance         |        |
|                   |      |            |       |        | Debit           | Credit |
| 2010              |      |            |       |        |                 |        |
| May 1             |      | J1         |       | 3,100  |                 |        |
| 7                 |      | J1         | 700   |        |                 |        |
| 8                 |      | J2         |       | 500    |                 |        |
| 12                |      | J2         | 200   |        |                 |        |

ANS:

| Unearned Art Fees |      |            |       |        | Account No. 213 |        |
|-------------------|------|------------|-------|--------|-----------------|--------|
| Date              | Item | Post. Ref. | Debit | Credit | Balance         |        |
|                   |      |            |       |        | Debit           | Credit |
| 2010              |      |            |       |        |                 |        |
| May 1             |      | J1         |       | 3,100  |                 | 3,100  |
| 7                 |      | J1         | 700   |        |                 | 2,400  |
| 8                 |      | J2         |       | 500    |                 | 2,900  |
| 12                |      | J2         | 200   |        |                 | 2,700  |

PTS: 1

OBJ: SO6

NAT: AACSB correlation: analytic

LOC: Learning Type: Application

KEY: bookkeeping

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 |
| 2010             |      |            |       |        |                 |        |
| 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 |
| 2010             |      |            |       |        |                 |        |
| 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                      OBJ: SO6                      NAT: AACSB correlation: analytic  
 LOC: Learning Type: Application                      KEY: bookkeeping

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 |
| 2010                |      |            |       |        |                 |        |
| Feb. 1              |      | J2         | 1,710 |        |                 |        |
| 3                   |      | J3         |       | 320    |                 |        |
| 9                   |      | J3         |       | 700    |                 |        |
| 14                  |      | J3         | 410   |        |                 |        |

ANS:

| Accounts Receivable |      |            |       |        | Account No. 113 |        |
|---------------------|------|------------|-------|--------|-----------------|--------|
| Date                | Item | Post. Ref. | Debit | Credit | Balance         |        |
|                     |      |            |       |        | Debit           | Credit |
| 2010                |      |            |       |        |                 |        |
| Feb. 1              |      | J2         | 1,710 |        | 1,710           |        |
| 3                   |      | J3         |       | 320    | 1,390           |        |
| 9                   |      | J3         |       | 700    | 690             |        |
| 14                  |      | J3         | 410   |        | 1,100           |        |

PTS: 1                      OBJ: SO6                      NAT: AACSB correlation: analytic  
 LOC: Learning Type: Application                      KEY: bookkeeping

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 line item posted from the journal.

PTS: 1                      OBJ: SO6                      NAT: AACSB correlation: reflective  
 LOC: Learning Type: Comprehension                      KEY: posting transactions

19. 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                      OBJ: SO6                      NAT: AACSB correlation: reflective  
 LOC: Learning Type: Comprehension                      KEY: liabilities

20. 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), owner's equity (OE), 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 taken from the business by the owner.
- 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 owner investments in a business

ANS:

- a. Accounts Payable (L)
- b. Cash (A)
- c. Land (A)
- d. Owner's Withdrawals (OE)
- e. Legal Fees Earned (R)
- f. Mortgage Payable (L)
- g. Office Supplies (A)
- h. Office Supplies Expense (E)
- i. Prepaid Insurance (A)
- j. Owner's Capital (OE)

PTS: 1                      OBJ: SO6                      NAT: AACSB correlation: reflective  
LOC: Learning Type: Application                      KEY: chart of accounts

21. 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                      OBJ: SO6                      NAT: AACSB correlation: reflective  
LOC: Learning Type: Comprehension                      KEY: assets

22. 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                      OBJ: LO1                      NAT: AACSB correlation: ethics  
LOC: Learning Type: Critical Thinking                      KEY: business ethics

23. Using the following transactions, calculate (A) the ending balance of Cash, (B) the ending balance of Accounts Receivable, (C) total liabilities, and (D) net income for the period. For parts a and b, indicate whether each balance is debit or credit.

- a. Opened business by investing \$20,000 in cash.
- b. Billed customers for services rendered, \$4,000.
- c. Paid for six months' subscription in advance, \$1,000.
- d. Received advertising bill, to be paid next week, \$200.
- e. Withdrawals of \$1,600 were made by the owner.
- f. Received \$3,000 from customers billed in b.
- g. Paid half of advertising bill.
- h. Received \$400 in advance of performing a service.

ANS:

- a. \$20,700 debit ( $\$20,000 + \$3,000 + \$400 - \$1,000 - \$1,600 - \$100$ )
- b. \$1,000 debit ( $\$4,000 - \$3,000$ )
- c. \$500 ( $\$200 + \$400 - \$100$ )
- d. \$3,800 ( $\$4,000 - \$200$ )

PTS: 1                      OBJ: LO3                      NAT: AACSB correlation: analytic  
LOC: Learning Type: Analysis                      KEY: bookkeeping

24. Using the following transactions, calculate (A) net income for the period, as well as the ending balances of (B) total assets, (C) total liabilities, and (D) Cash. For part d, indicate whether the balance is debit or credit.

- a. Opened business by investing \$36,000 in cash.
- 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. Withdrawals of \$2,000 were made by the owner.

ANS:

- a. \$5,600 (\$6,000 – \$400)
- b. \$40,500 (\$36,000 + \$6,000 + \$800 – \$300 – \$2,000)
- c. \$900 (\$400 + \$800 – \$300)
- d. \$36,500 debit (\$36,000 + \$800 + \$4,400 – \$2,400 – \$300 – \$2,000)

PTS: 1                      OBJ: LO3                      NAT: AACSB correlation: analytic  
 LOC: Learning Type: Analysis                      KEY: bookkeeping

25. From the following alphabetical list of account balances, all of which are normal, for Kasper Company on July 31, 2010, prepare a trial balance in proper form (the amount of Phil Kasper, Withdrawals must be computed) .

|                          |       |
|--------------------------|-------|
| Accounts Payable         | \$500 |
| Accounts Receivable      | 200   |
| Cash                     | 80    |
| Equipment                | 700   |
| Phil Kasper, Capital     | 150   |
| Phil Kasper, Withdrawals | ?     |
| Prepaid Advertising      | 20    |
| Revenue Earned           | 400   |
| Wages Expense            | 70    |
| Wages Payable            | 50    |

ANS:

| Kasper Company           |                |                |
|--------------------------|----------------|----------------|
| Trial Balance            |                |                |
| July 31, 2010            |                |                |
| Cash                     | \$ 80          |                |
| Accounts Receivable      | 200            |                |
| Prepaid Advertising      | 20             |                |
| Equipment                | 700            |                |
| Accounts Payable         |                | \$ 500         |
| Wages Payable            |                | 50             |
| Phil Kasper, Capital     |                | 150            |
| Phil Kasper, Withdrawals | 30             |                |
| Revenue Earned           |                | 400            |
| Wages Expense            | 70             |                |
|                          | <u>\$1,100</u> | <u>\$1,100</u> |

PTS: 1                      OBJ: LO4                      NAT: AACSB correlation: analytic  
 LOC: Learning Type: Application                      KEY: bookkeeping

26. From the following alphabetical list of account balances, all of which are normal, for Aloha Company on September 30, 2010, prepare a trial balance in proper form (the amount of Ron Ho, Withdrawals must be computed) .

|                     |        |
|---------------------|--------|
| Accounts Payable    | \$ 780 |
| Accounts Receivable | 460    |
| Cash                | 400    |

|                     |       |
|---------------------|-------|
| Equipment           | 1,380 |
| Prepaid Advertising | 20    |
| Revenue Earned      | 1,000 |
| Ron Ho, Capital     | 1,200 |
| Ron Ho, Withdrawals | ?     |
| Wages Expense       | 60    |
| Wages Payable       | 20    |

ANS:

| Aloha Company<br>Trial Balance<br>September 30, 2010 |                |                |
|------------------------------------------------------|----------------|----------------|
| Cash                                                 | \$ 400         |                |
| Accounts Receivable                                  | 460            |                |
| Prepaid Advertising                                  | 20             |                |
| Equipment                                            | 1,380          |                |
| Accounts Payable                                     |                | \$ 780         |
| Wages Payable                                        |                | 20             |
| Ron Ho, Capital                                      |                | 1,200          |
| Ron Ho, Withdrawals                                  | 680            |                |
| Revenue Earned                                       |                | 1,000          |
| Wages Expense                                        | 60             |                |
|                                                      | <u>\$3,000</u> | <u>\$3,000</u> |

PTS: 1      OBJ: LO4      NAT: AACSB correlation: analytic  
 LOC: Learning Type: Analysis      KEY: bookkeeping

27. Using the alphabetical list of account balances presented below, all of which are normal, prepare a trial balance for T. and C. Company at June 30, 2010, in proper order. Compute the balance of the Cash account.

|                     |       |
|---------------------|-------|
| Accounts Payable    | \$140 |
| Accounts Receivable | 280   |
| Cash                | ?     |
| Equipment           | 400   |
| Office Expense      | 180   |
| Rita Mason, Capital | 440   |
| Service Revenue     | 300   |

ANS:

| T. and C. Company<br>Trial Balance<br>June 30, 2010 |       |       |
|-----------------------------------------------------|-------|-------|
| Cash                                                | \$ 20 |       |
| Accounts Receivable                                 | 280   |       |
| Equipment                                           | 400   |       |
| Accounts Payable                                    |       | \$140 |
| Rita Mason, Capital                                 |       | 440   |
| Service Revenue                                     |       | 300   |
| Office Expense                                      | 180   |       |



|  |  |  |  |  |
|--|--|--|--|--|
|  |  |  |  |  |
|--|--|--|--|--|

ANS:

| General Journal |                                                    |               |        | Page 1          |
|-----------------|----------------------------------------------------|---------------|--------|-----------------|
| Date            | Description                                        | Post.<br>Ref. | Debit  | Credit          |
| Apr. 1          | Cash<br>Stuart Franz, Capital                      |               | 60,000 | 60,000          |
| 3               | Prepaid Rent<br>Cash                               |               | 14,400 | 14,400          |
| 6               | Dry Cleaning Equipment<br>Cash<br>Accounts Payable |               | 40,000 | 8,000<br>32,000 |
| 9               | No entry                                           |               |        |                 |
| 17              | Wages Expense<br>Cash                              |               | 300    | 300             |
| 17              | Cash<br>Dry Cleaning Revenue                       |               | 3,000  | 3,000           |
| 20              | Accounts Payable<br>Cash                           |               | 32,000 | 32,000          |
| 21              | Cash<br>Unearned Dry Cleaning Revenue              |               | 200    | 200             |
| 23              | Accounts Receivable<br>Dry Cleaning Revenue        |               | 500    | 500             |
| 24              | Wages Expense<br>Cash                              |               | 300    | 300             |
| 26              | Cash<br>Accounts Receivable                        |               | 500    | 500             |
| 30              | Telephone Expense<br>Accounts Payable              |               | 100    | 100             |

PTS: 1

OBJ: SO6

NAT: AACSB correlation: analytic

LOC: Learning Type: Application

KEY: bookkeeping

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

- May
- 1 Low Parker opened a dry cleaning service, called Junction Cleaners, by depositing \$100,000 into a business bank account.
  - 3 Paid two years' rent in advance, \$11,200.
  - 6 Purchased dry cleaning equipment for \$36,000. Paid \$14,000 in cash, the remainder to be paid in two weeks.
  - 10 Hired a worker, to be paid \$550 per week.
  - 17 Paid the worker's weekly wage.
  - 17 Recorded cash received for services rendered during the week, \$5,000.
  - 20 Paid for the remainder of the equipment purchased on May 6.
  - 21 Received \$240 in advance of cleaning and boxing a wedding gown.
  - 23 Performed \$390 of dry cleaning services for Tuxedos Unlimited. Payment will be received in three days.
  - 24 Paid the weekly wages.
  - 26 Received payment from Tuxedos Unlimited.
  - 30 Received a telephone bill for \$114, which will be paid in two weeks.

| General Journal |             |               |       | Page 1 |
|-----------------|-------------|---------------|-------|--------|
| Date            | Description | Post.<br>Ref. | Debit | Credit |
|                 |             |               |       |        |

ANS:

| General Journal |                                                    |               |         | Page 1           |
|-----------------|----------------------------------------------------|---------------|---------|------------------|
| Date            | Description                                        | Post.<br>Ref. | Debit   | Credit           |
| May 1           | Cash<br>Lew Parker, Capital                        |               | 100,000 | 100,000          |
| 3               | Prepaid Rent<br>Cash                               |               | 11,200  | 11,200           |
| 6               | Dry Cleaning Equipment<br>Cash<br>Accounts Payable |               | 36,000  | 14,000<br>22,000 |
| 10              | No entry                                           |               |         |                  |
| 17              | Wages Expense<br>Cash                              |               | 550     | 550              |
| 17              | Cash<br>Dry Cleaning Revenue                       |               | 5,000   | 5,000            |
| 20              | Accounts Payable<br>Cash                           |               | 22,000  | 22,000           |
| 21              | Cash<br>Unearned Dry Cleaning Revenue              |               | 240     | 240              |
| 23              | Accounts Receivable<br>Dry Cleaning Revenue        |               | 390     | 390              |
| 24              | Wages Expense<br>Cash                              |               | 550     | 550              |
| 26              | Cash<br>Accounts Receivable                        |               | 390     | 390              |
| 30              | Telephone Expense<br>Accounts Payable              |               | 114     | 114              |

PTS: 1                      OBJ: SO6                      NAT: AACSB correlation: analytic  
 LOC: Learning Type: Application                      KEY: bookkeeping

30. 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 Jean Kelly opened a dance school, called Jean's Dance Studio, by depositing \$15,000 into a business bank account.  
 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.<br>Ref. | Debit | Credit |
|                 |             |               |       |        |

ANS:

| General Journal |                             |               |        | Page 1 |
|-----------------|-----------------------------|---------------|--------|--------|
| Date            | Description                 | Post.<br>Ref. | Debit  | Credit |
| Mar. 1          | Cash<br>Jean Kelly, Capital |               | 15,000 | 15,000 |
| 2               | Prepaid Rent<br>Cash        |               | 1,800  | 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                      OBJ: SO6                      NAT: AACSB correlation: analytic  
 LOC: Learning Type: Application                      KEY: bookkeeping

31. 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 Rae Bolger opened a dance school called Rae's Dance Studio by depositing \$24,000 into a business bank account.  
 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 first installment on the sound equipment purchased on November 6.  
 23 Received an electric bill of \$150, to be paid on December 1.

ANS:

| General Journal |                     |               |        | Page 1 |
|-----------------|---------------------|---------------|--------|--------|
| Date            | Description         | Post.<br>Ref. | Debit  | Credit |
| Nov. 1          | Cash                |               | 24,000 |        |
|                 | Rae Bolger, Capital |               |        | 24,000 |

|    |                     |  |       |       |
|----|---------------------|--|-------|-------|
| 2  | Prepaid Rent        |  | 2,400 |       |
|    | Cash                |  |       | 2,400 |
| 4  | No entry            |  |       |       |
| 6  | Sound Equipment     |  | 4,200 |       |
|    | Cash                |  |       | 600   |
|    | Accounts Payable    |  |       | 3,600 |
| 8  | No entry            |  |       |       |
| 17 | Cash                |  | 900   |       |
|    | Accounts Receivable |  | 100   |       |
|    | Tuition Revenue     |  |       | 1,000 |
| 17 | Wages Expense       |  | 275   |       |
|    | Cash                |  |       | 275   |
| 20 | Cash                |  | 100   |       |
|    | Accounts Receivable |  |       | 100   |
| 20 | Accounts Payable    |  | 1,200 |       |
|    | Cash                |  |       | 1,200 |
| 23 | Utilities Expense   |  | 150   |       |
|    | Accounts Payable    |  |       | 150   |

PTS: 1                      OBJ: SO6                      NAT: AACSB correlation: analytic  
 LOC: Learning Type: Application                      KEY: bookkeeping

32. Post the following transaction.

| General Journal |                                                                                    |            |       | Page 14 |  |
|-----------------|------------------------------------------------------------------------------------|------------|-------|---------|--|
| Date            | Description                                                                        | Post. Ref. | Debit | Credit  |  |
| 2010<br>July 20 | Accounts Receivable<br>Commissions Earned<br>Commission earned on sale of painting |            | 415   | 415     |  |

| Accounts Receivable |      |            |       |        | Account No. 112 |        |
|---------------------|------|------------|-------|--------|-----------------|--------|
| Date                | Item | Post. Ref. | Debit | Credit | Balance         |        |
|                     |      |            |       |        | Debit           | Credit |
| 2010                |      |            |       |        |                 |        |

|                    |                 |
|--------------------|-----------------|
| Commissions Earned | Account No. 411 |
|--------------------|-----------------|

| Date | Item | Post.<br>Ref. | Debit | Credit | Balance |        |
|------|------|---------------|-------|--------|---------|--------|
|      |      |               |       |        | Debit   | Credit |
| 2010 |      |               |       |        |         |        |

ANS:

| General Journal |                                                                                    |  |  |               | Page 14 |        |
|-----------------|------------------------------------------------------------------------------------|--|--|---------------|---------|--------|
| Date            | Description                                                                        |  |  | Post.<br>Ref. | Debit   | Credit |
| 2010<br>July 20 | Accounts Receivable<br>Commissions Earned<br>Commission earned on sale of painting |  |  | 112<br>411    | 415     | 415    |

| Accounts Receivable |      |               |       |        | Account No. 112 |        |
|---------------------|------|---------------|-------|--------|-----------------|--------|
| Date                | Item | Post.<br>Ref. | Debit | Credit | Balance         |        |
|                     |      |               |       |        | Debit           | Credit |
| 2010<br>July 20     |      | J14           | 415   |        | 415             |        |

| Commissions Earned |      |               |       |        | Account No. 411 |        |
|--------------------|------|---------------|-------|--------|-----------------|--------|
| Date               | Item | Post.<br>Ref. | Debit | Credit | Balance         |        |
|                    |      |               |       |        | Debit           | Credit |
| 2010<br>July 20    |      | J14           |       | 415    |                 | 415    |

PTS: 1                      OBJ: SO6                      NAT: AACSB correlation: analytic  
 LOC: Learning Type: Application                      KEY: posting transactions

33. Post the following transaction.

| General Journal |                                                           |  |  |               | Page 8 |        |
|-----------------|-----------------------------------------------------------|--|--|---------------|--------|--------|
| Date            | Description                                               |  |  | Post.<br>Ref. | Debit  | Credit |
| 2010<br>May 12  | Land<br>Notes Payable<br>Issued note for purchase of land |  |  |               | 5,000  | 5,000  |

| Land |      |               |       |        | Account No. 141 |  |
|------|------|---------------|-------|--------|-----------------|--|
| Date | Item | Post.<br>Ref. | Debit | Credit | Balance         |  |

|      |  |  |  |  | Debit | Credit |
|------|--|--|--|--|-------|--------|
| 2010 |  |  |  |  |       |        |

| Notes Payable |      |            |       |        | Account No. 211 |        |
|---------------|------|------------|-------|--------|-----------------|--------|
| Date          | Item | Post. Ref. | Debit | Credit | Balance         |        |
|               |      |            |       |        | Debit           | Credit |
| 2010          |      |            |       |        |                 |        |

ANS:

| General Journal |                                                           |  |            |       | Page 8 |  |
|-----------------|-----------------------------------------------------------|--|------------|-------|--------|--|
| Date            | Description                                               |  | Post. Ref. | Debit | Credit |  |
| 2010<br>May 12  | Land<br>Notes Payable<br>Issued note for purchase of land |  | 141<br>211 | 5,000 | 5,000  |  |

| Land           |      |            |       |        | Account No. 141 |        |
|----------------|------|------------|-------|--------|-----------------|--------|
| Date           | Item | Post. Ref. | Debit | Credit | Balance         |        |
|                |      |            |       |        | Debit           | Credit |
| 2010<br>May 12 |      | J8         | 5,000 |        | 5,000           |        |

| Notes Payable  |      |            |       |        | Account No. 211 |        |
|----------------|------|------------|-------|--------|-----------------|--------|
| Date           | Item | Post. Ref. | Debit | Credit | Balance         |        |
|                |      |            |       |        | Debit           | Credit |
| 2010<br>May 12 |      | J8         |       | 5,000  |                 | 5,000  |

PTS: 1  
LOC: Learning Type: Application

OBJ: SO6

NAT: AACSB correlation: analytic  
KEY: posting transactions