

Chapter 02 - Analyzing Business Transactions

TRUE/FALSE

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

ANS: T PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: measurement issues| recording transactions

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

ANS: F PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: measurement issues| recording transactions

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

ANS: F PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: measurement issues

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

ANS: T PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: measurement issues

5. Purchase requisitions are recognized in the accounting records.

ANS: F PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: measurement issues

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

ANS: F PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: measurement issues

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

ANS: F PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: measurement issues

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

ANS: F PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: measurement issues

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

ANS: F PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: measurement issues

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

ANS: T PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: measurement issues

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

ANS: T PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: measurement issues

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

ANS: F PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: measurement issues| recording transactions

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

ANS: F PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: T accounts

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

ANS: F PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: T accounts

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

ANS: T PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: T accounts

16. Column totals are called *footings*.

ANS: T PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: T accounts

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

ANS: T PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: T accounts| analyze transactions

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

ANS: T PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: T accounts| analyze transactions

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

ANS: T PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: analyze transactions

20. A decrease in a stockholders' equity account is recorded with a credit.

ANS: F PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: analyze transactions| effects of transactions on accounting equation

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

ANS: T PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: analyze transactions| effects of transactions on accounting equation

22. Dividends should appear on the statement of retained earnings.

ANS: T PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: dividends

23. The account Dividends has a normal credit balance.

ANS: F PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: analyze transactions| effects of transactions on accounting equation

24. Revenues have a normal credit balance.

ANS: T PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: analyze transactions| effects of transactions on accounting equation

25. Retained Earnings has a normal debit balance.

ANS: F PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: analyze transactions| effects of transactions on accounting equation

26. Accounts Payable has a normal credit balance.

ANS: T PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: analyze transactions| effects of transactions on accounting equation

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

ANS: F PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: analyze transactions

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

ANS: T PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: analyze transactions

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

ANS: F PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: analyze transactions| effects of transactions on accounting equation

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

ANS: F PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions| effects of transactions on accounting equation

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

ANS: T PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions| effects of transactions on accounting equation

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

ANS: F PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: analyze transactions

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

ANS: F PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: analyze transactions

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

ANS: T PTS: 1 OBJ: LO3

NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions

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

ANS: T PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: accounts

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

ANS: F PTS: 1 OBJ: LO4
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: post entries and prepare trial balance

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

ANS: F PTS: 1 OBJ: LO4
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: post entries and prepare trial balance

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

ANS: F PTS: 1 OBJ: LO4
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: post entries and prepare trial balance

39. A transposition error will cause the trial balance to be out of balance by an amount that is evenly divisible by 9.

ANS: T PTS: 1 OBJ: LO4
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: post entries and prepare trial balance

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

ANS: T PTS: 1 OBJ: LO4
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: post entries and prepare trial balance

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

ANS: F PTS: 1 OBJ: LO5
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: business goals

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

ANS: F PTS: 1 OBJ: LO5
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: liquidity and current liabilities

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

ANS: T PTS: 1 OBJ: LO5
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: liquidity and current liabilities

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

ANS: T PTS: 1 OBJ: LO5
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: measurement issues

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

ANS: F PTS: 1 OBJ: LO5
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: measurement issues

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

ANS: F PTS: 1 OBJ: LO5
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: recording transactions

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

ANS: T PTS: 1 OBJ: LO5
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: recording transactions

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

ANS: T PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: recording transactions

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

ANS: F PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: recording transactions

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

ANS: F PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: recording transactions

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

ANS: T PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: recording transactions

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

ANS: T PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: posting transactions

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

ANS: F PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: posting transactions

54. The ledger account form has a Balance column.

ANS: T PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: posting transactions

55. One might see "J2" correctly placed in the Post. Ref. column of the journal.

ANS: F PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: posting transactions

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

ANS: F PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: posting transactions

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

ANS: F PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: posting transactions

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

ANS: T
AACSB correlation: communication

PTS: 1 OBJ: SO6 LOC: Learning type: Recall
KEY: financial statements| recording transactions

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

ANS: F PTS: 1 OBJ: SO6

NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: posting transactions

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

ANS: T PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: chart of accounts

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

ANS: F PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: chart of accounts

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

ANS: F PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: chart of accounts

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

ANS: F PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: chart of accounts

64. Wages payable is a type of expense.

ANS: F PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: liabilities

65. Dividends are classified as an expense.

ANS: F PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: owner's equity

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

ANS: T PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: liabilities

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

ANS: F PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: accounts

68. Office supplies are classified as an expense.

ANS: F PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: assets

69. The Land and Building accounts may be combined into one account.

ANS: F PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: accounts

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

ANS: T PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: owner's equity

MULTIPLE CHOICE

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

ANS: A PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: measurement issues

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

ANS: B PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: measurement issues

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

ANS: B PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: measurement issues

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

- c. A customer inquires about the availability of a service.
- d. A customer purchases a service.

ANS: C PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: measurement issues

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

ANS: B PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: measurement issues

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

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

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

ANS: D PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: measurement issues

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

ANS: C PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: measurement issues

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

ANS: B PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: measurement issues

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

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

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

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

12. Which of the following business events is *not* a transaction?
- Signing a contract
 - Paying wages
 - Receiving goods
 - Purchasing a service

ANS: A PTS: 1 OBJ: LO1
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: measurement issues

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

ANS: B PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Application
KEY: T accounts

14. To determine the balance of a particular account, one should refer to the
- source documents.
 - chart of accounts.
 - book of original entry.
 - ledger.

ANS: D PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: post entries and prepare trial balance

15. Which of the following accounts is increased with a debit?
- Common Stock
 - Rent Payable

- c. Legal Fees Earned
- d. Dividends

ANS: D PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: effects of transactions on accounting equation

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

ANS: B PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: effects of transactions on accounting equation

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

ANS: A PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Application
KEY: T accounts

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

ANS: B PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: effects of transactions on accounting equation

19. Which pair of accounts follows the rules of debit and credit in the opposite manner?
- a. Prepaid Insurance and Dividends
 - b. Advertising Expense and Land
 - c. Dividends and Medical Fees Earned
 - d. Interest Payable and Common Stock

ANS: C PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: effects of transactions on accounting equation

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

ANS: C PTS: 1 OBJ: LO2

NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: effects of transactions on accounting equation

21. Which of the following accounts has a normal debit balance?
- Dividends
 - Common Stock
 - Unearned Fees
 - Retained Earnings

ANS: A PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: effects of transactions on accounting equation

22. Which of the following accounts has a normal debit balance?
- Art Fees Earned
 - Notes Payable
 - Prepaid Insurance
 - Unearned Art Fees

ANS: C PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: effects of transactions on accounting equation

23. Which of the following accounts has a normal credit balance?
- Accounts Receivable
 - Common Stock
 - Wages Expense
 - Dividends

ANS: B PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: effects of transactions on accounting equation

24. Which of the following accounts has a normal debit balance?
- Wages Payable
 - Fees Earned
 - Rent Expense
 - Common Stock

ANS: C PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: effects of transactions on accounting equation

25. Which of the following accounts is decreased with a debit?
- Notes Payable
 - Cash
 - Interest Expense
 - Dividends

ANS: A PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: effects of transactions on accounting equation

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

- a. Advertising Fees Earned
- b. Insurance Expense
- c. Common Stock
- d. Unearned Revenue

ANS: B PTS: 1 OBJ: LO2
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: T accounts| effects of transactions on accounting equation

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

ANS: C PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions| effects of transactions on accounting equation

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

ANS: D PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions| effects of transactions on accounting equation

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

ANS: D PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions| effects of transactions on accounting equation

30. Payment on a portion of Accounts Payable will
- a. not affect stockholders' equity.
 - b. decrease net income.
 - c. increase total liabilities.
 - d. not affect total assets.

ANS: A PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions| effects of transactions on accounting equation

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

d. Rent Expense– Debit; Cash – Credit

ANS: A PTS: 1 OBJ: LO3
 NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
 KEY: analyze transactions

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

ANS: B PTS: 1 OBJ: LO1
 NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
 KEY: analyze transactions

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

ANS: A PTS: 1 OBJ: LO3
 NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
 KEY: analyze transactions

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

ANS: B PTS: 1 OBJ: LO3
 NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
 KEY: analyze transactions| recording entries

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

ANS: A PTS: 1 OBJ: LO3
 NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
 KEY: analyze transactions| recording entries

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

ANS: C PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions| recording entries

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

ANS: A PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions| recording entries

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

ANS: A PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions| recording entries

39. Which of the following transactions decreases both assets and stockholders' equity?
- Declaration and payment of a dividend
 - Advance payment made for insurance
 - Receipt of a phone bill, to be paid at a later time
 - Payment of a liability

ANS: A PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions| effects of transactions on accounting equation

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

ANS: B PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions| recording entries

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

ANS: C PTS: 1 OBJ: LO3

NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: analyze transactions

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

ANS: C PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions| effects of transactions on accounting equation

43. Which of the following accounts will *not* affect stockholders' equity?
- Advertising Expense
 - Dividends
 - Land
 - Sales

ANS: C PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions| effects of transactions on accounting equation

44. A dividend will reduce which of the following accounts?
- Dividends
 - Retained Earnings
 - Common Stock
 - Accounts Payable

ANS: B PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions| effects of transactions on accounting equation

45. Which of the following does *not* affect retained earnings?
- Declaration and payment of dividends
 - Earning of revenues
 - Investments by stockholders
 - Incurring of expenses

ANS: C PTS: 1 OBJ: LO3
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions| effects of transactions on accounting equation

46. A \$70 credit item is accidentally posted as a debit. The trial balance column totals will therefore differ by
- \$0.
 - \$35.
 - \$70.
 - \$140.

ANS: D PTS: 1 OBJ: LO4
NAT: AACSB correlation: analytic LOC: Learning type: Application
KEY: post entries and prepare trial balance

47. Which of the following gives the correct sequence of accounting procedures?
- Financial statements, trial balance, ledger, journal
 - Financial statements, journal, ledger, trial balance
 - Journal, ledger, trial balance, financial statements
 - Ledger, trial balance, journal, financial statements

ANS: C PTS: 1 OBJ: LO4
 NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
 KEY: post entries and prepare trial balance| prepare financial statements

48. Here is the trial balance for McLeary Corporation:

McLeary Corporation		
Trial Balance		
January 31, 2010		
Cash	\$3,000	
Accounts Receivable	2,000	
Art Supplies	3,000	
Office Supplies	5,000	
Prepaid Rent	7,000	
Prepaid Insurance	5,000	
Art Equipment	5,000	
Office Equipment	3,000	
Accounts Payable		\$10,000
Common Stock		5,000
Retained Earnings		5,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	5,000	
Telephone Expense	3,000	
	\$ A	\$ B

If the balance of the Dividends account were \$36,000 and the balance of the Wages Expense account were \$5,000, what would be the amount of B?

- \$48,000
- \$61,000
- \$82,000
- \$62,000

ANS: C PTS: 1 OBJ: LO4
 NAT: AACSB correlation: analytic LOC: Learning type: Analysis
 KEY: post entries and prepare trial balance

49. Here is the trial balance for McLeary Corporation:

McLeary Corporation		
Trial Balance		
January 31, 2010		
Cash	\$3,000	
Accounts Receivable	2,000	
Art Supplies	3,000	
Office Supplies	5,000	
Prepaid Rent	7,000	
Prepaid Insurance	5,000	
Art Equipment	5,000	
Office Equipment	3,000	
Accounts Payable		\$10,000
Common Stock		5,000
Retained Earnings		5,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	5,000	
Telephone Expense	3,000	
	<u>\$ A</u>	<u>\$ B</u>

If the trial balance showed a balance of \$7,000 in the Dividends account and a balance of \$11,000 in the Wages Expense account, what would be the amount of Advertising Fees Earned for the period?

- a. \$49,000
- b. \$39,000
- c. \$54,000
- d. \$24,000

ANS: B

PTS: 1

OBJ: LO4

NAT: AACSB correlation: analytic

LOC: Learning type: Analysis

KEY: post entries and prepare trial balance

50. Here is the trial balance for McLeary Corporation:

McLeary Corporation		
Trial Balance		
January 31, 2010		
Cash	\$5,500	
Accounts Receivable	2,000	
Art Supplies	3,000	
Office Supplies	5,000	
Prepaid Rent	7,000	
Prepaid Insurance	5,000	
Art Equipment	5,000	
Office Equipment	3,000	
Accounts Payable		\$10,000
Common Stock		5,000
Retained Earnings		5,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	5,000	
Telephone Expense	3,000	
	<u>\$ A</u>	<u>\$ B</u>

On the trial balance, total assets equal

- a. \$45,500.
- b. \$43,500.
- c. \$35,500.
- d. \$25,500.

ANS: C PTS: 1 OBJ: LO4
 NAT: AACSB correlation: analytic LOC: Learning type: Analysis
 KEY: post entries and prepare trial balance

51. Here is the trial balance for McLeary Corporation:

McLeary Corporation		
Trial Balance		
January 31, 2010		
Cash	\$3,000	
Accounts Receivable	2,000	
Art Supplies	3,000	
Office Supplies	5,000	
Prepaid Rent	7,000	
Prepaid Insurance	5,000	
Art Equipment	5,000	
Office Equipment	3,000	
Accounts Payable		\$10,000
Common Stock		5,000
Retained Earnings		5,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	5,000	
Telephone Expense	3,000	
	\$ A	\$ B

If the trial balance showed a balance of \$8,000 in the Wages Expense account and a balance of \$34,000 in the Advertising Fees Earned account, what would be the amount of A?

- a. \$54,000
- b. \$44,000
- c. \$59,000
- d. \$49,000

ANS: A PTS: 1 OBJ: LO4
 NAT: AACSB correlation: analytic LOC: Learning type: Analysis
 KEY: post entries and prepare trial balance

52. Here is the trial balance for McLeary Corporation:

McLeary Corporation		
Trial Balance		
January 31, 2010		
Cash	\$3,000	
Accounts Receivable	2,000	
Art Supplies	3,000	
Office Supplies	5,000	
Prepaid Rent	7,000	
Prepaid Insurance	5,000	
Art Equipment	5,000	
Office Equipment	3,000	
Accounts Payable		\$10,000
Common Stock		5,000
Retained Earnings		5,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	5,000	
Telephone Expense	3,000	
	<u>\$ A</u>	<u>\$ B</u>

If the trial balance showed a balance of \$4,000 in the Wages Expense account and a balance of \$30,000 in the Advertising Fees Earned account, what would be the amount of Dividends?

- a. \$25,000
- b. \$14,000
- c. \$5,000
- d. \$19,000

ANS: C PTS: 1 OBJ: LO4
 NAT: AACSB correlation: analytic LOC: Learning type: Analysis
 KEY: post entries and prepare trial balance

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

ANS: A PTS: 1 OBJ: LO4
 NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
 KEY: post entries and prepare trial balance

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

ANS: C PTS: 1 OBJ: LO4
 NAT: AACSB correlation: analytic LOC: Learning type: Recall
 KEY: post entries and prepare trial balance

55. A \$190 credit item is posted as a debit. The trial balance column totals therefore will differ by
- \$380.
 - \$760.
 - \$190.
 - \$0.

ANS: A PTS: 1 OBJ: LO4
NAT: AACSB correlation: analytic LOC: Learning type: Application
KEY: post entries and prepare trial balance

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

ANS: B PTS: 1 OBJ: LO4
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: post entries and prepare trial balance

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

ANS: C PTS: 1 OBJ: LO4
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: post entries and prepare trial balance

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

ANS: B PTS: 1 OBJ: LO4
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: post entries and prepare trial balance

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

ANS: C PTS: 1 OBJ: LO4
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: post entries and prepare trial balance

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

- b. Fees Earned
- c. Cash
- d. Prepaid Rent

ANS: A PTS: 1 OBJ: LO5
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions| liabilities

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

ANS: D PTS: 1 OBJ: LO5
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions

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

ANS: C PTS: 1 OBJ: LO5
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions

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

ANS: B PTS: 1 OBJ: LO5
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: cash flow and current liabilities

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

ANS: B PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: post entries and prepare trial balance

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

ANS: A PTS: 1 OBJ: SO6

NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: post entries and prepare trial balance

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

ANS: C PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: post entries and prepare trial balance

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

ANS: A PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: recording entries

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

ANS: B PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: recording entries

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

ANS: C PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: recording entries

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

ANS: B PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: recording entries

71. Which of the following statements is *true* about a journal entry?

- a. Decreases in liabilities are indented.
- b. The Post. Ref. column is left blank until entries are posted.
- c. A line is skipped between each debit and each credit.
- d. Assets are entered before liabilities.

ANS: B PTS: 1 OBJ: SO6
 NAT: AACSB correlation: analytic LOC: Learning type: Recall
 KEY: recording entries

72. Which of the following statements is *not* necessarily true about a journal entry?
- a. Liabilities are indented.
 - b. An explanation follows the journal entry.
 - c. The Post. Ref. column is left blank until the entry is posted.
 - d. All debits must be recorded before any credits.

ANS: A PTS: 1 OBJ: SO6
 NAT: AACSB correlation: analytic LOC: Learning type: Recall
 KEY: recording entries

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

ANS: B PTS: 1 OBJ: SO6
 NAT: AACSB correlation: analytic LOC: Learning type: Recall
 KEY: post entries and prepare trial balance

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

ANS: D PTS: 1 OBJ: SO6
 NAT: AACSB correlation: analytic LOC: Learning type: Recall
 KEY: post entries and prepare trial balance

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

ANS: C PTS: 1 OBJ: SO6
 NAT: AACSB correlation: analytic LOC: Learning type: Recall
 KEY: post entries and prepare trial balance

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

ANS: D PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: post entries and prepare trial balance

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

ANS: C PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: post entries and prepare trial balance

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

ANS: A PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: post entries and prepare trial balance

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

ANS: B PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: bookkeeping

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

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

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

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

82. The purpose of the ledger is to
- keep a record of documentation to support each transaction.
 - make sure that all assets, liabilities, etc., have credit balances at all times.
 - record chronologically the day's transactions.
 - maintain a separate account for each asset, liability, etc.

ANS: D PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: post entries and prepare trial balance

83. Which of the following accounts probably would be listed *before* the others in a chart of accounts?
- Insurance Expense
 - Dividends
 - Notes Payable
 - Accumulated Depreciation, Buildings

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

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

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

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

ANS: C PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: assets

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

ANS: A PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: liabilities

87. Which of the following accounts is an asset?
- Retained Earnings
 - Notes Payable
 - Prepaid Rent
 - Supplies Expense

ANS: C PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: assets

88. Which of the following accounts is *not* a stockholders' equity account?
- Common Stock
 - Retained Earnings
 - Notes Payable
 - Dividends

ANS: C PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: owner's equity

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

ANS: A PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Recall
KEY: analyze transactions| liabilities

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

ANS: A PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: analyze transactions

91. Which of the following accounts is classified differently from the others listed?
- Accounts Receivable
 - Retained Earnings
 - Prepaid Rent
 - Cash

ANS: B PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: assets

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

ANS: D PTS: 1 OBJ: SO6
NAT: AACSB correlation: analytic LOC: Learning type: Comprehension
KEY: liabilities

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

ANS: A PTS: 1 OBJ: SO6
 NAT: AACSB correlation: analytic KEY: assets

SHORT ANSWER

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

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

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

ANS:

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

PTS: 1 OBJ: LO1 NAT: AACSB correlation: analytic
 LOC: Learning type: Comprehension KEY: measurement issues

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

ANS:

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

PTS: 1 OBJ: LO1 NAT: AACSB correlation: analytic
 LOC: Learning type: Critical Thinking KEY: effects of transactions on accounting equation

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

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

Were these merchandise shipments properly recorded as sales?

ANS:

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

PTS: 1 OBJ: LO1 NAT: AACSB correlation: analytic
LOC: Learning type: Critical Thinking KEY: analyze transactions

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

ANS:

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

PTS: 1 OBJ: LO1 NAT: AACSB correlation: analytic
LOC: Learning type: Comprehension KEY: business transactions

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

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

ANS:

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

PTS: 1 OBJ: LO2 NAT: AACSB correlation: analytic
LOC: Learning type: Comprehension
KEY: T accounts| effects of transactions on accounting equation

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

- a. Increase in Art Fees Earned
- b. Decrease in Prepaid Rent

- c. Decrease in Unearned Fees
- d. Increase in Common Stock
- e. Increase in Depreciation Expense, Buildings
- f. Increase in Interest Receivable
- g. Decrease in Retained Earnings
- h. Increase in Dividends
- i. Increase in Notes Payable

ANS:

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

PTS: 1 OBJ: LO2 NAT: AACSB correlation: analytic

LOC: Learning type: Comprehension

KEY: T accounts| effects of transactions on accounting equation

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

ANS:

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

PTS: 1 OBJ: LO2 NAT: AACSB correlation: analytic

LOC: Learning type: Comprehension

KEY: effects of transactions on accounting equation

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

- | | |
|------------------------|----------------------|
| a. Automobiles | g. Dividends |
| b. Accounts Payable | h. Retained Earnings |
| c. Common Stock | i. Land |
| d. Prepaid Rent | j. Interest Payable |
| e. Advertising Expense | k. Notes Receivable |
| f. Service Revenue | |

ANS:

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

PTS: 1 OBJ: LO2 NAT: AACSB correlation: analytic

LOC: Learning type: Comprehension

KEY: T accounts| effects of transactions on accounting equation

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

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

ANS:

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

PTS: 1 OBJ: LO2 NAT: AACSB correlation: analytic

LOC: Learning type: Comprehension

KEY: T accounts| effects of transactions on accounting equation

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

<table border="0" style="width: 100%;"> <tr> <td style="text-align: center; width: 50%;">Cash</td> <td style="width: 50%;"></td> </tr> <tr> <td style="border-right: 1px solid black; padding: 5px;">Sept. 27 2,000</td> <td></td> </tr> </table>	Cash		Sept. 27 2,000		<table border="0" style="width: 100%;"> <tr> <td style="text-align: center; width: 50%;">Accounts Receivable</td> <td style="width: 50%;"></td> </tr> <tr> <td style="border-right: 1px solid black; padding: 5px;">Aug. 31 3,000</td> <td style="padding: 5px;">Sept. 27 2,000</td> </tr> </table>	Accounts Receivable		Aug. 31 3,000	Sept. 27 2,000
Cash									
Sept. 27 2,000									
Accounts Receivable									
Aug. 31 3,000	Sept. 27 2,000								
<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center; width: 50%; border-bottom: 1px solid black;"> <table border="0" style="width: 100%;"> <tr> <td style="text-align: center; width: 50%;">Waste Removal Service Revenue</td> <td style="width: 50%;"></td> </tr> <tr> <td style="border-right: 1px solid black; padding: 5px;"></td> <td style="padding: 5px;">Aug. 31 3,000</td> </tr> </table> </td> <td style="width: 50%;"></td> </tr> </table>		<table border="0" style="width: 100%;"> <tr> <td style="text-align: center; width: 50%;">Waste Removal Service Revenue</td> <td style="width: 50%;"></td> </tr> <tr> <td style="border-right: 1px solid black; padding: 5px;"></td> <td style="padding: 5px;">Aug. 31 3,000</td> </tr> </table>	Waste Removal Service Revenue			Aug. 31 3,000			
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Waste Removal Service Revenue									
	Aug. 31 3,000								

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

<table border="0" style="width: 100%; height: 100px;"> <tr> <td style="border-right: 1px solid black; width: 50%;"></td> <td style="width: 50%;"></td> </tr> </table>			<table border="0" style="width: 100%; height: 100px;"> <tr> <td style="border-right: 1px solid black; width: 50%;"></td> <td style="width: 50%;"></td> </tr> </table>		
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ANS:

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

	Waste Removal Service Expense
	Aug. 31 3,000

PTS: 1 OBJ: LO3 NAT: AACSB correlation: analytic
 LOC: Learning type: Critical Thinking KEY: T accounts| analyze transactions

11. By what amount, if any, would each of the following errors cause a trial balance to be out of balance?
- a. A purchase of supplies of \$840 was recorded as a debit to Equipment and a credit to Cash for \$840.
 - b. An \$890 balance in Prepaid Insurance was copied to the trial balance as a debit of \$980.
 - c. A \$600 balance in Accounts Payable was copied to the trial balance as a debit of \$600.

ANS:
 a. \$0
 b. \$90
 c. \$1,200

PTS: 1 OBJ: LO4 NAT: AACSB correlation: analytic
 LOC: Learning type: Analysis KEY: trial balance

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

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

PTS: 1 OBJ: LO4 NAT: AACSB correlation: analytic
 LOC: Learning type: Comprehension KEY: post entries and prepare trial balance

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

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

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

ANS:

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

PTS: 1 OBJ: SO6 NAT: AACSB correlation: analytic
 LOC: Learning type: Application KEY: recording entries

14. In the journal provided, prepare journal entries without explanations for the following transactions. Write "no entry" if none is needed.
- a. Received a \$1,500 invoice for this month's rent. Payment will not be made right away.
 - b. Paid \$1,600 for insurance premiums to cover the next six months.
 - c. A \$350 dividend is declared and paid.
 - d. The rent of a is paid.
 - e. Purchased land for \$60,000. The company paid half in cash and issued a promissory note for the other half.

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

ANS:

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit
	a. Rent Expense Rent Payable (or Accounts Payable)		1,500	1,500
	b. Prepaid Insurance Cash		1,600	1,600
	c. Dividends Cash		350	350
	d. Rent Payable (or Accounts Payable) Cash		1,500	1,500
	e. Land Cash Notes Payable		60,000	30,000 30,000

PTS: 1 OBJ: SO6 NAT: AACSB correlation: analytic
 LOC: Learning type: Application KEY: recording entries

15. Provide explanations for the following related journal entries:

a.	Cash	6,000	
	Common Stock		6,000
b.	Law Library	3,400	
	Accounts Payable		3,400

c.	Cash	600	
	Accounts Receivable	1,000	
	Legal Fees Earned		1,600
d.	Cash	500	
	Accounts Receivable		500
e.	Accounts Payable	3,400	
	Cash		3,400

ANS:

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

PTS: 1 OBJ: SO6 NAT: AACSB correlation: analytic
 LOC: Learning type: Application KEY: analyze transactions

16. Provide explanations for the following related journal entries:

a.	Prepaid Rent	4,000	
	Cash		4,000
b.	Trucks and Automobile	36,000	
	Notes Payable		36,000
c.	Cash	600	
	Accounts Receivable		600
d.	Notes Payable	18,000	
	Cash		18,000
e.	Cash	2,500	
	Unearned Fees		2,500

ANS:

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

PTS: 1 OBJ: SO6 NAT: AACSB correlation: analytic
 LOC: Learning type: Application KEY: analyze transactions

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

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

ANS:

Unearned Art Fees					Account No. 213	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2010						
May	1	J1		2,500		2,500
	7	J1	700			1,800
	8	J2		500		2,300
	12	J2	200			2,100

PTS: 1 OBJ: SO6 NAT: AACSB correlation: analytic
 LOC: Learning type: Application KEY: post entries and prepare trial balance

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

Accounts Payable					Account No. 212	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2010						
Dec.	1	J1		8,200		
	7	J1	2,800			
	8	J2		600		
	12	J2	800			

ANS:

Accounts Payable					Account No. 212	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2010						
Dec.	1	J1		8,200		8,200
	7	J1	2,800			5,400
	8	J2		600		6,000
	12	J2	800			5,200

PTS: 1 OBJ: SO6 NAT: AACSB correlation: analytic
 LOC: Learning type: Application KEY: post entries and prepare trial balance

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

Accounts Receivable					Account No. 113	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2010						
Feb. 1		J2	1,820			
	3	J3		320		
	9	J3		700		
	14	J3	410			

ANS:

Accounts Receivable					Account No. 113	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2010						
Feb. 1		J2	1,820		1,820	
	3	J3		320	1,500	
	9	J3		700	800	
	14	J3	410		1,210	

PTS: 1 OBJ: SO6 NAT: AACSB correlation: analytic
 LOC: Learning type: Application KEY: post entries and prepare trial balance

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

ANS:

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

PTS: 1 OBJ: SO6 NAT: AACSB correlation: analytic
 LOC: Learning type: Comprehension KEY: post entries and prepare trial balance

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

ANS:

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

PTS: 1 OBJ: SO6 NAT: AACSB correlation: analytic
 LOC: Learning type: Comprehension KEY: accounts| liabilities

22. Use the following descriptive phrases to determine the account name that would be used for each. In addition, classify the account as an asset (A), liability (L), stockholders' equity (SE), revenue (R), or expense (E).
- Amount due to creditor for merchandise purchased
 - Coins and currency
 - Property to be used in the business
 - An amount paid to stockholders resulting from profits
 - Income recorded for performance of legal services
 - Amount due to bank for loan to purchase building
 - Stationery, pencils, etc., purchased but not yet used
 - Stationery, pencils, etc., that have been consumed (used)
 - An insurance premium paid covering the next two years
 - Representation of stockholders' investments in a business

ANS:

- Accounts Payable (L)
- Cash (A)
- Land (A)
- Dividends (SE)
- Legal Fees Earned (R)
- Mortgage Payable (L)
- Office Supplies (A)
- Office Supplies Expense (E)
- Prepaid Insurance (A)
- Common Stock (SE)

PTS: 1 OBJ: SO6 NAT: AACSB correlation: analytic
 LOC: Learning type: Application KEY: accounts

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

ANS:

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

PTS: 1 OBJ: SO6 NAT: AACSB correlation: analytic
 LOC: Learning type: Comprehension KEY: assets| balance sheet| income statement

24. Using the following transactions, calculate (a) the ending balance of Cash, (b) the ending balance of Accounts Receivable, (c) total liabilities, and (d) net income for the period.

- Opened business by issuing common stock for \$20,000.
- Billed customers for services rendered, \$4,000.
- Paid for six months' subscription in advance, \$1,000.
- Received advertising bill, to be paid next week, \$200.
- Dividends of \$1,600 were declared and paid.
- Received \$3,000 from customers billed in b.
- Paid half of advertising bill.
- Received \$400 in advance of performing a service.

ANS:

- a. \$20,700 debit ($\$20,000 + \$3,000 + \$400 - \$1,000 - \$1,600 - \100)
- b. \$1,00 debit ($\$4,000 - \$3,000$)
- c. \$500 ($\$200 + \$400 - \100)
- d. \$3,800 ($\$4,000 - \200)

PTS: 1

OBJ: LO3

NAT: AACSB correlation: analytic

LOC: Learning type: Analysis

KEY: T accounts| analyze transactions

25. Using the following transactions, calculate (a) net income for the period, as well as the ending balances of (b) total assets, (c) total liabilities, and (d) Cash.

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

ANS:

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

PTS: 1

OBJ: LO3

NAT: AACSB correlation: analytic

LOC: Learning type: Analysis

KEY: T accounts| analyze transactions

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

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

Cash	Accounts Payable
Accounts Receivable	Common Stock
Prepaid Rent	Hauling Revenue
Truck	Gasoline Expense

ANS:

Cash	Accounts Payable
a) 40,000 b) 2,400 e) 2,000	f) 40
Accounts Receivable	Common Stock
d) 6,400 e) 2,000	a) 88,000
Prepaid Rent	Hauling Revenue
b) 2,400	d) 6,400
Truck	Gasoline Expense
a) 48,000	f) 40

c) No entry

PTS: 1 OBJ: LO3
 LOC: Learning type: Application

NAT: AACSB correlation: analytic
 KEY: T accounts| analyze transactions

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

Accounts Payable	\$500
Accounts Receivable	200
Cash	80
Common Stock	90
Dividends	?
Equipment	700
Prepaid Advertising	20
Retained Earnings	60
Revenue Earned	400
Wages Expense	70
Wages Payable	50

ANS:

Kasper Corporation Trial Balance July 31, 2010		
Cash	\$ 80	
Accounts Receivable	200	
Prepaid Advertising	20	
Equipment	700	
Accounts Payable		\$ 500
Wages Payable		50
Common Stock		90
Retained Earnings		60
Dividends	30	
Revenue Earned		400
Wages Expense	70	
	<u>\$1,100</u>	<u>\$1,100</u>

PTS: 1 OBJ: LO3 NAT: AACSB correlation: analytic
 LOC: Learning type: Application KEY: post entries and prepare trial balance

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

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

ANS:

Aloha Corporation Trial Balance September 30, 2010		
Cash	\$ 400	
Accounts Receivable	460	
Prepaid Advertising	20	
Equipment	1,380	
Accounts Payable		\$ 780
Wages Payable		20
Common Stock		800
Retained Earnings		400
Dividends	680	
Revenue Earned		1,000
Wages Expense	60	
	<u>\$3,000</u>	<u>\$3,000</u>

PTS: 1

OBJ: LO4

NAT: AACSB correlation: analytic

LOC: Learning type: Analysis

KEY: post entries and prepare trial balance

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

Accounts Payable	\$140
Accounts Receivable	280
Cash	?
Common Stock	200
Equipment	400
Office Expense	180
Retained Earnings	240
Service Revenue	300

ANS:

T. and C. Corporation Trial Balance June 30, 2010		
Cash	\$ 20	
Accounts Receivable	280	
Equipment	400	
Accounts Payable		\$ 140
Common Stock		200
Retained Earnings		240
Service Revenue		300
Office Expense	180	
	<u>\$880</u>	<u>\$880</u>

PTS: 1

OBJ: LO4

NAT: AACSB correlation: analytic

LOC: Learning type: Analysis

KEY: post entries and prepare trial balance

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

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

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

ANS:

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

PTS: 1 OBJ: SO6 NAT: AACSB correlation: analytic
 LOC: Learning type: Application KEY: recording entries

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

- May 1 Investors opened a dry cleaning service, called Junction Cleaners, by depositing \$100,000 into a business bank account and receiving 50,000 shares of \$2 par value stock in exchange.
- 3 Paid two years' rent in advance, \$11,200.

- 6 Purchased dry cleaning equipment for \$36,000. Paid \$14,000 in cash, the remainder to be paid in two weeks.
- 10 Hired a worker, to be paid \$550 per week.
- 17 Paid the worker's weekly wage.
- 17 Recorded cash received for services rendered during the week, \$5,000.
- 20 Paid for the remainder of the equipment purchased on May 6.
- 21 Received \$240 in advance of cleaning and boxing a wedding gown.
- 23 Performed \$390 of dry cleaning services for Tuxedos Unlimited. It will remit payment in three days.
- 24 Paid the weekly wages.
- 26 Received payment from Tuxedos Unlimited.
- 30 Received a telephone bill for \$114, which will be paid in two weeks.

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

ANS:

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

PTS: 1 OBJ: SO6 NAT: AACSB correlation: analytic
 LOC: Learning type: Application KEY: recording entries

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

- Mar. 1 Investors opened a dance school, called Yolonda's Dance Studio, by depositing \$15,000 into a business bank account in exchange for 15,000 shares of \$1 par value stock.
- 2 Paid three months' rent in advance, \$1,800.

- 4 Hired a part-time assistant, to be paid \$250 per week, starting next week.
- 6 Purchased sound equipment for \$2,000. Paid \$400 in cash, the remainder to be paid in installments of \$800 every two weeks.
- 8 Signed up five students, who will begin lessons on March 10, at \$80 per week per student.
- 17 Received the first week's tuition from four students; the fifth student will remit payment in three days.
- 17 Paid the assistant his first week's wages.
- 20 Received payment from the fifth student.
- 21 Paid the first installment on the sound equipment purchased on March 6.
- 23 Received an electric bill of \$100, to be paid April 1.

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

ANS:

General Journal			Page 1	
Date	Description	Post. Ref.	Debit	Credit
Mar. 1	Cash Common Stock		15,000	15,000
2	Prepaid Rent Cash		1,800	1,800
4	No entry			
6	Sound Equipment Cash Accounts Payable		2,000	400 1,600
8	No entry			
17	Cash Accounts Receivable Tuition Revenue		320 80	400
17	Wages Expense Cash		250	250
20	Cash Accounts Receivable		80	80
21	Accounts Payable Cash		800	800
23	Utilities Expense Accounts Payable		100	100

PTS: 1 OBJ: SO6 NAT: AACSB correlation: analytic
 LOC: Learning type: Application KEY: recording entries

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

- Nov. 1 Investors opened a dance school called Olga's Dance Studio by depositing \$24,000 into a business bank account in exchange for 24,000 shares of \$1 par value stock.
- 2 Paid three months' rent in advance, \$2,400.
- 4 Hired a part-time assistant, to be paid \$275 per week.
- 6 Purchased sound equipment for \$4,200. Paid \$600 in cash, the remainder to be paid in installments of \$1,200 every two weeks.
- 8 Signed up ten students, who will begin lessons on November 10, at \$100 per week per student.

ANS:

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

PTS: 1 OBJ: SO6 NAT: AACSB correlation: analytic
 LOC: Learning type: Application KEY: recording entries

34. Post the following transaction.

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

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

Commissions Earned					Account No. 411	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2010						

ANS:

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

Accounts Receivable					Account No. 112	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2010 July 20		J14	415		415	

Commissions Earned					Account No. 411	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2010 July 20		J14		415		415

PTS: 1
 LOC: Learning type: Application

OBJ: SO6

NAT: AACSB correlation: analytic
 KEY: post entries and prepare trial balance

35. Post the following transaction.

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

Land					Account No. 141	
Date		Item	Post. Ref.	Debit	Credit	Balance
						Debit Credit
2010						

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

ANS:

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

Land					Account No. 141	
Date		Item	Post. Ref.	Debit	Credit	Balance
						Debit Credit
2010 May	12		J8	5,000		5,000

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

PTS: 1 OBJ: SO6
 LOC: Learning type: Application

NAT: AACSB correlation: analytic
 KEY: posting transactions