

Student: _____

1. Accounting records are also referred to as the books.
True False
2. The first step in the processing of a transaction is to analyze the transaction and source documents.
True False
3. Preparation of a trial balance is the first step in the analyzing and recording process.
True False
4. Source documents provide evidence of business transactions and are the basis for accounting entries.
True False
5. Items such as sales tickets, bank statements, checks, and purchase orders are source documents.
True False
6. An account is a record of increases and decreases in a specific asset, liability, equity, revenue, or expense item.
True False
7. A customer's promise to pay is called an account payable to the seller.
True False
8. Withdrawals by the owner are a business expense.
True False
9. As prepaid expenses are used, the expired costs of the assets become expenses.
True False
10. Land and buildings are generally recorded in the same ledger account.
True False
11. It is not necessary to keep separate accounts for all items of importance for business decisions.
True False
12. Unearned revenues are liabilities.
True False
13. Cash withdrawn by the owner of a proprietorship should be treated as an expense of the business.
True False
14. When a company provides services for which cash will not be received until some future date, the company should record the amount received as unearned revenue for the amount charged to the customer.
True False
15. The chart of accounts is a list of all the accounts used by a company and includes an identification number assigned to each account.
True False
16. An account balance is the difference between the debits and credits for an account including any beginning balance.
True False
17. Debit means the right side of an account.
True False

18. In a double-entry accounting system, the total amount debited must always equal the total amount credited.
True False
19. Increases in liability accounts are recorded as debits.
True False
20. Debits increase asset and expense accounts.
True False
21. Credits always increase account balances.
True False
22. Crediting an expense account decreases it.
True False
23. Double entry accounting requires that each transaction affect, and be recorded in, at least two accounts.
True False
24. A revenue account normally has a debit balance.
True False
25. Accounts are normally decreased by debits.
True False
26. The owner's withdrawal account normally has a credit balance since it is an equity account.
True False
27. Asset accounts normally have credit balances and revenue accounts normally have debit balances.
True False
28. An owner's capital account normally has a debit balance.
True False
29. A debit entry is always favorable.
True False
30. A transaction that decreases an asset account and increases a liability account must also affect one or more other accounts.
True False
31. A transaction that increases an asset and decreases a liability must also affect one or more other accounts.
True False
32. If insurance coverage for the next three years is paid for in advance, the amount of the payment is debited to an asset account called Prepaid Insurance.
True False
33. The purchase of supplies on credit should be recorded with a debit to Supplies and a credit to Accounts Payable.
True False
34. If a company purchases land paying cash, the journal entry to record this transaction will include a debit to Cash.
True False
35. If a company provides services to a customer on credit the selling company should credit Accounts Receivable.
True False

36. When a company bills a customer for \$600 for services rendered, the journal entry to record this transaction will include a \$600 debit to Services Revenue.
True False
37. The debt ratio helps to assess the risk a company has of failing to pay its debts and is helpful to both its owners and creditors.
True False
38. The higher a company's debt ratio is, the higher the risk of a company not being able to meet its obligations.
True False
39. The debt ratio is calculated by dividing total assets by total liabilities.
True False
40. A company that finances a relatively large portion of its assets with liabilities is said to have a high degree of financial leverage.
True False
41. If a company is highly leveraged, this means that it has relatively low risk of not being able to repay its debt.
True False
42. Hamilton Industries has liabilities of \$105 million and total assets of \$350 million. Its debt ratio is 40.0%.
True False
43. High financial leverage is always bad for a company's owners.
True False
44. A compound journal entry affects no more than two accounts.
True False
45. Posting is the transfer of journal entry information to the ledger.
True False
46. Transactions are first recorded in the ledger.
True False
47. The journal is known as a book of original entry.
True False
48. A journal gives a complete record of each transaction in one place, and shows the debits and credits for each transaction.
True False
49. The journal is known as the book of final entry because financial statements are prepared from it.
True False
50. A trial balance that balances is not proof of complete accuracy in recording transactions.
True False
51. The trial balance is a list of all accounts and their balances at a point in time taken from the ledger.
True False
52. Generally, the ordering of accounts in a trial balance typically follows their identification number from the chart of accounts, that is, assets first, then liabilities, then owner's capital and withdrawals, followed by revenues and expenses.
True False

53. The trial balance can serve as a replacement for the balance sheet, since debits must equal with credits.
True False
54. A trial balance that is in balance is proof that no errors were made in journalizing the transactions, posting to the ledger, and preparing the trial balance.
True False
55. If cash was incorrectly debited for \$100 instead of correctly credited for \$100, the cash account is out of balance by \$100.
True False
56. The balance sheet provides a link between beginning and ending income statements.
True False
57. The heading on each financial statement lists the three W's – Who (the name of the organization), What (the name of the statement), and Where (the organization's address)
True False
58. An income statement reports the revenues earned less expenses incurred by a business over a period of time.
True False
59. The balance sheet reports the financial position of a company at a point in time.
True False
60. The accounting process begins with:
A. Analysis of business transactions and source documents.
B. Preparing financial statements and other reports.
C. Summarizing the recorded effect of business transactions.
D. Presentation of financial information to decision-makers.
E. Preparation of the trial balance.
61. A sales invoice:
A. Is a type of source document.
B. Is used by sellers to record the sale.
C. Is used by buyers to record purchases.
D. Gives rise to an entry in the accounting process.
E. All of these.
62. Source documents include all of the following *except*:
A. Sales tickets.
B. Ledgers.
C. Checks.
D. Purchase orders.
E. Bank statements.
63. Source documents:
A. Include the ledger.
B. Are the sources of accounting information.
C. Must be in electronic form.
D. Are based on accounting entries.
E. Include the chart of accounts.
64. Various types of documents and other papers that companies use when they conduct their business:
A. Are called source documents.
B. Can include sales tickets.
C. Are the source of information for recording accounting entries.
D. Can be in electronic form.
E. All of these.

65. A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense is a(n):
- A. Journal.
 - B. Posting.
 - C. Trial balance.
 - D. Account.
 - E. Chart of accounts.
66. An account used to record the owner's investments in the business is called a(n):
- A. Withdrawals account.
 - B. Capital account.
 - C. Revenue account.
 - D. Expense account.
 - E. Liability account.
67. The account used to record the transfers of assets from a business to its owner is:
- A. A revenue account.
 - B. The owner's withdrawals account.
 - C. The owner's capital account.
 - D. An expense account.
 - E. A liability account.
68. Which of the following statements is correct?
- A. When a future expense is paid in advance, the payment is normally recorded in a liability account called Prepaid Expense.
 - B. Promises of future payment are called accounts receivable.
 - C. Increases and decreases in cash are always recorded in the owner's capital account.
 - D. An account called Land is commonly used to record increases and decreases in both the land and buildings owned by a business.
 - E. Accrued liabilities include accounts receivable.
69. Unearned revenues are:
- A. Revenues that have been earned and received in cash.
 - B. Revenues that have been earned but not yet collected in cash.
 - C. Liabilities created when a customer pays in advance for products or services before the revenue is earned.
 - D. Recorded as an asset in the accounting records.
 - E. Increases to owners' capital.
70. Prepaid expenses are:
- A. Payments made for products and services that do not ever expire.
 - B. Classified as liabilities on the balance sheet.
 - C. Decreases in equity.
 - D. Assets that represent prepayments of future expenses.
 - E. Promises of payments by customers.
71. A written promise to pay a definite sum of money on a specified future date is a(n):
- A. Unearned revenue.
 - B. Prepaid expense.
 - C. Credit account.
 - D. Note payable.
 - E. Account receivable.
72. A collection of all accounts and their balances used by a business is called a:
- A. Journal.
 - B. Book of original entry.
 - C. General Journal.
 - D. Balance column journal.
 - E. Ledger.

73. A ledger is:
- A. A record containing increases and decreases in a specific asset, liability, equity, revenue, or expense item.
 - B. A journal in which transactions are first recorded.
 - C. A collection of documents that describe transactions and events entering the accounting process.
 - D. A list of all accounts with their debit balances at a point in time.
 - E. A record containing all accounts and their balances used by a company.
74. A list of all accounts and the identification number assigned to each account used by a company is called a:
- A. Source document.
 - B. Journal.
 - C. Trial balance.
 - D. Chart of accounts.
 - E. General Journal.
75. The numbering system used in a company's chart of accounts:
- A. Is the same for all companies.
 - B. Is determined by generally accepted accounting principles.
 - C. Depends on the source documents used in the accounting process.
 - D. Typically begins with balance sheet accounts.
 - E. Typically begins with income statement accounts.
76. A debit is:
- A. An increase in an account.
 - B. The right-hand side of a T-account.
 - C. A decrease in an account.
 - D. The left-hand side of a T-account.
 - E. An increase to a liability account.
77. The right side of a T-account is a(n):
- A. Debit.
 - B. Increase.
 - C. Credit.
 - D. Decrease.
 - E. Account balance.
78. Which of the following statements is *incorrect*?
- A. The normal balance of accounts receivable is a debit.
 - B. The normal balance of owner's withdrawals is a debit.
 - C. The normal balance of unearned revenues is a credit.
 - D. The normal balance of an expense account is a credit.
 - E. The normal balance of the owner's capital account is a credit.
79. A credit is used to record:
- A. A decrease in an expense account.
 - B. A decrease in an asset account.
 - C. An increase in an unearned revenue account.
 - D. An increase in a revenue account.
 - E. All of these.
80. A simple account form widely used in accounting as a tool to understand how debits and credits affect an account balance is called a:
- A. Withdrawals account.
 - B. Capital account.
 - C. Drawing account.
 - D. T-account.
 - E. Balance column sheet.

81. Which of the following statements is correct?
- A. The left side of a T-account is the credit side.
 - B. Debits decrease asset and expense accounts, and increase liability, equity, and revenue accounts.
 - C. The left side of a T-account is the debit side.
 - D. Credits increase asset and expense accounts, and decrease liability, equity, and revenue accounts.
 - E. In certain circumstances the total amount debited need not equal the total amount credited for a particular transaction.
82. An account balance is:
- A. The total of the credit side of the account.
 - B. The total of the debit side of the account.
 - C. The difference between the total debits and total credits for an account including the beginning balance.
 - D. $\text{Assets} = \text{liabilities} + \text{equity}$.
 - E. Always a credit.
83. Of the following accounts, the one that normally has a credit balance is:
- A. Cash.
 - B. Office Equipment.
 - C. Sales Salaries Payable.
 - D. Owner, Withdrawals.
 - E. Sales Salaries Expense.
84. A debit is used to record:
- A. A decrease in an asset account.
 - B. A decrease in an expense account.
 - C. An increase in a revenue account.
 - D. An increase in the balance of an owner's capital account.
 - E. An increase in the balance of the owner's withdrawals account.
85. A credit entry:
- A. Increases asset and expense accounts, and decreases liability, owner's capital, and revenue accounts.
 - B. Is always a decrease in an account.
 - C. Decreases asset and expense accounts, and increases liability, owner's capital, and revenue accounts.
 - D. Is recorded on the left side of a T-account.
 - E. Is always an increase in an account.
86. Double-entry accounting is an accounting system:
- A. That records each transaction twice.
 - B. That records the effects of transactions and other events in at least two accounts with equal debits and credits.
 - C. In which each transaction affects and is recorded in two or more accounts but that could include two debits and no credits.
 - D. That may only be used if T-accounts are used.
 - E. That insures that errors never occur.
87. Rocky Industries received its telephone bill in the amount of \$300, and immediately paid it. Rocky's general journal entry to record this transaction will include a
- A. Debit to Telephone Expense for \$300.
 - B. Credit to Accounts Payable for \$300.
 - C. Debit to Cash for \$300.
 - D. Credit to Telephone Expense for \$300.
 - E. Debit to Accounts Payable for \$300.

88. Management Services, Inc. provides services to clients. On May 1, a client prepaid Management Services \$60,000 for 6-months services in advance. Management Services' general journal entry to record this transaction will include a
- Debit to Unearned Management Fees for \$60,000.
 - Credit to Management Fees Earned for \$60,000.
 - Credit to Cash for \$60,000.
 - Credit to Unearned Management Fees for \$60,000.
 - Debit to Management Fees Earned for \$60,000.
89. Wisconsin Rentals purchased office supplies on credit. The general journal entry made by Wisconsin Rentals will include a:
- Debit to Accounts Payable.
 - Debit to Accounts Receivable.
 - Credit to Cash.
 - Credit to Accounts Payable.
 - Credit to Wisconsin Rentals, Capital.
90. An asset created by prepayment of an expense is:
- Recorded as a debit to an unearned revenue account.
 - Recorded as a debit to a prepaid expense account.
 - Recorded as a credit to an unearned revenue account.
 - Recorded as a credit to a prepaid expense account.
 - Not recorded in the accounting records until the earnings process is complete.
91. Robert Haddon contributed \$70,000 in cash and land worth \$130,000 to open a new business, RH Consulting. Which of the following general journal entries will RH Consulting make to record this transaction?
- | | | |
|---------------------------|-----------|-----------|
| A. Assets | \$200,000 | |
| Robert Haddon, Capital | | \$200,000 |
| B. Cash and Land | \$200,000 | |
| Robert Haddon, Capital | | \$200,000 |
| C. Cash | \$70,000 | |
| Land | 130,000 | |
| Robert Haddon, Capital | | \$200,000 |
| D. Robert Haddon, Capital | \$200,000 | |
| Cash | | \$ 70,000 |
| Land | | 130,000 |
| E. Robert Haddon, Capital | 200,000 | |
| Assets | | \$200,000 |
92. A liability created by the receipt of cash from customers in payment for products or services that have not yet been delivered to the customers is:
- Recorded as a debit to an unearned revenue account.
 - Recorded as a debit to a prepaid expense account.
 - Recorded as a credit to an unearned revenue account.
 - Recorded as a credit to a prepaid expense account.
 - Not recorded in the accounting records until the earnings process is complete.
93. On September 30, the Cash account of Value Company had a normal balance of \$5,000. During September, the account was debited for a total of \$12,200 and credited for a total of \$11,500. What was the balance in the Cash account at the beginning of September?
- A \$0 balance.
 - A \$4,300 debit balance.
 - A \$4,300 credit balance.
 - A \$5,700 debit balance.
 - A \$5,700 credit balance.

94. On April 30, Holden Company had an Accounts Receivable balance of \$18,000. During the month of May, total credits to Accounts Receivable were \$52,000 from customer payments. The May 31 Accounts Receivable balance was \$13,000. What was the amount of credit sales during May?
- \$ 5,000.
 - \$47,000.
 - \$52,000.
 - \$57,000.
 - \$32,000.
95. During the month of February, Hoffer Company had cash receipts of \$7,500 and cash disbursements of \$8,600. The February 28 cash balance was \$1,800. What was the January 31 beginning cash balance?
- \$700.
 - \$1,100.
 - \$2,900.
 - \$0.
 - \$4,300.
96. The following transactions occurred during July:
- Received \$900 cash for services provided to a customer during July.
 - Received \$2,200 cash investment from Barbara Hanson, the owner of the business.
 - Received \$750 from a customer in partial payment of his account receivable which arose from sales in June.
 - Provided services to a customer on credit, \$375.
 - Borrowed \$6,000 from the bank by signing a promissory note.
 - Received \$1,250 cash from a customer for services to be rendered next year.

What was the amount of revenue for July?

- \$ 900.
 - \$ 1,275.
 - \$ 2,525.
 - \$ 3,275.
 - \$11,100.
97. If Tim Jones, the owner of Jones Hardware proprietorship, uses cash of the business to purchase a family automobile, the business should record this use of cash with an entry to:
- Debit Salary Expense and credit Cash.
 - Debit Tim Jones, Salary and credit Cash.
 - Debit Cash and credit Tim Jones, Withdrawals.
 - Debit Tim Jones, Withdrawals and credit Cash.
 - Debit Automobiles and credit Cash.
98. Zed Bennett opened an art gallery and as a dealer completed these transactions:
- Started the gallery, Artery, by investing \$40,000 cash and equipment valued at \$18,000.
 - Purchased \$70 of office supplies on credit.
 - Paid \$1,200 cash for the receptionist's salary.
 - Sold a painting for an artist and collected a \$4,500 cash commission on the sale.
 - Completed an art appraisal and billed the client \$200.

What was the balance of the cash account after these transactions were posted?

- \$12,230.
- \$12,430.
- \$43,300.
- \$43,430.
- \$61,430.

99. At the beginning of January of the current year, Thomas Law Center's ledger reflected a normal balance of \$52,000 for accounts receivable. During January, the company collected \$14,800 from customers on account and provided additional services to customers on account totaling \$12,500. Additionally, during January one customer paid Thomas \$5,000 for services to be provided in the future. At the end of January, the balance in the accounts receivable account should be:
- \$54,700.
 - \$49,700.
 - \$2,300.
 - \$54,300.
 - \$49,300.
100. During the month of March, Cooley Computer Services made purchases on account totaling \$43,500. Also during the month of March, Cooley was paid \$8,000 by a customer for services to be provided in the future and paid \$36,900 of cash on its accounts payable balance. If the balance in the accounts payable account at the beginning of March was \$77,300, what is the balance in accounts payable at the end of March?
- \$83,900.
 - \$91,900.
 - \$6,600.
 - \$75,900.
 - \$4,900.
101. On January 1 of the current year, Bob's Lawn Care Service reported owner's capital totaling \$122,500. During the current year, total revenues were \$96,000 while total expenses were \$85,500. Also, during the current year Bob withdrew \$20,000 from the company. No other changes in equity occurred during the year. If, on December 31 of the current year, total assets are \$196,000, the *change* in owner's capital during the year was:
- A decrease of \$9,500.
 - An increase of \$9,500.
 - An increase of \$30,500.
 - A decrease of \$30,500.
 - Impossible to determine from the information provided.
102. Andrea Conaway opened Wonderland Photography on January 1 of the current year. During January, the following transactions occurred and were recorded in the company's books:
- Conaway invested \$13,500 cash in the business.
 - Conaway contributed \$20,000 of photography equipment to the business.
 - The company paid \$2,100 cash for an insurance policy covering the next 24 months.
 - The company received \$5,700 cash for services provided during January.
 - The company purchased \$6,200 of office equipment on credit.
 - The company provided \$2,750 of services to customers on account.
 - The company paid cash of \$1,500 for monthly rent.
 - The company paid \$3,100 on the office equipment purchased in transaction #5 above.
 - Paid \$275 cash for January utilities.
- Based on this information, the balance in the cash account at the end of January would be:
- \$41,450.
 - \$12,225.
 - \$18,700.
 - \$15,250.
 - \$13,500.
103. Based on the information included in Question #102, the balance in the Andrea Conaway, Capital account reported on the Statement of Owner's Equity at the end of the month would be:
- \$31,400.
 - \$39,200.
 - \$31,150.
 - \$40,175.
 - \$30,875.

104. The debt ratio is used:
- A. To measure the relation of equity to expenses.
 - B. To reflect the risk associated with a company's debts.
 - C. Only by banks when a business applies for a loan.
 - D. To determine how much debt a firm should pay off.
 - E. All of these.
105. Which of the following is the formula used to calculate the debt ratio?
- A. Total Equity/Total Liabilities.
 - B. Total Liabilities/Total Equity.
 - C. Total Liabilities/Total Assets.
 - D. Total Assets/Total Liabilities.
 - E. Total Equity/Total Assets.
106. Which of the following statements is *incorrect*?
- A. Higher financial leverage involves higher risk.
 - B. Risk is higher if a company has more liabilities.
 - C. Risk is higher if a company has higher assets.
 - D. The debt ratio is one measure of financial risk.
 - E. Lower financial leverage involves lower risk.
107. Stride Rite has total assets of \$425 million. Its total liabilities are \$110 million. Its equity is \$315 million. Calculate the debt ratio.
- A. 38.6%.
 - B. 13.4%.
 - C. 34.9%.
 - D. 25.9%.
 - E. 14.9%.
108. Stride Rite has total assets of \$385 million. Its total liabilities are \$100 million and its equity is \$285 million. Calculate its debt ratio.
- A. 35.1%.
 - B. 26.0%.
 - C. 38.5%.
 - D. 28.5%.
 - E. 58.8%.
109. Which of the following statements describing the debt ratio is *false*?
- A. It is of use to both internal and external users of accounting information.
 - B. A relatively high ratio is always desirable.
 - C. The dividing line for a high and low ratio varies from industry to industry.
 - D. Many factors such as a company's age, stability, profitability and cash flow influence the determination of what would be interpreted as a high versus a low ratio.
 - E. The ratio might be used to help determine if a company is capable of increasing its income by obtaining further debt.
110. At the end of the current year, Norman Company reported total liabilities of \$300,000 and total equity of \$100,000. The company's debt ratio on the last year-end was:
- A. 300%.
 - B. 33.3%
 - C. 75.0%.
 - D. \$400,000.
 - E. Cannot be determined from the information provided.

111. At the beginning of the current year, Taunton Company's total assets were \$248,000 and its total liabilities were \$175,000. During the year, the company reported total revenues of \$93,000, total expenses of \$76,000 and owner withdrawals of \$5,000. There were no other changes in owner's capital during the year and total assets at the end of the year were \$260,000. Taunton Company's debt ratio at the end of the current year is:
- A. 70.6%.
 - B. 67.3%.
 - C. 32.7%.
 - D. 48.6%.
 - E. Cannot be determined from the information provided.
112. The process of transferring general journal information to the ledger is:
- A. Double-entry accounting.
 - B. Posting.
 - C. Balancing an account.
 - D. Journalizing.
 - E. Not required unless debits do not equal credits.
113. A column in journals and ledger accounts used to cross reference journal and ledger entries is the:
- A. Account balance column.
 - B. Debit column.
 - C. Posting reference column.
 - D. Credit column.
 - E. Description column.
114. The record in which transactions are first recorded is the:
- A. Account balance.
 - B. Ledger.
 - C. Journal.
 - D. Trial balance.
 - E. Cash account.
115. The general journal provides a place for recording:
- A. The transaction date.
 - B. The names of the accounts involved.
 - C. The amount of each debit and credit.
 - D. An explanation of the transaction.
 - E. All of these.
116. A balance column ledger account is:
- A. An account entered on the balance sheet.
 - B. An account with debit and credit columns for posting entries and another column for showing the balance of the account after each entry is posted.
 - C. Another name for the withdrawals account.
 - D. An account used to record the transfers of assets from a business to its owner.
 - E. A simple form of account that is widely used in accounting to illustrate the debits and credits required in recording a transaction.
117. A general journal is:
- A. A ledger in which amounts are posted from a balance column account.
 - B. Not required if T-accounts are used.
 - C. A complete record of any transaction and the place from which transaction amounts are posted to the ledger accounts.
 - D. Not necessary in electronic accounting systems.
 - E. A book of final entry because financial statements are prepared from it.

118. A record in which the effects of transactions are first recorded and from which transaction amounts are posted to the ledger is a(n):
- A. Account.
 - B. Trial balance.
 - C. Journal.
 - D. T-account.
 - E. Balance column account.

119. A company had the following accounts and balances year-end:

Cash.....	\$30,000
Accounts receivable.....	32,000
Accounts payable.....	20,000
Fees earned.....	65,000
Rent expense.....	15,000
Insurance expense.....	4,800
Supplies.....	5,000
Sam, Capital.....	19,800
Sam, Withdrawals.....	18,000

If all of the accounts have normal balances, what are the totals for the trial balance?

- A. \$ 45,200.
 - B. \$ 67,000.
 - C. \$104,800.
 - D. \$209,600.
 - E. \$186,600.
120. An accountant has debited an account for \$3,500 and credited a liability account for \$2,000. Which of the following would be an *incorrect* way to complete the recording of this transaction:
- A. Credit another asset account for \$1,500.
 - B. Credit another liability account for \$1,500.
 - C. Credit an expense account for \$1,500.
 - D. Credit the owner's capital account for \$1,500.
 - E. Debit another asset account for \$1,500.
121. A report that lists accounts and their balances, in which the total debit balances should equal the total credit balances, is called a(n):
- A. Account balance.
 - B. Trial balance.
 - C. Ledger.
 - D. Chart of accounts.
 - E. General Journal.
122. Which of the following statements is *true*?
- A. If the trial balance is in balance, it proves that no errors have been made in recording and posting transactions.
 - B. The trial balance is a book of original entry.
 - C. Another name for the trial balance is the chart of accounts.
 - D. The trial balance is a list of all accounts from the ledger with their balances at a point in time.
 - E. The trial balance is another name for the balance sheet as long as debits balance with credits.
123. While in the process of posting from the journal to the ledger a company failed to post a \$50 debit to the Office Supplies account. The effect of this error will be that:
- A. The Office Supplies account balance will be overstated.
 - B. The trial balance will not balance.
 - C. The error will overstate the debits listed in the journal.
 - D. The total debits in the trial balance will be larger than the total credits.
 - E. All of these effects will be caused by the error.

124. A \$15 credit to Sales was posted as a \$150 credit. By what amount is Sales in error?
- A. \$150 understated.
 - B. \$135 overstated.
 - C. \$150 overstated.
 - D. \$15 understated.
 - E. \$135 understated.
125. A trial balance taken at year-end showed total credits exceed total debits by \$4,950. This discrepancy could have been caused by:
- A. An error in the general journal where a \$4,950 increase in Accounts Receivable was recorded as an increase in Cash.
 - B. A net income of \$4,950.
 - C. The balance of \$49,500 in Accounts Payable being entered in the trial balance as \$4,950.
 - D. The balance of \$5,500 in the Office Equipment account being entered on the trial balance as a debit of \$550.
 - E. An error in the general journal where a \$4,950 increase in Accounts Payable was recorded as a decrease in Accounts Payable.
126. In which of the following situations would the trial balance not balance?
- A. A \$1,000 collection of an account receivable was erroneously posted as a debit to Accounts Receivable and a credit to Cash.
 - B. The purchase of office supplies on account for \$3,250 was erroneously recorded in the journal as \$2,350 debit to Office Supplies and credit to Accounts Payable.
 - C. A \$50 cash receipt for the performance of a service was not recorded at all.
 - D. The purchase of office equipment for \$1,200 was posted as a debit to Office Supplies and a credit to Cash for \$1,200.
 - E. The cash payment of a \$750 account payable was posted as a debit to Accounts Payable and a debit to Cash for \$750.
127. The credit purchase of a delivery truck for \$4,700 was posted to Delivery Trucks as a \$4,700 debit and to Accounts Payable as a \$4,700 debit. What effect would this error have on the trial balance?
- A. The total of the Debit column of the trial balance will exceed the total of the Credit column by \$4,700.
 - B. The total of the Credit column of the trial balance will exceed the total of the Debit column by \$4,700.
 - C. The total of the Debit column of the trial balance will exceed the total of the Credit column by \$9,400.
 - D. The total of the Credit column of the trial balance will exceed the total of the Debit column by \$9,400.
 - E. The total of the Debit column of the trial balance will equal the total of the Credit column.
128. If the Debit and Credit column totals of a trial balance are equal, then:
- A. All transactions have been recorded correctly.
 - B. All entries from the journal have been posted to the ledger correctly.
 - C. All ledger account balances are correct.
 - D. The total debit entries and total credit entries are equal.
 - E. The balance sheet would be correct.
129. Of the following errors, which one by itself will cause the trial balance to be out of balance?
- A. A \$200 cash salary payment posted as a \$200 debit to Cash and a \$200 credit to Salaries Expense.
 - B. A \$100 cash receipt from a customer in payment of his account posted as a \$100 debit to Cash and a \$10 credit to Accounts Receivable.
 - C. A \$75 cash receipt from a customer in payment of his account posted as a \$75 debit to Cash and a \$75 credit to Cash.
 - D. A \$50 cash purchase of office supplies posted as a \$50 debit to Office Equipment and a \$50 credit to Cash.
 - E. An \$800 prepayment from a customer for services to be rendered in the future was posted as an \$800 debit to Unearned Revenue and an \$800 credit to Cash.

130. A \$130 credit to Office Equipment was credited to Fees Earned by mistake. By what amounts are the accounts under- or overstated as a result of this error?

- A. Office Equipment, understated \$130; Fees Earned, overstated \$130.
- B. Office Equipment, understated \$260; Fees Earned, overstated \$130.
- C. Office Equipment, overstated \$130; Fees Earned, overstated \$130.
- D. Office Equipment, overstated \$130; Fees Earned, understated \$130.
- E. Office Equipment, overstated \$260; Fees Earned, understated \$130.

131. Which of the following groups of accounts are not balance sheet accounts?

- A. Assets.
- B. Liabilities.
- C. Revenues.
- D. Equity accounts.
- E. All of these are balance sheet accounts.

132. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

- a. Decrease in an asset and expense account, and increase in a liability, owner's capital and revenue account; recorded on the right side of a T-account.
- b. A file containing all accounts of a company and their balances.
- c. An accounting system where each transaction affects and is recorded in at least two accounts; the sum of the debits for each entry must equal its credits.
- d. A company's record of each transaction in one place that shows debits and credits for each transaction.
- e. An increase in an asset and expense account, and decrease in a liability, owner's capital, and revenue account; recorded on the left side of a T-account.
- f. A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense item.
- g. A simple account form used as a helpful tool in showing the effects of transactions and events on specific accounts.
- h. Another name for the accounting books, or simply the books.
- i. The process of transferring journal entry information to the ledger.
- j. The sources of accounting information.

- | | | |
|----------------------------|---|-------|
| 1. Posting | j | _____ |
| 2. Accounting records | e | _____ |
| 3. Credit | i | _____ |
| 4. T-account | c | _____ |
| 5. Account | b | _____ |
| 6. Ledger | d | _____ |
| 7. Double-entry accounting | f | _____ |
| 8. Source documents | a | _____ |
| 9. Journal | g | _____ |
| 10. Debit | h | _____ |

133. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

- a. An increase in an asset and expense account, and a decrease in a liability, owner's capital, and revenue account; recorded on the left side of a T-account.
- b. A decrease in an asset and expense account, and an increase in a liability, owner's capital, and revenue account; recorded on the right side of a T-account.
- c. A written promise to pay a definite sum of money on a specified future date.
- d. The difference between total debits and total credits for an account including the beginning balance.
- e. A list of accounts and their balances at a point in time; the total debit balances should equal the total credit balances.
- f. A list of all accounts used by a company and the identification number assigned to each account.
- g. The ratio of total liabilities to total assets; used to reflect the risk associated with the company's debts.
- h. An account with debit and credit columns for recording entries and a third column for showing the balance of the account after each entry.
- i. A complete record of each transaction in one place that shows debits and credits for each transaction.
- j. A file containing all accounts of a company and their balances.

- | | | |
|---------------------------|---|-------|
| 1. Ledger | a | _____ |
| 2. Journal | c | _____ |
| 3. Debit | j | _____ |
| 4. Account balance | i | _____ |
| 5. Trial balance | g | _____ |
| 6. Balance column account | f | _____ |
| 7. Debt ratio | e | _____ |
| 8. Credit | b | _____ |
| 9. Note payable | d | _____ |
| 10. Chart of accounts | h | _____ |

134. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

- a. A simple form used as a helpful tool in understanding the effect of transactions and events on specific accounts.
- b. The most flexible type of journal, it can be used to record any kind of transaction.
- c. A journal entry that affects at least three accounts.
- d. A written promise from a customer to pay a definite sum of money on a specified future date.
- e. A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense item.
- f. A list of all accounts used by a company and the identification number assigned to each account.
- g. The process of transferring journal entry information to the ledger.
- h. A list of accounts and their balances at a point in time; the total debit balances should equal the total credit balances.
- i. A column in journals where individual account numbers are entered when entries are posted to ledger accounts.
- j. Liabilities created when customers pay in advance for products or services; satisfied by delivering the products or services in the future.

- | | | |
|-----------------------------|---|-------|
| 1. T-account | b | _____ |
| 2. General journal | f | _____ |
| 3. Unearned revenues | d | _____ |
| 4. Trial Balance | a | _____ |
| 5. Posting | j | _____ |
| 6. Note receivable | c | _____ |
| 7. Chart of accounts | i | _____ |
| 8. Posting reference column | g | _____ |
| 9. Compound journal entry | e | _____ |
| 10. Account | h | _____ |

135. Identify each of the following accounts as a revenue (R), expense (E), asset (A), liability (L), or equity (OE) by placing initials (R,E,A,L or OE) in the blanks.

- | | | |
|-------------------------|----|-------|
| 1. Unearned Fee Revenue | E | _____ |
| 2. Equipment | A | _____ |
| 3. Owner, Withdrawals | A | _____ |
| 4. Fees Revenue | OE | _____ |
| 5. Accounts Payable | R | _____ |
| 6. Office Furniture | A | _____ |
| 7. Salary Expense | L | _____ |
| 8. Cash | OE | _____ |
| 9. Prepaid Insurance | A | _____ |
| 10. Owner, Capital | L | _____ |
| 11. Accounts Receivable | A | _____ |
| 12. Supplies | A | _____ |

136. The following accounts appear on either the Income Statement (IS) or Balance Sheet (BS). In the space provided next to each account write the letters, IS or BS, that identify the statement on which the account appears.

- | | | |
|---------------------------|----|-------|
| 1. Rent Expense | BS | _____ |
| 2. Unearned Fees Revenues | IS | _____ |
| 3. Rent Expense | BS | _____ |
| 4. Office Equipment | IS | _____ |
| 5. Wages Payable | BS | _____ |
| 6. Fees Revenue | BS | _____ |
| 7. Notes Receivable | IS | _____ |
| 8. Accounts Payable | BS | _____ |
| 9. Owner, Capital | BS | _____ |
| 10. Cash | BS | _____ |

137. Vicki Lake is a computer consultant. Shown below are (a) several accounts in her ledger with each account preceded by an identification number, and (b) several transactions completed by Lake. Indicate the accounts debited and credited when recording each transaction by placing the proper account identification numbers to the right of each transaction.

- | | |
|----------------------------|-----------------------------|
| 1. Accounts Payable | 7. Telephone Expense |
| 2. Accounts Receivable | 8. Unearned Consulting Fees |
| 3. Cash | 9. Vicki Lake, Capital |
| 4. Consulting Fees Earned | 10. Vicki Lake, Withdrawals |
| 5. Office Supplies | 11. Insurance Expense |
| 6. Office Supplies Expense | 12. Prepaid Insurance |

	Debit	Credit
Example: Completed consulting work for a client who will pay at a later date.	2	4
A. Received cash in advance from a customer for designing a software package.		
B. Purchased office supplies on credit.		
C. Paid for the supplies purchased in B		
D. Received the telephone bill of the business and immediately paid it.		
E. Paid for a 3-year insurance policy		

138. David Roberts is a real estate appraiser. Shown below are (a) several accounts in his ledger with each account preceded by an identification number, and (b) several transactions completed by Roberts. Indicate the accounts debited and credited when recording each transaction by placing the proper account identification numbers to the right of each transaction.

- | | |
|--------------------------|--------------------------------|
| 1. Accounts Payable | 8. Office Supplies Expense |
| 2. Accounts Receivable | 9. Prepaid Insurance |
| 3. Appraisal Fees Earned | 10. Salaries Expense |
| 4. Cash | 11. Telephone Expense |
| 5. Insurance Expense | 12. Unearned Appraisal Fees |
| 6. Office Equipment | 13. David Roberts, Capital |
| 7. Office Supplies | 14. David Roberts, Withdrawals |

	Debit	Credit
Example: Completed an appraisal for a client who promised to pay at a later date.	2	3
A. Received cash in advance for appraising an office building.		
B. Purchased office supplies on credit.		
C. David Roberts used cash from the business to pay his home telephone bill. There were no business calls on the bill.		
D. Received the telephone bill of the business and immediately paid it.		
E. Paid the salary of the office assistant.		
F. Paid for the supplies purchased in transaction B.		
G. Completed an appraisal for a client and immediately collected cash for the work done.		

139. List the steps in processing transactions.

140. Describe source documents and their purpose.

141. Explain how accounts are used in recording information about transactions.

142.Explain the difference between a ledger and a chart of accounts.

143.Explain debits and credits and their role in the accounting system.

144.Explain the debt ratio and its use in analyzing a company's financial condition.

145.Explain the recording and posting processes.

146.What is a trial balance? What is its purpose?

147.Describe the link between the income statement, the statement of owner's equity, and the balance sheet.

148. Identify each of the following items would likely serve as a source document by marking an X in the appropriate column. The first one is done as an example

		Yes	No
Ex.	Credit card		X
a.	Credit card receipt		
b.	Purchase order		
c.	Invoice		
d.	Balance sheet		
e.	Bank statement		
f.	Journal entry		
g.	Electric power bill		
h.	Employee earnings record		

149. Indicate whether a debit or credit entry would be made to record the following changes in each account.

- a. To decrease Cash
- b. To increase Owner, Capital
- c. To decrease Accounts Payable.
- d. To increase Salaries Expense.
- e. To decrease Supplies.
- f. To increase Revenue.
- g. To decrease Accounts Receivable.
- h. To increase Owner, Withdrawals.

150. The following is a list of accounts and identification letters A through J for Shannon Management Co.:

- | | |
|-------------------------|--------------------------|
| A. Shannon, Capital | F. Prepaid Rent |
| B. Interest Payable | G. Advertising Expense |
| C. Land | H. Unearned Rent Revenue |
| D. Shannon, Withdrawals | I. Commissions Earned |
| E. Fees Earned | J. Notes Receivable |

Use the form below to identify the type of account and its normal balance. The first item is filled in as an example.

	Type of Account			Normal Balance	
	Asset	Liability	Equity	Debit	Credit
A			X		
B					
C					
D					
E					
F					
G					
H					
I					
J					

151. Dolly Barton began Barton Office Services in October and during that month completed these transactions:

- Invested \$10,000 cash, and \$15,000 of computer equipment.
- Paid \$500 cash for an insurance premium covering the next 12 months.
- Completed a word processing assignment for a customer and collected \$1,000 cash.
- Paid \$200 cash for office supplies.
- Paid \$2,000 for October's rent.

Prepare journal entries to record the above transactions. Explanations are unnecessary.

152. A company sends a \$1,500 bill to a customer for delivery services rendered. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.

153. A company paid \$2,500 cash to satisfy a previously recorded account payable. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.
154. A business paid \$100 cash to Karen Smith (the owner of the business) for her personal use. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.
155. On December 3, the Matador Company paid \$5,400 cash in salaries to office personnel. Prepare the general journal entry to record this transaction.
156. On February 5, Textron Stores purchased a van that cost \$35,000. The firm made a down payment of \$5,000 cash and signed a long-term note payable for the balance. Show the general journal entry to record this transaction.

157. Krenz Car Care, owned and operated by Karl Krenz, began business in September of the current year. Karl, a master mechanic, had no experience with keeping a set of books. As a result, Karl entered all of September's transactions directly to the ledger accounts. When he tried to locate a particular entry he found it confusing and time consuming. He has hired you to improve his accounting procedures. The accounts in his General Ledger follow:

Cash	Equipment																		
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">9/01 (a) 4,200</td> <td style="width: 50%;">9/4 (b) 550</td> </tr> <tr> <td>9/11 (d) 150</td> <td></td> </tr> <tr> <td>9/15 (e) 190</td> <td></td> </tr> <tr> <td colspan="2" style="border-top: 1px solid black; text-align: center;">K. Krenz, Capital</td> </tr> <tr> <td colspan="2" style="text-align: center;">9/1 (a) 5,000</td> </tr> </table>	9/01 (a) 4,200	9/4 (b) 550	9/11 (d) 150		9/15 (e) 190		K. Krenz, Capital		9/1 (a) 5,000		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">9/1 (a) 800</td> <td style="width: 50%;"></td> </tr> <tr> <td>9/4 (b) 2,550</td> <td></td> </tr> <tr> <td colspan="2" style="border-top: 1px solid black; text-align: center;">Notes Payable</td> </tr> <tr> <td colspan="2" style="text-align: center;">9/4 (b) 2,000</td> </tr> </table>	9/1 (a) 800		9/4 (b) 2,550		Notes Payable		9/4 (b) 2,000	
9/01 (a) 4,200	9/4 (b) 550																		
9/11 (d) 150																			
9/15 (e) 190																			
K. Krenz, Capital																			
9/1 (a) 5,000																			
9/1 (a) 800																			
9/4 (b) 2,550																			
Notes Payable																			
9/4 (b) 2,000																			
Accounts Receivable	Revenue																		
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">9/9 (e) 275</td> <td style="width: 50%;">9/15 (e) 190</td> </tr> </table>	9/9 (e) 275	9/15 (e) 190	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%;">9/9 (e) 275</td> </tr> <tr> <td></td> <td>9/11 (d) 150</td> </tr> </table>		9/9 (e) 275		9/11 (d) 150												
9/9 (e) 275	9/15 (e) 190																		
	9/9 (e) 275																		
	9/11 (d) 150																		

Prepare the general journal entries, in chronological order (a) through (e), from the T-account entries shown. Include a brief description of the probable nature of each transaction.

158. Flora Accounting Services completed these transactions in February:

- a. Purchased office supplies on account, \$300.
- b. Completed work for a client on credit, \$500.
- c. Paid cash for the office supplies purchased in (a).
- d. Completed work for a client and received \$800 cash.
- e. Received \$500 cash for the work described in (b).
- f. Received \$1,000 from a client for accounting services to be performed in March.

Prepare journal entries to record the above transactions. Explanations are not necessary.

159. Leonard Matson completed these transactions during December of the current year:

- Dec. 1 Began a financial services practice by investing \$15,000 cash and office equipment having a \$5,000 value.
- 2 Purchased \$1,200 of office equipment on credit.
- 3 Purchased \$300 of office supplies on credit.
- 4 Completed work for a client and immediately received a payment of \$900 cash.
- 8 Completed work for Acme Loan Co. on credit, \$1,700.
- 10 Paid for the supplies purchased on credit on December 3.
- 14 Paid for the annual \$960 premium on an insurance policy.
- 18 Received payment in full from Acme Loan Co. for the work completed on December 8.
- 27 Leonard withdrew \$650 cash from the practice to pay personal expenses.
- 30 Paid \$175 cash for the December utility bills.
- 30 Received \$2,000 from a client for financial services to be rendered next year.

Prepare general journal entries to record these transactions.

160. Maria Sanchez began business as Sanchez Law Firm on November 1. Record the following November transactions by making entries directly to the T-accounts provided. Then, prepare a trial balance, as of November 30.

- a) Sanchez invested \$15,000 cash and a law library valued at \$6,000.
- b) Purchased \$7,500 of office equipment from Johnson Bros. on credit.
- c) Completed legal work for a client and received \$1,500 cash in full payment.
- d) Paid Johnson Bros. \$3,500 cash in partial settlement of the amount owed.
- e) Completed \$4,000 of legal work for a client on credit.
- f) Sanchez withdrew \$2,000 cash for personal use.
- g) Received \$2,500 cash as partial payment for the legal work completed for the client in (e).
- h) Paid \$2,500 cash for the legal secretary's salary.

Cash	Office Equipment	M. Sanchez, Withdrawals
Accounts Receivable	Accounts Payable	Legal Fees Earned
Law Library	M. Sanchez, Capital	Salaries Expense

161. Josephine's Bakery had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year.....	\$114,000	\$68,000
End of the year.....	135,000	73,000

If Josephine made no investments in the business and withdrew no assets during the year, what was the amount of net income earned by Josephine's Bakery?

162. Josephine's Bakery had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year.....	\$114,000	\$68,000
End of the year.....	135,000	73,000

If Josephine invested an additional \$12,000 in the business during the year, but withdrew no assets during the year, what was the amount of net income earned by Josephine's Bakery?

163. Josephine's Bakery had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year.....	\$114,000	\$68,000
End of the year.....	135,000	73,000

If Josephine made no investments in the business but withdrew \$5,000 during the year, what was the amount of net income earned by Josephine's Bakery?

164. Josephine's Bakery had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year.....	\$114,000	\$68,000
End of the year.....	135,000	73,000

If Josephine invested an additional \$12,000 in the business and withdrew \$5,000 during the year, what was the amount of net income earned by Josephine's Bakery?

165. A company had total assets of \$350,000 and total liabilities of \$101,500 and total equity of \$248,500. Calculate its debt ratio.

166. Montgomery Marketing Co. had assets of \$475,000; liabilities of \$275,500; and equity of \$199,500. Calculate its debt ratio.

167. List the steps in recording transactions.

168. For each of the following errors, indicate on the table below the amount by which the trial balance will be out of balance and which trial balance column (debit or credit) will have the larger total as a result of the error.

- a. \$100 debit to Cash was debited to the Cash account twice.
- b. \$1,900 credit to Sales was posted as a \$190 credit.
- c. \$5,000 debit to Office Equipment was debited to Office Supplies.
- d. \$625 debit to Prepaid Insurance was posted as a \$62.50 debit.
- e. \$520 credit to Accounts Payable was not posted.

Error	Amount Out of Balance	Column Having Larger Total
a.	_____	_____
b.	_____	_____
c.	_____	_____
d.	_____	_____
e.	_____	_____

169. After preparing an (unadjusted) trial balance at year-end, G. Chu of Chu Design Company discovered the following errors:

1. Cash payment of the \$225 telephone bill for December was recorded twice.
2. Cash payment of a note payable was recorded as a debit to Cash and a debit to Notes Payable for \$1,000.
3. A \$900 cash withdrawal by the owner was recorded to the correct accounts as \$90.
4. An additional investment of \$5,000 cash by the owner was recorded as a debit to G. Chu, Capital and a credit to Cash.
5. A credit purchase of office equipment for \$1,800 was recorded as a debit to the Office Equipment account with no offsetting credit entry.

Using the form below, indicate whether the error would cause the trial balance to be out of balance by placing an X in either the yes or no column.

Would the error cause the trial balance to be out of balance?

Error	Yes	No
1.	_____	_____
2.	_____	_____
3.	_____	_____
4.	_____	_____
5.	_____	_____

170. The balances for the accounts of Mike's Maintenance Co. for the year ended December 31 are shown below. Each account shown had a normal balance.

Accounts payable.....	\$ 6,500	Wages expense.....	36,000
Accounts receivable.....	7,000	Rent expense.....	6,000
Cash.....	?		
Maintenance supplies....	1,200		
Building.....	125,000	Land.....	50,000
Supplies expense.....	21,500	Unearned maintenance	
Mike Capital.....	118,700	fees.....	4,000
Maintenance revenue....	175,000	Mike, Withdrawals.....	48,000

Calculate the correct balance for Cash and prepare a trial balance.

171. At year-end, Harris Cleaning Service noted the following errors in its trial balance:

1. It understated the total debits to the Cash account by \$500 when computing the account balance.
2. A credit sale for \$311 was recorded as a credit to the revenue account, but the offsetting debit was not posted.
3. A cash payment to a creditor for \$2,600 was never recorded.
4. The \$680 balance of the Prepaid Insurance account was listed in the credit column of the trial balance.
5. A \$24,900 truck purchase was recorded as a \$24,090 debit to Vehicles and a \$24,090 credit to Notes Payable.
6. A purchase of office supplies for \$150 was recorded as a debit to Office Equipment. The offsetting credit entry was correct.
7. An additional investment of \$4,000 by Del Harris was recorded as a debit to Del Harris, Capital and as a credit to Cash.
8. The cash payment of the \$510 utility bill for December was recorded (but not paid) twice.
9. The revenue account balance of \$79,817 was listed on the trial balance as \$97,817.
10. A \$1,000 cash withdrawal was recorded as a \$100 debit to Del Harris, Withdrawal and \$100 credit to cash.

Using the form below, indicate whether each error would cause the trial balance to be out of balance, the amount of any imbalance, and whether a correcting journal entry is required.

Error	Would the error cause the trial balance to be out of balance?		Amount of Imbalance	Correcting Journal Entry Required	
	Yes	No		Yes	No
1.					
2.					
3.					
4.					
5.					
6.					
7.					
8.					
9.					
10.					

172. The following trial balance is prepared from the general ledger of Hal's Auto Repair.

HAL'S AUTO REPAIR		
Trial Balance		
October 31		
	Debit	Credit
Cash	\$ 975	
Accounts receivable.....	3,800	
Supplies.....	500	
Repair equipment.....	13,000	
Office equipment.....	6,600	
Accounts payable.....		\$ 4,510
Hal Frederick, Capital.....		23,000
Hal Frederick, Withdrawals.....	4,200	
Repair fees earned.....		10,875
Supplies expense.....	<u>8,600</u>	
Totals	<u>\$37,675</u>	<u>\$38,385</u>

Because the trial balance did not balance, you decided to examine the accounting records. You found that the following errors had been made:

- 1 A purchase of supplies on account for \$245 cash was posted as a debit to Supplies and as a debit to Accounts Payable.
- 2 An investment of \$500 cash by the owner was debited to Hal Frederick, Capital and credited to Cash.
- 3 In computing the balance of the Accounts Receivable account, a debit of \$600 was omitted from the computation.
- 4 One debit of \$300 to the Hal Frederick, Withdrawals account was posted as a credit.
- 5 Office equipment purchased for \$800 was posted to the Repair Equipment account.
- 6 One entire entry was not posted to the general ledger. The transaction involved the receipt of \$125 cash for repair services performed for cash.

Prepare a corrected trial balance for the Hal's Auto Repair as of October 31.

173. The following are all of the accounts of Flaherty Company that have a balance at the end of August. All accounts have normal balances:

Accounts receivable.....	\$36,000	Cash.....	\$27,000
Equipment.....	59,000	Advertising expense.....	5,000
Service revenues earned	75,000	Accounts payable.....	31,000
Rent expense.....	3,600	J. Flaherty, Withdrawals	24,000
Office supplies.....	1,500	Salaries expense.....	30,000
Notes payable.....	22,000	J. Flaherty, Capital.....	58,100

- a. Calculate net income.
- b. Determine the amount of owner's equity to be shown on the August 31 balance sheet.

174. Based on the following trial balance for Sal's Beauty Shop, prepare an income statement, statement of owner's equity, and a balance sheet. Sal made no additional investments in the company during the year.

Sal's Beauty Shop Trial Balance December 31		
Cash.....	\$ 6,500	
Accounts receivable.....	475	
Beauty supplies.....	2,500	
Beauty shop equipment.....	17,000	
Accounts payable.....		\$ 745
Sal Style, Capital.....		21,155
Sal Style, Withdrawals.....	36,000	
Revenue earned.....		72,000
Beauty supplies expense.....	3,425	
Rent expense.....	6,000	
Wages expense.....	<u>22,000</u>	
Totals.....	<u>\$93,900</u>	<u>\$93,900</u>

175. _____ and _____ are the starting points for the analyzing and recording process.

176. The second step in the analyzing and recording process is to record the transactions and events in the _____.

177. The third step in the analyzing and recording process is to post the information to _____.

178. _____ identify and describe transactions and events and provide objective evidence and amounts for recording.

179. Revenues and expenses are two categories of _____ accounts.

180. The _____ is a record containing all accounts used by a company.

181. The three general categories of accounts in a general ledger are _____, _____, and _____.

182. _____ are promises of payment from customers to sellers.

183. Unearned revenue is classified as _____ that is satisfied by delivering products or services in the future.

184. The four categories of equity accounts are _____, _____, _____, and _____.

- 185.A _____ is a list of all the accounts used by a company and their identification codes.

- 186.A _____ is a record containing all accounts for a company along with their balances.

187. _____ requires that each transaction affect, and be recorded in, at least two accounts. It also means that total amounts debited must equal total amounts credited for each transaction.

- 188.The difference between total debits and total credits for an account, including any beginning balance is the _____.

- 189.Increases in assets are _____ to asset accounts, increases in liabilities are _____ to liability accounts.

- 190.FastForward purchased \$25,000 of equipment for cash. The Equipment asset account is _____ for \$25,000 and the cash account is _____ for \$25,000.

- 191.Stride Rite had total liabilities of \$130 million and total assets of \$375 million. Its debt ratio was _____.

192. _____ is the process of transferring journal entry information to the ledger.

- 193.A _____ gives a complete record of each transaction in one place, and shows debits and credits for each transaction.

- 194.An account format that is similar to a T-account in that it has columns for debits and credits, but that is different in that it has columns for transaction date, explanation, and the account balance is the _____.

- 195.The posting process is the link between the _____ and the _____.

196. James Haley owned a sailboat and was tired of his current job. He decided to open a business that provides day sails to tourists in his hometown. Prepare journal entries to record the following transactions.

- May 1 Haley invested \$20,000 cash and his sailboat valued at \$90,000 in the business.
- May 2 Haley paid \$3,000 cash for office equipment to help him keep track of business activities.
- May 3 Haley bought sailing supplies costing \$2,500 on credit.
- May 4 Haley negotiated with the harbor master and paid \$500 cash for the first month's dock rental.
- May 5 Haley paid \$1,800 cash for a six-month insurance policy.
- May 10 Haley received \$2,000 cash from clients for his first tour.
- May 12 Haley provided a \$3,500 tour on credit, the customer has agreed to pay within 10 days.
- May 19 Haley paid for the sailing supplies originally purchased on May 3.
- May 22 Haley receives payment on the account from the client entry on May 12.
- May 25 Haley received \$2,750 cash for additional tours.
- May 31 Haley paid his deck hand a salary of \$1,000.
- May 31 Haley withdrew \$2,000 for personal use.

197. Based on the following trial balance for Smyth's Repair Shop, prepare an income statement, statement of owner's equity, and a balance sheet. Smyth made no additional investments in the company during the year.

Smyth's Repair Shop		
Trial Balance		
December 31		
Cash.....	\$ 12,500	
Accounts receivable	1,500	
Supplies	500	
Repair shop equipment	27,000	
Service truck	33,000	
Accounts payable		\$ 2,600
Smyth, Capital.....		39,525
Smyth, Withdrawals.....	36,000	
Service Revenue.....		125,000
Supplies expense.....	3,425	
Rent expense	18,000	
Utilities expense.....	6,000	
Gas expense	7,200	
Wages expense.....	<u>22,000</u>	
Totals.....	<u>\$167,125</u>	<u>167,125</u>

198. For each of the following (1) identify the type of account as an asset, liability, equity, revenue, or expense, and (2) identify the normal balance of the account.

	Account Type	Normal Balance
a. Wages expense		
b. Accounts Receivable		
c. Commissions earned		
d. Salaries payable		
e. Owner, Capital		
f. Unearned Advertising Revenue		
g. Salaries expense		
h. Season ticket sales		
i. Owner, Withdrawal		
j. Prepaid Insurance		

199. Identify whether a debit or credit yields the indicated change for each of the following accounts.

a. To increase Fees Earned	
b. To decrease Cash	
c. To decrease Unearned Revenue	
d. To increase Accounts Receivable	
e. To increase Owner, Capital	
f. To decrease Notes Payable	
g. To increase Prepaid Rent	
h. To increase Salaries Expense	
i. To increase Accounts Payable	
j. To decrease Prepaid Insurance	

200. Indicate the financial statement on which each of the following items appears. Use I for income statement, E for statement of owner's equity, and B for balance sheet.

a. Fees Earned	
b. Cash	
c. Unearned Revenue	
d. Rent expense	
e. Owner, Capital	
f. Notes Payable	
g. Prepaid Rent	
h. Salaries Expense	
i. Notes Payable	
j. Owner, Withdrawal	

2 Key

1. Accounting records are also referred to as the books.
TRUE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C1
Wild - Chapter 002 #1*

2. The first step in the processing of a transaction is to analyze the transaction and source documents.
TRUE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C1
Wild - Chapter 002 #2*

3. Preparation of a trial balance is the first step in the analyzing and recording process.
FALSE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C1
Wild - Chapter 002 #3*

4. Source documents provide evidence of business transactions and are the basis for accounting entries.
TRUE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C2
Wild - Chapter 002 #4*

5. Items such as sales tickets, bank statements, checks, and purchase orders are source documents.
TRUE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C2
Wild - Chapter 002 #5*

6. An account is a record of increases and decreases in a specific asset, liability, equity, revenue, or expense item.
TRUE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C3
Wild - Chapter 002 #6*

7. A customer's promise to pay is called an account payable to the seller.
FALSE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C3
Wild - Chapter 002 #7*

8. Withdrawals by the owner are a business expense.

FALSE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C3
Wild - Chapter 002 #8*

9. As prepaid expenses are used, the expired costs of the assets become expenses.

TRUE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C3
Wild - Chapter 002 #9*

10. Land and buildings are generally recorded in the same ledger account.

FALSE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C3
Wild - Chapter 002 #10*

11. It is not necessary to keep separate accounts for all items of importance for business decisions.

FALSE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C3
Wild - Chapter 002 #11*

12. Unearned revenues are liabilities.

TRUE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C3
Wild - Chapter 002 #12*

13. Cash withdrawn by the owner of a proprietorship should be treated as an expense of the business.

FALSE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C3
Wild - Chapter 002 #13*

14. When a company provides services for which cash will not be received until some future date, the company should record the amount received as unearned revenue for the amount charged to the customer.

FALSE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: C3
Wild - Chapter 002 #14*

15. The chart of accounts is a list of all the accounts used by a company and includes an identification number assigned to each account.

TRUE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C4
Wild - Chapter 002 #15*

16. An account balance is the difference between the debits and credits for an account including any beginning balance.
TRUE
- AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C3
Wild - Chapter 002 #16
17. Debit means the right side of an account.
FALSE
- AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C5
Wild - Chapter 002 #17
18. In a double-entry accounting system, the total amount debited must always equal the total amount credited.
TRUE
- AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C5
Wild - Chapter 002 #18
19. Increases in liability accounts are recorded as debits.
FALSE
- AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C5
Wild - Chapter 002 #19
20. Debits increase asset and expense accounts.
TRUE
- AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C5
Wild - Chapter 002 #20
21. Credits always increase account balances.
FALSE
- AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C5
Wild - Chapter 002 #21
22. Crediting an expense account decreases it.
TRUE
- AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C5
Wild - Chapter 002 #22
23. Double entry accounting requires that each transaction affect, and be recorded in, at least two accounts.
TRUE
- AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C5
Wild - Chapter 002 #23

24. A revenue account normally has a debit balance.

FALSE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C5
Wild - Chapter 002 #24*

25. Accounts are normally decreased by debits.

FALSE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C5
Wild - Chapter 002 #25*

26. The owner's withdrawal account normally has a credit balance since it is an equity account.

FALSE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C5
Wild - Chapter 002 #26*

27. Asset accounts normally have credit balances and revenue accounts normally have debit balances.

FALSE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C5
Wild - Chapter 002 #27*

28. An owner's capital account normally has a debit balance.

FALSE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C5
Wild - Chapter 002 #28*

29. A debit entry is always favorable.

FALSE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: C5
Wild - Chapter 002 #29*

30. A transaction that decreases an asset account and increases a liability account must also affect one or more other accounts.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: A1
Wild - Chapter 002 #30*

31. A transaction that increases an asset and decreases a liability must also affect one or more other accounts.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: A1
Wild - Chapter 002 #31*

32. If insurance coverage for the next three years is paid for in advance, the amount of the payment is debited to an asset account called Prepaid Insurance.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: A1
Wild - Chapter 002 #32*

33. The purchase of supplies on credit should be recorded with a debit to Supplies and a credit to Accounts Payable.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: A1
Wild - Chapter 002 #33*

34. If a company purchases land paying cash, the journal entry to record this transaction will include a debit to Cash.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: A1
Wild - Chapter 002 #34*

35. If a company provides services to a customer on credit the selling company should credit Accounts Receivable.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: A1
Wild - Chapter 002 #35*

36. When a company bills a customer for \$600 for services rendered, the journal entry to record this transaction will include a \$600 debit to Services Revenue.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: A1
Wild - Chapter 002 #36*

37. The debt ratio helps to assess the risk a company has of failing to pay its debts and is helpful to both its owners and creditors.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: A1
Wild - Chapter 002 #37*

38. The higher a company's debt ratio is, the higher the risk of a company not being able to meet its obligations.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: A2
Wild - Chapter 002 #38*

39. The debt ratio is calculated by dividing total assets by total liabilities.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: A2
Wild - Chapter 002 #39*

40. A company that finances a relatively large portion of its assets with liabilities is said to have a high degree of financial leverage.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: A2
Wild - Chapter 002 #40*

41. If a company is highly leveraged, this means that it has relatively low risk of not being able to repay its debt.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: A2
Wild - Chapter 002 #41*

42. Hamilton Industries has liabilities of \$105 million and total assets of \$350 million. Its debt ratio is 40.0%.

FALSE

$$\$105 \text{ million} / \$350 \text{ million} = 30.0\%$$

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: A2
Wild - Chapter 002 #42*

43. High financial leverage is always bad for a company's owners.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: A2
Wild - Chapter 002 #43*

44. A compound journal entry affects no more than two accounts.

FALSE

*AACSB: Reflective Thinking
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C5
Wild - Chapter 002 #44*

45. Posting is the transfer of journal entry information to the ledger.

TRUE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P1
Wild - Chapter 002 #45*

46. Transactions are first recorded in the ledger.

FALSE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C1
Wild - Chapter 002 #46*

47. The journal is known as a book of original entry.

TRUE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C1
Wild - Chapter 002 #47*

48. A journal gives a complete record of each transaction in one place, and shows the debits and credits for each transaction.

TRUE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C1
Wild - Chapter 002 #48*

49. The journal is known as the book of final entry because financial statements are prepared from it.

FALSE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: C1
Wild - Chapter 002 #49*

50. A trial balance that balances is not proof of complete accuracy in recording transactions.

TRUE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P2
Wild - Chapter 002 #50*

51. The trial balance is a list of all accounts and their balances at a point in time taken from the ledger.

TRUE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P2
Wild - Chapter 002 #51*

52. Generally, the ordering of accounts in a trial balance typically follows their identification number from the chart of accounts, that is, assets first, then liabilities, then owner's capital and withdrawals, followed by revenues and expenses.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P2
Wild - Chapter 002 #52*

53. The trial balance can serve as a replacement for the balance sheet, since debits must equal with credits.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P2
Wild - Chapter 002 #53*

54. A trial balance that is in balance is proof that no errors were made in journalizing the transactions, posting to the ledger, and preparing the trial balance.

FALSE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P2
Wild - Chapter 002 #54*

55. If cash was incorrectly debited for \$100 instead of correctly credited for \$100, the cash account is out of balance by \$100.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P2
Wild - Chapter 002 #55*

56. The balance sheet provides a link between beginning and ending income statements.

FALSE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P3
Wild - Chapter 002 #56*

57. The heading on each financial statement lists the three W's – Who (the name of the organization), What (the name of the statement), and Where (the organization's address)

FALSE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P3
Wild - Chapter 002 #57*

58. An income statement reports the revenues earned less expenses incurred by a business over a period of time.

TRUE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P3
Wild - Chapter 002 #58*

59. The balance sheet reports the financial position of a company at a point in time.

TRUE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P3
Wild - Chapter 002 #59*

60. The accounting process begins with:
- A. Analysis of business transactions and source documents.
 - B. Preparing financial statements and other reports.
 - C. Summarizing the recorded effect of business transactions.
 - D. Presentation of financial information to decision-makers.
 - E. Preparation of the trial balance.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C1
Wild - Chapter 002 #60*

61. A sales invoice:
- A. Is a type of source document.
 - B. Is used by sellers to record the sale.
 - C. Is used by buyers to record purchases.
 - D. Gives rise to an entry in the accounting process.
 - E.** All of these.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C2
Wild - Chapter 002 #61*

62. Source documents include all of the following *except*:
- A. Sales tickets.
 - B.** Ledgers.
 - C. Checks.
 - D. Purchase orders.
 - E. Bank statements.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C2
Wild - Chapter 002 #62*

63. Source documents:
- A. Include the ledger.
 - B.** Are the sources of accounting information.
 - C. Must be in electronic form.
 - D. Are based on accounting entries.
 - E. Include the chart of accounts.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C2
Wild - Chapter 002 #63*

64. Various types of documents and other papers that companies use when they conduct their business:
- A. Are called source documents.
 - B. Can include sales tickets.
 - C. Are the source of information for recording accounting entries.
 - D. Can be in electronic form.
 - E.** All of these.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C2
Wild - Chapter 002 #64*

65. A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense is a(n):
- A. Journal.
 - B. Posting.
 - C. Trial balance.
 - D.** Account.
 - E. Chart of accounts.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C3
Wild - Chapter 002 #65*

66. An account used to record the owner's investments in the business is called a(n):
- A. Withdrawals account.
 - B. Capital account.**
 - C. Revenue account.
 - D. Expense account.
 - E. Liability account.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C3
Wild - Chapter 002 #66*

67. The account used to record the transfers of assets from a business to its owner is:
- A. A revenue account.
 - B. The owner's withdrawals account.**
 - C. The owner's capital account.
 - D. An expense account.
 - E. A liability account.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C3
Wild - Chapter 002 #67*

68. Which of the following statements is correct?
- A. When a future expense is paid in advance, the payment is normally recorded in a liability account called Prepaid Expense.
 - B. Promises of future payment are called accounts receivable.**
 - C. Increases and decreases in cash are always recorded in the owner's capital account.
 - D. An account called Land is commonly used to record increases and decreases in both the land and buildings owned by a business.
 - E. Accrued liabilities include accounts receivable.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C3
Wild - Chapter 002 #68*

69. Unearned revenues are:
- A. Revenues that have been earned and received in cash.
 - B. Revenues that have been earned but not yet collected in cash.
 - C. Liabilities created when a customer pays in advance for products or services before the revenue is earned.**
 - D. Recorded as an asset in the accounting records.
 - E. Increases to owners' capital.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C3
Wild - Chapter 002 #69*

70. Prepaid expenses are:
- A. Payments made for products and services that do not ever expire.
 - B. Classified as liabilities on the balance sheet.
 - C. Decreases in equity.
 - D. Assets that represent prepayments of future expenses.**
 - E. Promises of payments by customers.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C3
Wild - Chapter 002 #70*

71. A written promise to pay a definite sum of money on a specified future date is a(n):
- A. Unearned revenue.
 - B. Prepaid expense.
 - C. Credit account.
 - D.** Note payable.
 - E. Account receivable.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C3
Wild - Chapter 002 #71*

72. A collection of all accounts and their balances used by a business is called a:
- A. Journal.
 - B. Book of original entry.
 - C. General Journal.
 - D. Balance column journal.
 - E.** Ledger.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C3
Wild - Chapter 002 #72*

73. A ledger is:
- A. A record containing increases and decreases in a specific asset, liability, equity, revenue, or expense item.
 - B. A journal in which transactions are first recorded.
 - C. A collection of documents that describe transactions and events entering the accounting process.
 - D. A list of all accounts with their debit balances at a point in time.
 - E.** A record containing all accounts and their balances used by a company.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C4
Wild - Chapter 002 #73*

74. A list of all accounts and the identification number assigned to each account used by a company is called a:
- A. Source document.
 - B. Journal.
 - C. Trial balance.
 - D.** Chart of accounts.
 - E. General Journal.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C4
Wild - Chapter 002 #74*

75. The numbering system used in a company's chart of accounts:
- A. Is the same for all companies.
 - B. Is determined by generally accepted accounting principles.
 - C. Depends on the source documents used in the accounting process.
 - D.** Typically begins with balance sheet accounts.
 - E. Typically begins with income statement accounts.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C4
Wild - Chapter 002 #75*

76. A debit is:
- A. An increase in an account.
 - B. The right-hand side of a T-account.
 - C. A decrease in an account.
 - D.** The left-hand side of a T-account.
 - E. An increase to a liability account.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C5
Wild - Chapter 002 #76

77. The right side of a T-account is a(n):
- A. Debit.
 - B. Increase.
 - C.** Credit.
 - D. Decrease.
 - E. Account balance.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C5
Wild - Chapter 002 #77

78. Which of the following statements is *incorrect*?
- A. The normal balance of accounts receivable is a debit.
 - B. The normal balance of owner's withdrawals is a debit.
 - C. The normal balance of unearned revenues is a credit.
 - D.** The normal balance of an expense account is a credit.
 - E. The normal balance of the owner's capital account is a credit.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C5
Wild - Chapter 002 #78

79. A credit is used to record:
- A. A decrease in an expense account.
 - B. A decrease in an asset account.
 - C. An increase in an unearned revenue account.
 - D. An increase in a revenue account.
 - E.** All of these.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C5
Wild - Chapter 002 #79

80. A simple account form widely used in accounting as a tool to understand how debits and credits affect an account balance is called a:
- A. Withdrawals account.
 - B. Capital account.
 - C. Drawing account.
 - D.** T-account.
 - E. Balance column sheet.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C5
Wild - Chapter 002 #80

81. Which of the following statements is correct?
- A. The left side of a T-account is the credit side.
 - B. Debits decrease asset and expense accounts, and increase liability, equity, and revenue accounts.
 - C.** The left side of a T-account is the debit side.
 - D. Credits increase asset and expense accounts, and decrease liability, equity, and revenue accounts.
 - E. In certain circumstances the total amount debited need not equal the total amount credited for a particular transaction.

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C5
Wild - Chapter 002 #81*

82. An account balance is:
- A. The total of the credit side of the account.
 - B. The total of the debit side of the account.
 - C.** The difference between the total debits and total credits for an account including the beginning balance.
 - D. Assets = liabilities + equity.
 - E. Always a credit.

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C5
Wild - Chapter 002 #82*

83. Of the following accounts, the one that normally has a credit balance is:
- A. Cash.
 - B. Office Equipment.
 - C.** Sales Salaries Payable.
 - D. Owner, Withdrawals.
 - E. Sales Salaries Expense.

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C5
Wild - Chapter 002 #83*

84. A debit is used to record:
- A. A decrease in an asset account.
 - B. A decrease in an expense account.
 - C. An increase in a revenue account.
 - D. An increase in the balance of an owner's capital account.
 - E.** An increase in the balance of the owner's withdrawals account.

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C5
Wild - Chapter 002 #84*

85. A credit entry:
- A. Increases asset and expense accounts, and decreases liability, owner's capital, and revenue accounts.
 - B. Is always a decrease in an account.
 - C.** Decreases asset and expense accounts, and increases liability, owner's capital, and revenue accounts.
 - D. Is recorded on the left side of a T-account.
 - E. Is always an increase in an account.

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C5
Wild - Chapter 002 #85*

86. Double-entry accounting is an accounting system:
- A. That records each transaction twice.
 - B.** That records the effects of transactions and other events in at least two accounts with equal debits and credits.
 - C. In which each transaction affects and is recorded in two or more accounts but that could include two debits and no credits.
 - D. That may only be used if T-accounts are used.
 - E. That insures that errors never occur.

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: C5
Wild - Chapter 002 #86*

87. Rocky Industries received its telephone bill in the amount of \$300, and immediately paid it. Rocky's general journal entry to record this transaction will include a
- A.** Debit to Telephone Expense for \$300.
 - B. Credit to Accounts Payable for \$300.
 - C. Debit to Cash for \$300.
 - D. Credit to Telephone Expense for \$300.
 - E. Debit to Accounts Payable for \$300.

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: A1
Wild - Chapter 002 #87*

88. Management Services, Inc. provides services to clients. On May 1, a client prepaid Management Services \$60,000 for 6-months services in advance. Management Services' general journal entry to record this transaction will include a
- A. Debit to Unearned Management Fees for \$60,000.
 - B. Credit to Management Fees Earned for \$60,000.
 - C. Credit to Cash for \$60,000.
 - D.** Credit to Unearned Management Fees for \$60,000.
 - E. Debit to Management Fees Earned for \$60,000.

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: A1
Wild - Chapter 002 #88*

89. Wisconsin Rentals purchased office supplies on credit. The general journal entry made by Wisconsin Rentals will include a:
- A. Debit to Accounts Payable.
 - B. Debit to Accounts Receivable.
 - C. Credit to Cash.
 - D.** Credit to Accounts Payable.
 - E. Credit to Wisconsin Rentals, Capital.

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: A1
Wild - Chapter 002 #89*

90. An asset created by prepayment of an expense is:
- Recorded as a debit to an unearned revenue account.
 - Recorded as a debit to a prepaid expense account.**
 - Recorded as a credit to an unearned revenue account.
 - Recorded as a credit to a prepaid expense account.
 - Not recorded in the accounting records until the earnings process is complete.

AACSB: Analytic
 AICPA BB: Industry
 AICPA FN: Decision Making
 Difficulty: Medium
 Learning Objective: A1
 Wild - Chapter 002 #90

91. Robert Haddon contributed \$70,000 in cash and land worth \$130,000 to open a new business, RH Consulting. Which of the following general journal entries will RH Consulting make to record this transaction?

A. Assets	\$200,000	
Robert Haddon, Capital		\$200,000
B. Cash and Land	\$200,000	
Robert Haddon, Capital		\$200,000
C. Cash	\$70,000	
Land	130,000	
Robert Haddon, Capital		\$200,000
D. Robert Haddon, Capital	\$200,000	
Cash		\$ 70,000
Land		130,000
E. Robert Haddon, Capital	200,000	
Assets		\$200,000

AACSB: Analytic
 AICPA BB: Industry
 AICPA FN: Decision Making
 Difficulty: Medium
 Learning Objective: A1
 Wild - Chapter 002 #91

92. A liability created by the receipt of cash from customers in payment for products or services that have not yet been delivered to the customers is:
- Recorded as a debit to an unearned revenue account.
 - Recorded as a debit to a prepaid expense account.
 - Recorded as a credit to an unearned revenue account.**
 - Recorded as a credit to a prepaid expense account.
 - Not recorded in the accounting records until the earnings process is complete.

AACSB: Analytic
 AICPA BB: Industry
 AICPA FN: Decision Making
 Difficulty: Hard
 Learning Objective: A1
 Wild - Chapter 002 #92

93. On September 30, the Cash account of Value Company had a normal balance of \$5,000. During September, the account was debited for a total of \$12,200 and credited for a total of \$11,500. What was the balance in the Cash account at the beginning of September?
- A \$0 balance.
 - A \$4,300 debit balance.**
 - A \$4,300 credit balance.
 - A \$5,700 debit balance.
 - A \$5,700 credit balance.

Beg. Bal. + \$12,200 - \$11,500 = \$5,000
 Beg. Bal. \$4,300 debit

AACSB: Analytic
 AICPA BB: Industry
 AICPA FN: Decision Making
 Difficulty: Hard
 Learning Objective: A1
 Wild - Chapter 002 #93

94. On April 30, Holden Company had an Accounts Receivable balance of \$18,000. During the month of May, total credits to Accounts Receivable were \$52,000 from customer payments. The May 31 Accounts Receivable balance was \$13,000. What was the amount of credit sales during May?
- A. \$ 5,000.
 - B. \$47,000.**
 - C. \$52,000.
 - D. \$57,000.
 - E. \$32,000.

$$\begin{aligned} \$18,000 + \text{Credit Sales} - \$52,000 &= \$13,000 \\ \text{Credit Sales} &= \$47,000 \end{aligned}$$

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: A1
Wild - Chapter 002 #94*

95. During the month of February, Hoffer Company had cash receipts of \$7,500 and cash disbursements of \$8,600. The February 28 cash balance was \$1,800. What was the January 31 beginning cash balance?
- A. \$700.
 - B. \$1,100.
 - C. \$2,900.**
 - D. \$0.
 - E. \$4,300.

$$\begin{aligned} \text{Beg. Bal.} + \$7,500 - \$8,600 &= \$1,800 \\ \text{Beg. Bal.} &= \$2,900 \end{aligned}$$

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: A1
Wild - Chapter 002 #95*

96. The following transactions occurred during July:
1. Received \$900 cash for services provided to a customer during July.
 2. Received \$2,200 cash investment from Barbara Hanson, the owner of the business.
 3. Received \$750 from a customer in partial payment of his account receivable which arose from sales in June.
 4. Provided services to a customer on credit, \$375.
 5. Borrowed \$6,000 from the bank by signing a promissory note.
 6. Received \$1,250 cash from a customer for services to be rendered next year.

What was the amount of revenue for July?

- A. \$ 900.
- B. \$ 1,275.**
- C. \$ 2,525.
- D. \$ 3,275.
- E. \$11,100.

$$\text{Revenues} = \$900 (1) + \$375 (4) = \$1,275$$

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: A1
Wild - Chapter 002 #96*

97. If Tim Jones, the owner of Jones Hardware proprietorship, uses cash of the business to purchase a family automobile, the business should record this use of cash with an entry to:
- A. Debit Salary Expense and credit Cash.
 - B. Debit Tim Jones, Salary and credit Cash.
 - C. Debit Cash and credit Tim Jones, Withdrawals.
 - D. Debit Tim Jones, Withdrawals and credit Cash.**
 - E. Debit Automobiles and credit Cash.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: A1
Wild - Chapter 002 #97

98. Zed Bennett opened an art gallery and as a dealer completed these transactions:
1. Started the gallery, Artery, by investing \$40,000 cash and equipment valued at \$18,000.
 2. Purchased \$70 of office supplies on credit.
 3. Paid \$1,200 cash for the receptionist's salary.
 4. Sold a painting for an artist and collected a \$4,500 cash commission on the sale.
 5. Completed an art appraisal and billed the client \$200.

What was the balance of the cash account after these transactions were posted?

- A. \$12,230.
- B. \$12,430.
- C. \$43,300.**
- D. \$43,430.
- E. \$61,430.

$$\$40,000 (1) - \$1,200 (3) + \$4,500 (4) = \$43,300$$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: A1
Wild - Chapter 002 #98

99. At the beginning of January of the current year, Thomas Law Center's ledger reflected a normal balance of \$52,000 for accounts receivable. During January, the company collected \$14,800 from customers on account and provided additional services to customers on account totaling \$12,500. Additionally, during January one customer paid Thomas \$5,000 for services to be provided in the future. At the end of January, the balance in the accounts receivable account should be:
- A. \$54,700.
 - B. \$49,700.**
 - C. \$2,300.
 - D. \$54,300.
 - E. \$49,300.

$$\$52,000 \text{ beginning balance} - \$14,800 \text{ of collections} + \$12,500 \text{ of additional services on credit} = \$49,700.$$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: A1
Wild - Chapter 002 #99

100. During the month of March, Cooley Computer Services made purchases on account totaling \$43,500. Also during the month of March, Cooley was paid \$8,000 by a customer for services to be provided in the future and paid \$36,900 of cash on its accounts payable balance. If the balance in the accounts payable account at the beginning of March was \$77,300, what is the balance in accounts payable at the end of March?
- A.** \$83,900.
 - B. \$91,900.
 - C. \$6,600.
 - D. \$75,900.
 - E. \$4,900.

Beginning balance of \$77,300 + \$43,500 of purchases on account - \$36,900 of payments on account = \$83,900.

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: A1
Wild - Chapter 002 #100*

101. On January 1 of the current year, Bob's Lawn Care Service reported owner's capital totaling \$122,500. During the current year, total revenues were \$96,000 while total expenses were \$85,500. Also, during the current year Bob withdrew \$20,000 from the company. No other changes in equity occurred during the year. If, on December 31 of the current year, total assets are \$196,000, the **change** in owner's capital during the year was:
- A.** A decrease of \$9,500.
 - B. An increase of \$9,500.
 - C. An increase of \$30,500.
 - D. A decrease of \$30,500
 - E. Impossible to determine from the information provided.

During the year, revenues were \$96,000 while expenses were \$85,500 and withdrawals were \$20,000. Since there were no other changes in equity, equity must have decreased by \$9,500.

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: A1
Wild - Chapter 002 #101*

102. Andrea Conaway opened Wonderland Photography on January 1 of the current year. During January, the following transactions occurred and were recorded in the company's books:
1. Conaway invested \$13,500 cash in the business.
 2. Conaway contributed \$20,000 of photography equipment to the business.
 3. The company paid \$2,100 cash for an insurance policy covering the next 24 months.
 4. The company received \$5,700 cash for services provided during January.
 5. The company purchased \$6,200 of office equipment on credit.
 6. The company provided \$2,750 of services to customers on account.
 7. The company paid cash of \$1,500 for monthly rent.
 8. The company paid \$3,100 on the office equipment purchased in transaction #5 above.
 9. Paid \$275 cash for January utilities.

Based on this information, the balance in the cash account at the end of January would be:

- A. \$41,450.
- B. \$12,225**
- C. \$18,700.
- D. \$15,250.
- E. \$13,500.

$$(1) \$13,500 - (3) \$2,100 + (4) \$5,700 - (7) \$1,500 - (8) \$3,100 - (9) \$275 = \$12,225$$

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: A1
Wild - Chapter 002 #102*

103. Based on the information included in Question #102, the balance in the Andrea Conaway, Capital account reported on the Statement of Owner's Equity at the end of the month would be:
- A. \$31,400.
 - B. \$39,200.
 - C. \$31,150.
 - D. \$40,175.**
 - E. \$30,875.

$$(1) \$13,500 + (2) \$20,000 + (4) \$5,700 + (6) \$2,750 - (7) \$1,500 - (9) \$275 = \$40,175.$$

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: A1
Wild - Chapter 002 #103*

104. The debt ratio is used:
- A. To measure the relation of equity to expenses.
 - B. To reflect the risk associated with a company's debts.**
 - C. Only by banks when a business applies for a loan.
 - D. To determine how much debt a firm should pay off.
 - E. All of these.

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: A2
Wild - Chapter 002 #104*

105. Which of the following is the formula used to calculate the debt ratio?
- A. Total Equity/Total Liabilities.
 - B. Total Liabilities/Total Equity.
 - C.** Total Liabilities/Total Assets.
 - D. Total Assets/Total Liabilities.
 - E. Total Equity/Total Assets.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: A2
Wild - Chapter 002 #105

106. Which of the following statements is *incorrect*?
- A. Higher financial leverage involves higher risk.
 - B. Risk is higher if a company has more liabilities.
 - C.** Risk is higher if a company has higher assets.
 - D. The debt ratio is one measure of financial risk.
 - E. Lower financial leverage involves lower risk.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: A2
Wild - Chapter 002 #106

107. Stride Rite has total assets of \$425 million. Its total liabilities are \$110 million. Its equity is \$315 million. Calculate the debt ratio.
- A. 38.6%.
 - B. 13.4%.
 - C. 34.9%.
 - D.** 25.9%.
 - E. 14.9%.

$$\$110 \text{ million} / \$425 \text{ million} = 25.9\%$$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: A2
Wild - Chapter 002 #107

108. Stride Rite has total assets of \$385 million. Its total liabilities are \$100 million and its equity is \$285 million. Calculate its debt ratio.
- A. 35.1%.
 - B.** 26.0%.
 - C. 38.5%.
 - D. 28.5%.
 - E. 58.8%.

$$\$100 \text{ million} / \$385 \text{ million} = 26.0\%$$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: A2
Wild - Chapter 002 #108

109. Which of the following statements describing the debt ratio is *false*?
- A. It is of use to both internal and external users of accounting information.
 - B.** A relatively high ratio is always desirable.
 - C. The dividing line for a high and low ratio varies from industry to industry.
 - D. Many factors such as a company's age, stability, profitability and cash flow influence the determination of what would be interpreted as a high versus a low ratio.
 - E. The ratio might be used to help determine if a company is capable of increasing its income by obtaining further debt.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: A2
Wild - Chapter 002 #109

110. At the end of the current year, Norman Company reported total liabilities of \$300,000 and total equity of \$100,000. The company's debt ratio on the last year-end was:
- A. 300%.
 - B. 33.3%
 - C.** 75.0%.
 - D. \$400,000.
 - E. Cannot be determined from the information provided.

On the last year-end, total liabilities were \$300,000 and total equity was \$100,000. That means total assets were \$400,000. Therefore, the debt to assets ratio was $\$300,000 / \$400,000$ or 75.0%.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: A2
Wild - Chapter 002 #110

111. At the beginning of the current year, Taunton Company's total assets were \$248,000 and its total liabilities were \$175,000. During the year, the company reported total revenues of \$93,000, total expenses of \$76,000 and owner withdrawals of \$5,000. There were no other changes in owner's capital during the year and total assets at the end of the year were \$260,000. Taunton Company's debt ratio at the end of the current year is:
- A. 70.6%.
 - B.** 67.3%.
 - C. 32.7%.
 - D. 48.6%.
 - E. Cannot be determined from the information provided.

If total assets were \$248,000 and total liabilities were \$175,000, total equity was \$73,000 at the beginning of the period. Add to that figure \$93,000 of revenues during the year and subtract \$76,000 of expenses and \$5,000 of withdrawals during the year and equity obviously ended the year at \$85,000. If total assets at the end of the year were \$260,000 and total equity was \$85,000, total liabilities were \$175,000. Thus, the debt ratio was $\$175,000 / \$260,000 = 67.3\%$.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: A2
Wild - Chapter 002 #111

112. The process of transferring general journal information to the ledger is:
- A. Double-entry accounting.
 - B.** Posting.
 - C. Balancing an account.
 - D. Journalizing.
 - E. Not required unless debits do not equal credits.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P1
Wild - Chapter 002 #112*

113. A column in journals and ledger accounts used to cross reference journal and ledger entries is the:
- A. Account balance column.
 - B. Debit column.
 - C.** Posting reference column.
 - D. Credit column.
 - E. Description column.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P1
Wild - Chapter 002 #113*

114. The record in which transactions are first recorded is the:
- A. Account balance.
 - B. Ledger.
 - C.** Journal.
 - D. Trial balance.
 - E. Cash account.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P1
Wild - Chapter 002 #114*

115. The general journal provides a place for recording:
- A. The transaction date.
 - B. The names of the accounts involved.
 - C. The amount of each debit and credit.
 - D. An explanation of the transaction.
 - E.** All of these.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P1
Wild - Chapter 002 #115*

116. A balance column ledger account is:
- A. An account entered on the balance sheet.
 - B.** An account with debit and credit columns for posting entries and another column for showing the balance of the account after each entry is posted.
 - C. Another name for the withdrawals account.
 - D. An account used to record the transfers of assets from a business to its owner.
 - E. A simple form of account that is widely used in accounting to illustrate the debits and credits required in recording a transaction.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P1
Wild - Chapter 002 #116*

117. A general journal is:
- A. A ledger in which amounts are posted from a balance column account.
 - B. Not required if T-accounts are used.
 - C.** A complete record of any transaction and the place from which transaction amounts are posted to the ledger accounts.
 - D. Not necessary in electronic accounting systems.
 - E. A book of final entry because financial statements are prepared from it.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P1
Wild - Chapter 002 #117

118. A record in which the effects of transactions are first recorded and from which transaction amounts are posted to the ledger is a(n):
- A. Account.
 - B. Trial balance.
 - C.** Journal.
 - D. T-account.
 - E. Balance column account.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P1
Wild - Chapter 002 #118

119. A company had the following accounts and balances year-end:

Cash.....	\$30,000
Accounts receivable.....	32,000
Accounts payable.....	20,000
Fees earned.....	65,000
Rent expense.....	15,000
Insurance expense.....	4,800
Supplies.....	5,000
Sam, Capital.....	19,800
Sam, Withdrawals.....	18,000

If all of the accounts have normal balances, what are the totals for the trial balance?

- A. \$ 45,200.
 - B. \$ 67,000.
 - C.** \$104,800.
 - D. \$209,600.
 - E. \$186,600.
120. An accountant has debited an account for \$3,500 and credited a liability account for \$2,000. Which of the following would be an **incorrect** way to complete the recording of this transaction:
- A. Credit another asset account for \$1,500.
 - B. Credit another liability account for \$1,500.
 - C. Credit an expense account for \$1,500.
 - D. Credit the owner's capital account for \$1,500.
 - E.** Debit another asset account for \$1,500.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: P2
Wild - Chapter 002 #119

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: P1
Wild - Chapter 002 #120

121. A report that lists accounts and their balances, in which the total debit balances should equal the total credit balances, is called a(n):
- A. Account balance.
 - B.** Trial balance.
 - C. Ledger.
 - D. Chart of accounts.
 - E. General Journal.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P2
Wild - Chapter 002 #121*

122. Which of the following statements is *true*?
- A. If the trial balance is in balance, it proves that no errors have been made in recording and posting transactions.
 - B. The trial balance is a book of original entry.
 - C. Another name for the trial balance is the chart of accounts.
 - D.** The trial balance is a list of all accounts from the ledger with their balances at a point in time.
 - E. The trial balance is another name for the balance sheet as long as debits balance with credits.

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P2
Wild - Chapter 002 #122*

123. While in the process of posting from the journal to the ledger a company failed to post a \$50 debit to the Office Supplies account. The effect of this error will be that:
- A. The Office Supplies account balance will be overstated.
 - B.** The trial balance will not balance.
 - C. The error will overstate the debits listed in the journal.
 - D. The total debits in the trial balance will be larger than the total credits.
 - E. All of these effects will be caused by the error.

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P2
Wild - Chapter 002 #123*

124. A \$15 credit to Sales was posted as a \$150 credit. By what amount is Sales in error?
- A. \$150 understated.
 - B.** \$135 overstated.
 - C. \$150 overstated.
 - D. \$15 understated.
 - E. \$135 understated.

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: A1
Wild - Chapter 002 #124*

125. A trial balance taken at year-end showed total credits exceed total debits by \$4,950. This discrepancy could have been caused by:
- A. An error in the general journal where a \$4,950 increase in Accounts Receivable was recorded as an increase in Cash.
 - B. A net income of \$4,950.
 - C. The balance of \$49,500 in Accounts Payable being entered in the trial balance as \$4,950.
 - D.** The balance of \$5,500 in the Office Equipment account being entered on the trial balance as a debit of \$550.
 - E. An error in the general journal where a \$4,950 increase in Accounts Payable was recorded as a decrease in Accounts Payable.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P2
Wild - Chapter 002 #125

126. In which of the following situations would the trial balance not balance?
- A. A \$1,000 collection of an account receivable was erroneously posted as a debit to Accounts Receivable and a credit to Cash.
 - B. The purchase of office supplies on account for \$3,250 was erroneously recorded in the journal as \$2,350 debit to Office Supplies and credit to Accounts Payable.
 - C. A \$50 cash receipt for the performance of a service was not recorded at all.
 - D. The purchase of office equipment for \$1,200 was posted as a debit to Office Supplies and a credit to Cash for \$1,200.
 - E.** The cash payment of a \$750 account payable was posted as a debit to Accounts Payable and a debit to Cash for \$750.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P2
Wild - Chapter 002 #126

127. The credit purchase of a delivery truck for \$4,700 was posted to Delivery Trucks as a \$4,700 debit and to Accounts Payable as a \$4,700 debit. What effect would this error have on the trial balance?
- A. The total of the Debit column of the trial balance will exceed the total of the Credit column by \$4,700.
 - B. The total of the Credit column of the trial balance will exceed the total of the Debit column by \$4,700.
 - C.** The total of the Debit column of the trial balance will exceed the total of the Credit column by \$9,400.
 - D. The total of the Credit column of the trial balance will exceed the total of the Debit column by \$9,400.
 - E. The total of the Debit column of the trial balance will equal the total of the Credit column.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P2
Wild - Chapter 002 #127

128. If the Debit and Credit column totals of a trial balance are equal, then:
- A. All transactions have been recorded correctly.
 - B. All entries from the journal have been posted to the ledger correctly.
 - C. All ledger account balances are correct.
 - D.** The total debit entries and total credit entries are equal.
 - E. The balance sheet would be correct.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P2
Wild - Chapter 002 #128

129. Of the following errors, which one by itself will cause the trial balance to be out of balance?
- A. A \$200 cash salary payment posted as a \$200 debit to Cash and a \$200 credit to Salaries Expense.
 - B.** A \$100 cash receipt from a customer in payment of his account posted as a \$100 debit to Cash and a \$10 credit to Accounts Receivable.
 - C. A \$75 cash receipt from a customer in payment of his account posted as a \$75 debit to Cash and a \$75 credit to Cash.
 - D. A \$50 cash purchase of office supplies posted as a \$50 debit to Office Equipment and a \$50 credit to Cash.
 - E. An \$800 prepayment from a customer for services to be rendered in the future was posted as an \$800 debit to Unearned Revenue and an \$800 credit to Cash.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: P2
Wild - Chapter 002 #129

130. A \$130 credit to Office Equipment was credited to Fees Earned by mistake. By what amounts are the accounts under- or overstated as a result of this error?
- A. Office Equipment, understated \$130; Fees Earned, overstated \$130.
 - B. Office Equipment, understated \$260; Fees Earned, overstated \$130.
 - C.** Office Equipment, overstated \$130; Fees Earned, overstated \$130.
 - D. Office Equipment, overstated \$130; Fees Earned, understated \$130.
 - E. Office Equipment, overstated \$260; Fees Earned, understated \$130.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: P2
Wild - Chapter 002 #130

131. Which of the following groups of accounts are not balance sheet accounts?
- A. Assets.
 - B. Liabilities.
 - C.** Revenues.
 - D. Equity accounts.
 - E. All of these are balance sheet accounts.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P3
Wild - Chapter 002 #131

132. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

- a. Decrease in an asset and expense account, and increase in a liability, owner's capital and revenue account; recorded on the right side of a T-account.
- b. A file containing all accounts of a company and their balances.
- c. An accounting system where each transaction affects and is recorded in at least two accounts; the sum of the debits for each entry must equal its credits.
- d. A company's record of each transaction in one place that shows debits and credits for each transaction.
- e. An increase in an asset and expense account, and decrease in a liability, owner's capital, and revenue account; recorded on the left side of a T-account.
- f. A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense item.
- g. A simple account form used as a helpful tool in showing the effects of transactions and events on specific accounts.
- h. Another name for the accounting books, or simply the books.
- i. The process of transferring journal entry information to the ledger.
- j. The sources of accounting information.

- | | | |
|----------------------------|---|-----------|
| 1. Posting | j | <u>8</u> |
| 2. Accounting records | e | <u>10</u> |
| 3. Credit | i | <u>1</u> |
| 4. T-account | c | <u>7</u> |
| 5. Account | b | <u>6</u> |
| 6. Ledger | d | <u>9</u> |
| 7. Double-entry accounting | f | <u>5</u> |
| 8. Source documents | a | <u>3</u> |
| 9. Journal | g | <u>4</u> |
| 10. Debit | h | <u>2</u> |

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C1-C5
Wild - Chapter 002 #132*

133. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

- a. An increase in an asset and expense account, and a decrease in a liability, owner's capital, and revenue account; recorded on the left side of a T-account.
- b. A decrease in an asset and expense account, and an increase in a liability, owner's capital, and revenue account; recorded on the right side of a T-account.
- c. A written promise to pay a definite sum of money on a specified future date.
- d. The difference between total debits and total credits for an account including the beginning balance.
- e. A list of accounts and their balances at a point in time; the total debit balances should equal the total credit balances.
- f. A list of all accounts used by a company and the identification number assigned to each account.
- g. The ratio of total liabilities to total assets; used to reflect the risk associated with the company's debts.
- h. An account with debit and credit columns for recording entries and a third column for showing the balance of the account after each entry.
- i. A complete record of each transaction in one place that shows debits and credits for each transaction.
- j. A file containing all accounts of a company and their balances.

- | | | |
|---------------------------|---|-----------|
| 1. Ledger | a | <u>3</u> |
| 2. Journal | c | <u>9</u> |
| 3. Debit | j | <u>1</u> |
| 4. Account balance | i | <u>2</u> |
| 5. Trial balance | g | <u>7</u> |
| 6. Balance column account | f | <u>10</u> |
| 7. Debt ratio | e | <u>5</u> |
| 8. Credit | b | <u>8</u> |
| 9. Note payable | d | <u>4</u> |
| 10. Chart of accounts | h | <u>6</u> |

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: A2
Learning Objective: C1-C5
Wild - Chapter 002 #133

134. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.
- A simple form used as a helpful tool in understanding the effect of transactions and events on specific accounts.
 - The most flexible type of journal, it can be used to record any kind of transaction.
 - A journal entry that affects at least three accounts.
 - A written promise from a customer to pay a definite sum of money on a specified future date.
 - A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense item.
 - A list of all accounts used by a company and the identification number assigned to each account.
 - The process of transferring journal entry information to the ledger.
 - A list of accounts and their balances at a point in time; the total debit balances should equal the total credit balances.
 - A column in journals where individual account numbers are entered when entries are posted to ledger accounts.
 - Liabilities created when customers pay in advance for products or services; satisfied by delivering the products or services in the future.
- T-account b 2
 - General journal f 7
 - Unearned revenues d 6
 - Trial Balance a 1
 - Posting j 3
 - Note receivable c 9
 - Chart of accounts i 8
 - Posting reference column g 5
 - Compound journal entry e 10
 - Account h 4

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C1-C5
Wild - Chapter 002 #134

135. Identify each of the following accounts as a revenue (R), expense (E), asset (A), liability (L), or equity (OE) by placing initials (R,E,A,L or OE) in the blanks.
- Unearned Fee Revenue E 7
 - Equipment A 8
 - Owner, Withdrawals A 2
 - Fees Revenue OE 10
 - Accounts Payable R 4
 - Office Furniture A 11
 - Salary Expense L 5
 - Cash OE 3
 - Prepaid Insurance A 12
 - Owner, Capital L 1
 - Accounts Receivable A 9
 - Supplies A 6

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C3
Wild - Chapter 002 #135

136. The following accounts appear on either the Income Statement (IS) or Balance Sheet (BS). In the space provided next to each account write the letters, IS or BS, that identify the statement on which the account appears.

- | | |
|---------------------------|--------------|
| 1. Rent Expense | BS <u>4</u> |
| 2. Unearned Fees Revenues | IS <u>1</u> |
| 3. Rent Expense | BS <u>2</u> |
| 4. Office Equipment | IS <u>1</u> |
| 5. Wages Payable | BS <u>8</u> |
| 6. Fees Revenue | BS <u>9</u> |
| 7. Notes Receivable | IS <u>6</u> |
| 8. Accounts Payable | BS <u>10</u> |
| 9. Owner, Capital | BS <u>7</u> |
| 10. Cash | BS <u>5</u> |

*AACSB: Communications
AICPA BB: Legal
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P3
Wild - Chapter 002 #136*