

Horngren's Accounting: The Fin. Chs., 13e (Miller-Nobles)
Chapter F:2 Recording Business Transactions

Learning Objective F:2-1

1) An account is a detailed record of all increases and decreases that have occurred in an individual asset, liability, or equity during a specific period.

Answer: TRUE

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is an Account? (H1)

2) The accounting equation is made up of four parts or categories.

Answer: FALSE

Explanation: The accounting equation is made up of three parts or categories: assets, liabilities, and equity.

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is an Account? (H1)

3) Each category of the accounting equation contains accounts.

Answer: TRUE

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is an Account? (H1)

4) Which is a true statement regarding the accounting equation?

A) The equation can be stated as assets minus liabilities equals equity.

B) The equation consists of three parts: assets, liabilities, and net income.

C) The equation is an optional tool for accountants to use.

D) The equation does not need to balance during a specific period.

Answer: A

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is an Account? (H1)

5) Which of the following statements regarding the accounting equation is incorrect?

- A) The equation is the basic tool of accounting.
- B) The equation consists of three categories: assets, liabilities, and equity.
- C) Each category of the accounting equation contains accounts.
- D) The equation can be stated as assets plus liabilities equals equity.

Answer: D

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is an Account? (H1)

6) A payment of an expense in advance is called a prepaid expense.

Answer: TRUE

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Assets

7) An accounts receivable requires the business to pay cash in the future.

Answer: FALSE

Explanation: An accounts receivable represents a customer's promise to pay in the future for services or goods sold.

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Assets

8) An accounts receivable is often described as a sale "on account."

Answer: TRUE

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Assets

9) A note receivable represents an oral promise that a customer will pay a fixed amount of money and interest by a certain date in the future.

Answer: FALSE

Explanation: A note receivable represents a *written* promise that a customer will pay a fixed amount of money and interest by a certain date in the future.

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Assets

10) The account title used for recording the payment of rent in advance for an office building is _____.

A) Prepaid Rent

B) Rent Payable

C) Rent Revenue

D) Rent Expense

Answer: A

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Assets

11) The account title used for recording a *written* promise that a customer will pay the business a fixed amount of money and interest by a certain date in the future is _____.

A) Prepaid Note

B) Notes Payable

C) Notes Receivable

D) Accounts Receivable

Answer: C

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Assets

12) Which of the following is an asset account?

A) Wages Payable

B) Notes Payable

C) Unearned Revenue

D) Accounts Receivable

Answer: D

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Assets

13) A customer's promise to pay in the future for services or goods sold is called a(n) _____.

- A) Accounts Receivable
- B) Accounts Payable
- C) Unearned Revenue
- D) Notes Payable

Answer: A

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Assets

14) Which of the following accounts is an asset?

- A) Salaries Expense
- B) Accounts Payable
- C) Service Revenue
- D) Prepaid Expense

Answer: D

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Assets

15) Which of the following is classified as an asset account?

- A) Prepaid Insurance
- B) Notes Payable
- C) Owner, Capital
- D) Unearned Revenue

Answer: A

Diff: 2

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Assets

16) Which of the following accounts is an asset?

- A) Salaries Expense
- B) Accounts Payable
- C) Service Revenue
- D) Land

Answer: D

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Assets

17) Which of the following accounts is NOT an asset?

- A) Furniture
- B) Fixtures
- C) Service Revenue
- D) Equipment

Answer: C

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Assets

18) Which of the following accounts is an asset?

- A) Cash
- B) Accounts Payable
- C) Service Revenue
- D) Notes Payable

Answer: A

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Assets

19) Which of the following accounts is NOT an asset?

- A) Building
- B) Furniture
- C) Prepaid Expense
- D) Unearned Revenue

Answer: D

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Assets

20) Provide an explanation for each of the follow asset accounts.

Account Name	Explanation
Accounts Receivable	
Prepaid Expense	
Notes Receivable	

Answer:

Account Name	Explanation
Accounts Receivable	A customer's promise to pay in the future for services or goods sold. Often described as "on account."
Prepaid Expense	A payment of an expense in advance. It is considered an asset because the prepayment provides a benefit in the future.
Notes Receivable	A written promise that a customer will pay a fixed amount of money and interest by a certain date in the future. Often more formal than an Accounts Receivable.

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Assets

21) Liabilities are economic resources that are expected to benefit the business in the future.

Answer: FALSE

Explanation: A liability is something the business owes.

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Liabilities

22) A payable involves a future receipt of cash.

Answer: FALSE

Explanation: A payable involves a future payment of cash.

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Liabilities

23) Unearned Revenue is a liability account.

Answer: TRUE

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Liabilities

24) Prepaid Rent is a liability account.

Answer: FALSE

Explanation: Prepaid Rent is an asset account.

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Liabilities

25) _____ represents a debt owed for renting a building.

A) Prepaid Rent

B) Rent Payable

C) Rent Revenue

D) Rent Expense

Answer: B

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Liabilities

26) Which of the following is a liability account?

A) Prepaid Advertising

B) Cash

C) Building

D) Unearned Rent

Answer: D

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Liabilities

27) Which of the following is a liability account?

- A) Accounts Payable
- B) Prepaid Expense
- C) Salaries Expense
- D) Service Revenue

Answer: A

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Liabilities

28) A liability created when a business receives cash from customers in advance of providing services or delivering goods is called a(n) _____.

- A) notes receivable
- B) unearned revenue
- C) accrued liability
- D) service revenue

Answer: B

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Liabilities

29) Which of the following is a liability account?

- A) Service Revenue
- B) Building
- C) Prepaid Rent
- D) Unearned Revenue

Answer: D

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Liabilities

30) Which of the following accounts is a liability?

- A) Salaries Expense
- B) Accounts Payable
- C) Service Revenue
- D) Prepaid Expense

Answer: B

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Liabilities

31) Which of the following accounts is a liability?

- A) Salaries Payable
- B) Prepaid Insurance
- C) Service Revenue
- D) Building

Answer: A

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Liabilities

32) Which of the following accounts is NOT a liability?

- A) Salaries Payable
- B) Prepaid Insurance
- C) Accounts Payable
- D) Unearned Revenue

Answer: B

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Liabilities

33) Provide an explanation for each of the follow liability accounts.

Account Name	Explanation
Accounts Payable	
Accrued Liability	
Unearned Revenue	

Answer:

Account Name	Explanation
Accounts Payable	A promise made by the business to pay a debt in the future. Arises from a credit purchase of goods or services.
Accrued Liability	An amount owed but not paid.
Unearned Revenue	Occurs when a company receives cash from a customer but has not provided the product or service. The promise to provide services or deliver goods in the future.

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Liabilities

34) Explain the difference between Accounts Receivable and Accounts Payable.

Answer: Accounts Receivable is an asset account that represents a customer's promise to pay in the future for services or goods sold.

Accounts Payable is a liability account that represents a promise to pay a debt in the future which arises from the credit purchase of goods or services.

Both are described as "on account."

Diff: 2

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Assets, Liabilities

35) Explain the difference between Prepaid Rent and Unearned Revenue.

Answer: Prepaid Rent is an asset account that represents the payment of rent expense in advance. It is considered an asset because the prepayment provides a benefit in the future.

Unearned Revenue is a liability account that occurs when a company receives cash before providing a service or delivering a good. The company owes a service or good to the customer or a refund, thus making this a liability.

Diff: 2

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Assets, Liabilities

36) The owner's claim to the assets of a business is called equity or owner's equity.

Answer: TRUE

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Equity

37) Owner, Withdrawals and expenses increase equity.

Answer: FALSE

Explanation: Owner, Withdrawals and expenses decrease equity.

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Equity

38) Revenues and capital contributions in the business increase equity.

Answer: TRUE

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Equity

39) Saturn Company paid the rent for the current month in cash. Which of the following accounts will be used to record the transaction?

- A) Prepaid Rent
- B) Rent Payable
- C) Rent Revenue
- D) Rent Expense

Answer: D

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Equity

40) Amounts earned from delivering goods or services to customers are called _____.

- A) notes receivable
- B) unearned revenues
- C) equity
- D) revenues

Answer: D

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Equity

41) Owner, Capital is a separate account in the _____ category of the accounting equation.

- A) equity
- B) asset
- C) liability
- D) revenue

Answer: A

Diff: 2

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Equity

42) Distribution of cash or other assets to the owner is called _____.

- A) owner, withdrawals
- B) unearned revenues
- C) salaries expense
- D) revenues

Answer: A

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Equity

43) Consider the following accounts and identify each as an asset (A), liability (L), or equity (E).

Owner, Capital	
Accounts Receivable	
Owner, Withdrawals	
Service Revenue	
Prepaid Rent	

Answer:

Owner, Capital	E
Accounts Receivable	A
Owner, Withdrawals	E
Service Revenue	E
Prepaid Rent	A

Diff: 2

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Assets, Liabilities, Equity

44) Consider the following accounts and identify each as an asset (A), liability (L), or equity (E).

Accounts Payable	
Unearned Revenue	
Office Supplies	
Rent Expense	
Land	

Answer:

Accounts Payable	L
Unearned Revenue	L
Office Supplies	A
Rent Expense	E
Land	A

Diff: 2

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Assets, Liabilities, Equity

45) Consider the following accounts and identify each as an asset (A), liability (L), or equity (E).

Owner, Capital	
Unearned Revenue	
Building	
Interest Revenue	
Prepaid Advertising	

Answer:

Owner, Capital	E
Unearned Revenue	L
Building	A
Interest Revenue	E
Prepaid Advertising	A

Diff: 2

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Assets, Liabilities, Equity

46) A chart of accounts is a detailed record of the changes in a particular asset, liability, or equity account during a specified period.

Answer: FALSE

Explanation: A chart of accounts is a list of all of a company's accounts with their account numbers.

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Chart of Accounts

47) A chart of accounts is a list of all of a company's accounts with their account numbers.

Answer: TRUE

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Chart of Accounts

48) The account names in the chart of accounts are standardized and thus are the same for all businesses.

Answer: FALSE

Explanation: The chart of accounts varies from business to business, though many account names are common to all companies.

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Chart of Accounts

49) Which of the following is provided in a typical chart of accounts?

A) Account balance

B) Account number

C) Dates of transactions

D) Transaction amounts

Answer: B

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Chart of Accounts

50) A listing of all accounts in numerical order is called a(n) _____.

- A) Ledger
- B) Journal
- C) Income statement
- D) Chart of accounts

Answer: D

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Chart of Accounts

51) Companies use a ledger to show all of the increases and decreases in each account along with their balances.

Answer: TRUE

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Ledger

52) A chart of accounts provides more detail than a ledger.

Answer: FALSE

Explanation: The ledger provides more detail than a chart of accounts.

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Ledger

53) Which of the following is the record holding all the accounts, the changes in those accounts, and their balances?

- A) Source document
- B) Journal
- C) Ledger
- D) Trial balance

Answer: C

Diff: 1

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Ledger

54) Regarding the ledger, which of the following statements is incorrect?

- A) Both the chart of accounts and the ledger list the account names and numbers of the business.
- B) Companies use the ledger to fulfill the task of showing all of the increases and decreases in each account.
- C) Both the chart of accounts and the ledger provide the balance of each account at a specific point in time.
- D) The ledger provides more detail than the chart of accounts.

Answer: C

Diff: 2

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Ledger

55) Both the chart of accounts and the ledger _____.

- A) provide the balance of each account at a specific point in time
- B) list the account names and numbers of the business
- C) fulfill the task of showing all of the increases and decreases in each account
- D) All of the statements are correct.

Answer: B

Diff: 2

LO: F:2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Ledger

Learning Objective F:2-2

1) The system of accounting in which every transaction affects at least two accounts is called the double-entry system.

Answer: TRUE

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is Double-Entry Accounting? (H1)

2) The accounting analysis system is used to record the dual effects of each transaction.

Answer: FALSE

Explanation: The double-entry system is used to record the dual effects of each transaction.

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is Double-Entry Accounting? (H1)

- 3) Regarding the double-entry system, which of the following statements is incorrect?
- A) A transaction would be incomplete if only one side were recorded.
 - B) Because of technology, the use of the double-entry system of accounting is optional.
 - C) The double-entry system is a system of accounting in which every transaction affects at least two accounts.
 - D) If office supplies are purchased on account, the account Office Supplies increases and the account Accounts Payable increases.

Answer: B

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is Double-Entry Accounting? (H1)

- 4) Debit refers to the right side of the T-account, and credit refers to the left side.

Answer: FALSE

Explanation: Debit refers to the left side of the T-account, and credit refers to the right side.

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The T-Account

- 5) A T-account is a summary device with credits posted on the left side of the vertical line.

Answer: FALSE

Explanation: Credits are posted on the right side of the vertical line.

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The T-Account

- 6) Debit is abbreviated as DE and Credit is abbreviated as CR.

Answer: FALSE

Explanation: Debit is abbreviated as DR and Credit is abbreviated as CR.

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The T-Account

7) The left side of the T-account for Accounts Receivable is the debit side and the left side of the T-account for Accounts Payable is the credit side.

Answer: FALSE

Explanation: The left-side of the T-account is always the debit side.

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The T-Account

8) The T-account is a summary device that is shaped like a capital T with debits posted on the right side of the vertical line and credits posted on the left side of the vertical line.

Answer: FALSE

Explanation: Debits are posted on the left side and credits are posted on the right side of the vertical line.

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The T-Account

9) The T-account is a summary device that is shaped like a capital T with debits posted on the left side of the vertical line and credits posted on the right side of the vertical line.

Answer: TRUE

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The T-Account

10) Regarding T-accounts, which of the following statements is correct?

A) A T-account is a more detailed form of an account in the journal.

B) The right side of a T-account is a debit for asset accounts and a credit for equity accounts.

C) Debits are posted on the right side of the vertical line.

D) A T-account is a summary device with credits posted on the right side of the vertical line.

Answer: D

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The T-Account

11) A shortened form of the ledger is called a _____.

- A) working account
- B) summary account
- C) chart of accounts
- D) T-account

Answer: D

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The T-Account

12) The left side of a T-Account always represents _____.

- A) an increase to that account
- B) a decrease to that account
- C) the credit side
- D) the debit side

Answer: D

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The T-Account

13) The right side of a T-Account always represents _____.

- A) an increase to that account
- B) a decrease to that account
- C) the credit side
- D) the debit side

Answer: C

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The T-Account

14) A shortened form of an account in the ledger is called _____.

- A) posting transactions
- B) the Chart of Accounts
- C) Double Entry Account
- D) the T-account

Answer: D

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The T-Account

15) An asset account is increased by a debit.

Answer: TRUE

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Increases and Decreases in the Accounts

16) A liability account is increased by a debit.

Answer: FALSE

Explanation: A liability account is increased by a credit.

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Increases and Decreases in the Accounts

17) A debit always means a decrease, and a credit always means an increase.

Answer: FALSE

Explanation: Debit always means left and credit always means right.

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Increases and Decreases in the Accounts

18) Which of the following accounts decreases with a debit?

A) Accounts Receivable

B) Notes Payable

C) Cash

D) Rent Expense

Answer: B

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Increases and Decreases in the Accounts

19) "All debits are increases and all credits are decreases." Is this a correct statement? Explain your answer.

Answer: This is not a correct statement. The double entry-system of accounting is a system of accounting in which every transaction affects at least two accounts. As transactions are analyzed and recorded, the rules of debits and credits keep the accounting equation in balance. Assets, expenses and owner withdrawals are increased with a debit and decreased with a credit. Liabilities, revenues, and owner's capital are increased with a credit and decreased with a debit.

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Increases and Decreases in the Accounts

20) The Owner, Capital account is increased by a debit.

Answer: FALSE

Explanation: The Owner, Capital account is increased by a credit.

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Expanding the Rules of Debit and Credit

21) The Owner, Withdrawals account is increased by a debit.

Answer: TRUE

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Expanding the Rules of Debit and Credit

22) All asset accounts and equity accounts increase with a debit.

Answer: FALSE

Explanation: Equity accounts increase with a credit.

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Expanding the Rules of Debit and Credit

23) The balances in the liability and revenue accounts are increased with a credit.

Answer: TRUE

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Expanding the Rules of Debit and Credit

24) Which of the following accounts increases with a credit?

- A) Owner, Withdrawals
- B) Owner, Capital
- C) Accounts Receivable
- D) Prepaid Expense

Answer: B

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Expanding the Rules of Debit and Credit

25) Which of the following accounts decreases with a credit?

- A) Cash
- B) Owner, Capital
- C) Accounts Payable
- D) Unearned Revenue

Answer: A

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Expanding the Rules of Debit and Credit

26) Which of the following accounts increases with a debit?

- A) Prepaid Rent
- B) Interest Payable
- C) Accounts Payable
- D) Owner, Capital

Answer: A

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Expanding the Rules of Debit and Credit

27) Which one of the following account groups will decrease with a debit?

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

Answer: C

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Expanding the Rules of Debit and Credit

28) Which of the following accounts increases with a credit?

- A) Service Revenue
- B) Cash
- C) Prepaid Insurance
- D) Owner, Withdrawals

Answer: A

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Expanding the Rules of Debit and Credit

29) Which of the following accounts increases with a debit?

- A) Rent Expense
- B) Service Revenue
- C) Accounts Payable
- D) Unearned Revenue

Answer: A

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Expanding the Rules of Debit and Credit

30) Which of the following accounts increases with a credit?

- A) Unearned Revenue
- B) Cash
- C) Prepaid Insurance
- D) Rent Expense

Answer: A

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Expanding the Rules of Debit and Credit

31) An account that normally has a debit balance may occasionally have a credit balance.

Answer: TRUE

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Normal Balance of an Account

32) The normal balance of an account is the increase side of the account.

Answer: TRUE

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Normal Balance of an Account

33) Which of the following statements is true of expenses?

A) Expenses increase equity, so an expense account's normal balance is a credit balance.

B) Expenses decrease equity, so an expense account's normal balance is a credit balance.

C) Expenses increase equity, so an expense account's normal balance is a debit balance.

D) Expenses decrease equity, so an expense account's normal balance is a debit balance.

Answer: D

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Normal Balance of an Account

34) Which one of the following account groups normally has a credit balance?

A) assets and liabilities

B) equity and assets

C) liabilities and revenues

D) assets and expenses

Answer: C

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Normal Balance of an Account

35) Which one of the following account groups normally has a debit balance?

A) assets and expenses

B) revenues and expenses

C) liabilities and revenues

D) assets and liabilities

Answer: A

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Normal Balance of an Account

36) Accounts Receivable is a(n) _____ account and has a normal _____ balance.

- A) liability; debit
- B) asset; debit
- C) liability; credit
- D) asset; credit

Answer: B

Diff: 2

LO: F:2-2

AACSB: Analytical thinking

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Normal Balance of an Account

37) Accounts Payable is a(n) _____ account and has a normal _____ balance.

- A) liability; debit
- B) asset; debit
- C) liability; credit
- D) asset; credit

Answer: C

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Normal Balance of an Account

38) Prepaid Rent is a(n) _____ account and has a normal _____ balance.

- A) asset; debit
- B) liability; credit
- C) liability; debit
- D) asset; credit

Answer: A

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Normal Balance of an Account

39) Which of the following statements is true of the Owner, Capital account?

- A) It is an equity account that has a normal credit balance.
- B) It is a liability account that has a normal credit balance.
- C) It is a liability account that has a normal debit balance.
- D) It is an equity account that has a normal debit balance.

Answer: A

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Normal Balance of an Account

40) For Office Supplies, the category of account and its normal balance is _____.

- A) liabilities and a debit balance
- B) assets and a debit balance
- C) liabilities and a credit balance
- D) assets and a credit balance

Answer: B

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Normal Balance of an Account

41) The Salaries Payable account is a(n) _____.

- A) liability account with a normal debit balance
- B) asset account with a normal debit balance
- C) liability account with a normal credit balance
- D) asset account with a normal credit balance

Answer: C

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Normal Balance of an Account

42) For expenses, the category of account and its normal balance is _____.

- A) equity and a credit balance
- B) assets and a debit balance
- C) assets and a credit balance
- D) equity and a debit balance

Answer: D

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Normal Balance of an Account

43) For revenues, the category of account and its normal balance is _____.

- A) equity and a credit balance
- B) assets and a debit balance
- C) assets and a credit balance
- D) equity and a debit balance

Answer: A

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Normal Balance of an Account

44) For the Owner, Capital account, the category of account and its normal balance is _____.

- A) equity and a credit balance
- B) assets and a debit balance
- C) equity and a debit balance
- D) assets and a credit balance

Answer: A

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Normal Balance of an Account

45) Owner, Withdrawals is a(n) _____ account that has a normal _____ balance.

- A) liability; credit
- B) equity; debit
- C) liability; debit
- D) equity; credit

Answer: B

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Normal Balance of an Account

46) Which of the following statements is true of revenues?

- A) Revenues decrease equity, so a revenue account's normal balance is a credit balance.
- B) Revenues decrease equity, so a revenue account's normal balance is a debit balance.
- C) Revenues increase equity, so a revenue account's normal balance is a debit balance.
- D) Revenues increase equity, so a revenue account's normal balance is a credit balance.

Answer: D

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Normal Balance of an Account

47) State whether the normal balance of each of the following accounts is a debit or credit.

Account	Normal Balance
Service Revenue	
Owner, Withdrawals	
Accounts Payable	
Prepaid Insurance	

Answer:

Account	Normal Balance
Service Revenue	Credit
Owner, Withdrawals	Debit
Accounts Payable	Credit
Prepaid Insurance	Debit

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: The Normal Balance of an Account

48) State whether the normal balance of each of the following accounts is a debit or credit.

Account	Normal Balance
Owner, Capital	
Accounts Receivable	
Salaries Expense	
Unearned Revenue	

Answer:

Account	Normal Balance
Owner, Capital	Credit
Accounts Receivable	Debit
Salaries Expense	Debit
Unearned Revenue	Credit

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: The Normal Balance of an Account

49) In reviewing the T-account for Accounts Receivable, you find that the beginning balance is zero, the total increases are \$5,200 and the total decreases are \$3,000. This means that the ending balance of the account is a credit balance of \$2,200.

Answer: FALSE

Explanation: Increases are debits to the Accounts Receivable account and decreases are credits. The ending balance is a debit balance of \$2,200.

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Determining the Balance of a T-Account

50) In reviewing the T-account for Accounts Payable, you find that the beginning balance is zero, the total increases are \$7,800 and the total decreases are \$4,700. This means that the ending balance of the account is a credit balance of \$3,100.

Answer: TRUE

Diff: 1

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Determining the Balance of a T-Account

51) The Accounts Receivable account of Brownstone Company has the following postings:

Accounts Receivable	
21,000	5,000
3,000	

Calculate the ending balance of the account.

A) \$29,000 debit

B) \$24,000 debit

C) \$5,000 credit

D) \$19,000 debit

Answer: D

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Determining the Balance of a T-Account

52) The Accounts Payable account of Waterford Company has the following postings:

Accounts Payable	
16,000	27,000
7,000	11,000

Calculate the ending balance of the account.

- A) \$11,000 credit
- B) \$15,000 debit
- C) \$15,000 credit
- D) \$7,000 debit

Answer: C

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Determining the Balance of a T-Account

53) The Rent Expense account of Brownstone Company has the following postings:

Rent Expense	
1,000	
1,000	
1,000	

Calculate the ending balance of the account.

- A) \$0 balance
- B) \$1,000 debit
- C) \$2,000 credit
- D) \$3,000 debit

Answer: D

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Determining the Balance of a T-Account

54) The Service Revenue account of Brownstone Company has the following postings:

Service Revenue	
	1,300
	1,400
	1,100

Calculate the ending balance of the account.

- A) \$0 balance
- B) \$1,300 debit
- C) \$3,800 debit
- D) \$3,800 credit

Answer: D

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Determining the Balance of a T-Account

55) The Brownstone, Withdrawals account for Joe Brownstone, owner of Brownstone Company, has the following postings:

Brownstone, Withdrawals	
	800
	1,000
	600

Calculate the ending balance of the account.

- A) \$0 balance
- B) \$2,400 debit
- C) \$1,600 credit
- D) \$1,600 debit

Answer: B

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Determining the Balance of a T-Account

56) The Brownstone, Capital account for Joe Brownstone, owner of Brownstone Company, had the following transactions for November: an additional capital contribution of \$26,000 on November 1 and an additional capital contribution of \$26,000 on November 15. Assuming a beginning balance in Brownstone, Capital account was \$16,000, what is the balance in Brownstone, Capital account as of November 15?

- A) \$42,000 Credit
- B) \$42,000 Debit
- C) \$68,000 Credit
- D) \$68,000 Debit

Answer: C

Explanation: \$16,000 beginning balance + \$26,000 contribution + \$26,000 contribution = \$68,000 credit balance.

Diff: 2

LO: F:2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Determining the Balance of a T-Account

Learning Objective F:2-3

1) Source documents provide the evidence and data for accounting transactions.

Answer: TRUE

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Source Documents - The Origin of the Transactions

2) A bank deposit slip is a source document that shows the total of all checks written by a company.

Answer: FALSE

Explanation: A bank deposit slip is a source document that shows the amount of cash received by a company.

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Source Documents - The Origin of the Transactions

3) The first step in the flow of accounting data is the preparation of source documents.

Answer: FALSE

Explanation: The first step in the flow of accounting data is occurrence of the transaction.

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Source Documents - The Origin of the Transactions

4) Which of the following is an example of a source document that provides the evidence and data for accounting transactions?

- A) Journal
- B) Sales invoice
- C) Ledger
- D) Trial balance

Answer: B

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Source Documents - The Origin of the Transactions

5) Which of the following represents the correct flow of accounting data?

- A) transactions occur; transactions are analyzed; transactions are journalized and posted; source documents are prepared
- B) transactions occur; source documents are prepared; transactions are journalized and posted;
- C) transactions occur; source documents are prepared; transactions are analyzed; transactions are journalized and posted
- D) source documents are prepared; transactions occur; transactions are analyzed; transactions are journalized and posted

Answer: C

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Source Documents - The Origin of the Transactions

6) Accountants use _____ to provide the evidence and data for recording transactions.

- A) a journal
- B) source documents
- C) a ledger
- D) a trial balance

Answer: B

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Source Documents - The Origin of the Transactions

7) Which of the following is NOT an example of a source document?

- A) Bank check
- B) Purchase invoice
- C) Journal
- D) Sales invoice

Answer: C

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Source Documents - The Origin of the Transactions

8) A source document that tells the business how much and when to pay a vendor for a purchase on account is called a _____.

- A) sales invoice
- B) purchase invoice
- C) bank check
- D) journal

Answer: B

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Source Documents - The Origin of the Transactions

9) List the four steps in the flow of accounting data.

Answer:

1. Transactions occur.
2. Source documents are prepared.
3. Transactions are analyzed.
4. Transactions are journalized and posted.

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Source Documents - The Origin of the Transactions

10) Briefly describe each of the following source documents:

Source Document	Description
Bank checks	
Sales invoices	

Answer:

Source Document	Description
Bank checks	Documents that illustrate the amounts and date of cash payments.
Sales invoices	Documents provided to clients when a business sells services or goods; tells the seller how much revenue to record.

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Source Documents - The Origin of the Transactions

11) Briefly describe each of the following source documents:

Source Document	Description
Purchase invoices	
Bank deposit slips	

Answer:

Source Document	Description
Purchase invoices	Documents that tell the business how much and when to pay a vendor for purchases on account.
Bank deposit slips	Documents that show the amount of cash put in the business's bank account.

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Source Documents - The Origin of the Transactions

12) Debits in the journal are always posted as debits in the ledger.

Answer: TRUE

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

13) The process of transferring data from the ledger to the journal is called posting.

Answer: FALSE

Explanation: The process of transferring data from the journal to the ledger is called posting.

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

14) A compound journal entry has more than two accounts, but the total dollar value of the debits still must equal the total dollar value of the credits.

Answer: TRUE

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

15) When a business makes a cash payment, the Cash account is debited.

Answer: FALSE

Explanation: When a business makes a cash payment, the Cash account is credited.

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

16) When a business collects cash, the Cash account is debited.

Answer: TRUE

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

17) When a business records an accrued utility liability, the Utilities Expense account is credited.

Answer: FALSE

Explanation: When a business records an accrued utility liability, the Utilities Expense account is debited.

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

18) When a business records the earning of service revenue, the Service Revenue account is credited.

Answer: TRUE

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

19) Transactions are first recorded in a _____.

A) chart of accounts

B) trial balance

C) journal

D) ledger

Answer: C

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

20) Journalizing a transaction involves _____.

A) calculating the balance in an account using journal entries

B) posting the account balances in the chart of accounts

C) preparing a summary of account balances

D) recording the data only in the journal

Answer: D

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

21) Posting a transaction means _____.

A) calculating the balance in an account

B) transferring data from the journal to the ledger

C) preparing a summary of account balances

D) finding the account number in the chart of accounts

Answer: B

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

22) After initially recording a transaction, the data is then transferred to the _____.

- A) chart of accounts
- B) ledger
- C) trial balance
- D) journal

Answer: B

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

23) The accounting process of transferring data from the journal to the ledger is called _____.

- A) journalizing
- B) posting
- C) compounding
- D) sourcing

Answer: B

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

24) The first step in the journalizing and posting process is to _____.

- A) post the journal entry to the ledger
- B) identify the accounts involved and the account type
- C) decide whether each account increases or decreases
- D) record the transaction in the journal

Answer: B

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

25) Which of the following is the order of steps to journalize an entry?

- A) Identify the accounts and the account type → Decide whether each account increases or decreases, then apply the rules of debits and credits → Record the transaction
- B) Identify the accounts and the account type → Record the transaction → Decide whether each account increases or decreases, then apply the rules of debits and credits
- C) Record the transaction → Identify the accounts and the account type → Decide whether each account increases or decreases, then apply the rules of debits and credits
- D) Decide whether each account increases or decreases, then apply the rules of debits and credits → Identify the accounts and the account type → Record the transaction

Answer: A

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

26) Which of the following is the final step in the journalizing and posting process?

- A) Posting the accounts to the ledger
- B) Identifying each account affected and its type
- C) Determining whether the accounting equation is in balance
- D) Determining whether each account has increased or decreased

Answer: C

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

27) Which of the following sequences is the normal sequence of flow of accounting data?

- A) Ledger → Journal → Source document
- B) Journal → Source document → Ledger
- C) Source document → Journal → Ledger
- D) Source document → Ledger → Journal

Answer: C

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

28) A business renders services to a client and issues a sales invoice. The amount will be collected from the customer at a later time. Which of the following is true at the time the invoice is issued?

- A) Equity will decrease.
- B) Total liabilities will increase.
- C) Total assets will decrease.
- D) Net income will increase.

Answer: D

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

29) Wilson Furniture Company owner, John Wilson, contributed cash of \$40,000 to the business. Which of the following accounts will be debited?

- A) Accounts Receivable
- B) Cash
- C) Wilson, Capital
- D) Accounts Payable

Answer: B

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

30) Ranger Pool Company owner, Susan Ranger, contributed cash of \$40,000 to the business. Which of the following accounts will be credited?

- A) Accounts Receivable
- B) Cash
- C) Ranger, Capital
- D) Accounts Payable

Answer: C

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

31) A business purchases equipment for \$8,000 cash. Which of the following accounts is debited?

- A) Cash
- B) Accounts Payable
- C) Owner, Capital
- D) Equipment

Answer: D

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

32) A business purchases equipment for \$8,000 cash. Which of the following accounts is credited?

- A) Cash
- B) Accounts Payable
- C) Owner, Capital
- D) Equipment

Answer: A

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

33) A business purchases equipment in exchange for a note payable. This transaction results in _____.

- A) no journal entry because no cash has been paid
- B) a debit to Notes Payable and a credit to Equipment
- C) an increase in liabilities
- D) a debit to Equipment and a credit to Accounts Payable

Answer: C

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

34) A business makes a cash payment of \$12,000 to a supplier for supplies purchased two weeks earlier. Which of the following account is debited?

- A) Cash
- B) Accounts Payable
- C) Supplies
- D) Accounts Receivable

Answer: B

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

35) A business makes a cash payment of \$12,000 to a creditor. Which of the following accounts is credited?

- A) Cash
- B) Accounts Payable
- C) Service Revenue
- D) Accounts Receivable

Answer: A

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

36) A business performs services for a customer for \$26,000 on account. Which of the following accounts is debited?

- A) Cash
- B) Accounts Receivable
- C) Service Revenue
- D) Accounts Payable

Answer: B

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

37) A business performs services for a customer for \$26,000 on account. Which of the following accounts is credited?

- A) Cash
- B) Accounts Receivable
- C) Service Revenue
- D) Accounts Payable

Answer: C

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

38) A business performs services for \$26,000 and collects cash from the customer. Which of the following accounts will be debited?

- A) Cash
- B) Accounts Receivable
- C) Service Revenue
- D) Accounts Payable

Answer: A

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

39) A business prepays four months of office rent. Which of the following accounts is debited?

- A) Rent Expense
- B) Cash
- C) Prepaid Rent
- D) Unearned Rent

Answer: C

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

40) A business receives \$40,000 for services that it will perform over the next four months. Which of the following accounts is credited?

- A) Cash
- B) Accounts Payable
- C) Service Revenue
- D) Unearned Revenue

Answer: D

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

41) Adams Company recorded the following journal entry on March 2nd.

Cash	7,000	
Unearned Revenue		7,000

From the journal entry above, identify the transaction on March 2nd.

- A) Adams purchased goods worth \$7,000 and signed a one-year note for the same amount.
- B) Adams sold goods for \$7,000 cash.
- C) Adams received \$7,000 for services to be performed at a later period.
- D) Adams paid \$7,000 for services to be received at a later date.

Answer: C

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

42) A business buys \$300 of office supplies on account. Which of the following accounts is debited?

- A) Cash
- B) Accounts Payable
- C) Office Supplies
- D) Accounts Receivable

Answer: C

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

43) A business pays \$800 cash for office supplies. Which of the following accounts is credited?

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

Answer: A

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

44) A business purchases \$1,000 of office supplies on account. Which of the following accounts is debited?

- A) Cash
- B) Accounts Payable
- C) Office Supplies
- D) Prepaid Asset

Answer: C

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

45) A business purchases \$500 of office supplies on account. What is the effect on the accounting equation?

- A) Office Supplies increase and Cash decreases.
- B) Office Supplies increase and Accounts Payable increase.
- C) Office Supplies increase and Accounts Payable decrease.
- D) Total assets increase and total liabilities decrease.

Answer: B

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

46) A business makes a cash payment to a supplier for office supplies that were purchased earlier on account. Which of the following accounts is debited?

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

Answer: B

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

47) A business makes a cash payment to a supplier on account for office supplies that were purchased earlier. Which of the following accounts is credited?

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

Answer: A

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

48) A business collects cash from a customer for services that were performed one month earlier. Which of the following accounts is debited?

- A) Cash
- B) Accounts Receivable
- C) Service Revenue
- D) Accounts Payable

Answer: A

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

49) A business collects cash from a customer for services that were performed one month earlier. Which of the following accounts is credited?

- A) Cash
- B) Accounts Receivable
- C) Service Revenue
- D) Accounts Payable

Answer: B

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

50) A business borrows cash by signing a note payable. Which of the following accounts is debited?

- A) Notes Payable
- B) Accounts Payable
- C) Notes Receivable
- D) Cash

Answer: D

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

51) A business borrows cash by signing a note payable. Which of the following accounts is credited?

- A) Notes Payable
- B) Accounts Payable
- C) Notes Receivable
- D) Cash

Answer: A

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

52) A business repays the amount borrowed on a note with cash. Which of the following accounts is debited?

- A) Cash
- B) Accounts Payable
- C) Notes Payable
- D) Notes Receivable

Answer: C

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

53) A business repays the amount borrowed on a note with cash. Which of the following accounts is credited?

- A) Accounts Payable
- B) Cash
- C) Notes Payable
- D) Notes Receivable

Answer: B

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

54) On October 31, a business pays \$1,500 cash for television ads that appeared during October. Which of the following accounts is debited?

- A) Cash
- B) Accounts Payable
- C) Prepaid Advertising
- D) Advertising Expense

Answer: D

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

55) A business makes a payment in cash for advertising expense. Which of the following accounts is credited?

- A) Prepaid Advertising
- B) Accounts Receivable
- C) Cash
- D) Advertising Expense

Answer: C

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

56) Van Jones is the owner of a sole proprietorship. Van took \$5,000 from the business for personal use. Which of the following accounts is debited?

- A) Cash
- B) Jones, Withdrawals
- C) Salaries Expense
- D) Jones, Capital

Answer: B

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

57) Lance Gomez is the owner of a sole proprietorship. Lance withdrew \$5,000 cash from the business for personal use. Which of the following accounts is credited?

- A) Gomez, Capital
- B) Gomez, Withdrawals
- C) Cash
- D) Accounts Payable

Answer: C

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

58) An accounting entry that is characterized by having multiple debits and/or multiple credits is called a _____ entry.

- A) balanced
- B) posted
- C) chart of accounts
- D) compound journal

Answer: D

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

59) A business makes a payment of \$1,400 on a note payable. Which of the following journal entries would be recorded?

- A) Cash is credited, and Notes Payable is debited for \$1,400.
- B) Notes Payable is credited, and Cash is debited for \$1,400.
- C) Cash is credited, and Financing Expense is debited for \$1,400.
- D) Cash is debited, and Financing Revenue is credited for \$1,400.

Answer: A

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

60) A business purchases equipment by paying \$7,000 in cash and issuing a note payable of \$18,000. Which of the following occurs?

- A) Cash is credited for \$7,000, Equipment is credited for \$25,000, and Notes Payable is debited for \$18,000.
- B) Cash is credited for \$7,000, Equipment is debited for \$25,000, and Notes Payable is credited for \$18,000.
- C) Cash is debited for \$7,000, Equipment is debited for \$18,000, and Notes Payable is credited for \$25,000.
- D) Cash is debited for \$7,000, Equipment is credited for \$18,000, and Notes Payable is debited for \$11,000.

Answer: B

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

61) Which of the following journal entries would be recorded if a business purchased \$800 of office supplies on account?

A)

Accounts Payable	800	
Office Supplies		800

B)

Office Supplies	800	
Accounts Payable		800

C)

Office Supplies	800	
Cash		800

D)

Cash	800	
Office Supplies		800

Answer: B

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

62) Which of the following journal entries would be recorded if a business performs services and receives cash of \$900 from the customer?

A)

Service Revenue	900	
Cash		900

B)

Accounts Receivable	900	
Service Revenue		900

C)

Cash	900	
Service Revenue		900

D)

Service Revenue	900	
Accounts Receivable		900

Answer: C

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

63) Which of the following journal entries would be recorded if a business purchased office supplies on account in a previous accounting period and now makes a cash payment of \$750 to the supplier to settle the account?

A)

Cash	750	
Accounts Payable		750

B)

Accounts Payable	750	
Cash		750

C)

Office Supplies	750	
Cash		750

D)

Accounts Payable	750	
Office Supplies		750

Answer: B

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

64) Which of the following journal entries would be recorded if a sole proprietor, Stan Johnson, contributed \$3,000 cash to his business?

A)

Cash	3,000	
Johnson, Capital		3,000

B)

Cash	3,000	
Service Revenue		3,000

C)

Johnson, Capital	3,000	
Cash		3,000

D)

Cash	3,000	
Unearned Revenue		3,000

Answer: A

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

65) A business paid \$10,000 cash for land. Which of the following accounts is credited?

A) Cash

B) Accounts Payable

C) Land

D) Accounts Receivable

Answer: A

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

66) A business paid \$10,000 cash for land. Which of the following accounts is debited?

- A) Cash
- B) Accounts Payable
- C) Land
- D) Accounts Receivable

Answer: C

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

67) A business paid \$1,000 cash for the current month's rent. Which of the following accounts is credited?

- A) Rent Expense
- B) Accounts Payable
- C) Cash
- D) Accounts Receivable

Answer: C

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

68) A business paid \$1,000 cash for the current month's rent. Which of the following accounts is debited?

- A) Service Revenue
- B) Accounts Payable
- C) Cash
- D) Rent Expense

Answer: D

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

69) A business paid employee salaries of \$4,400. Which of the following accounts is debited?

- A) Salaries Payable
- B) Accounts Payable
- C) Cash
- D) Salaries Expense

Answer: D

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

70) A business received a utility bill for \$200 and will pay this expense next month. Which of the following accounts is credited when receiving the bill?

- A) Utilities Payable
- B) Utilities Expense
- C) Cash
- D) Accounts Receivable

Answer: A

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

71) A business received a utility bill for \$200 and will pay this expense next month. Which of the following accounts is debited when receiving the bill?

- A) Utilities Payable
- B) Utilities Expense
- C) Cash
- D) Accounts Receivable

Answer: B

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

72) An example of an accrued liability would be _____.

- A) Utilities Payable
- B) Utilities Expense
- C) Cash
- D) Accounts Receivable

Answer: A

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

73) Given the following journal entry, indicate how it would be posted:

Land	10,000	
Cash		10,000

A)

Cash	Land
10,000	10,000

B)

Cash	Land
10,000	10,000

C)

Cash	Land
10,000	10,000

D)

Cash	Land
10,000	10,000

Answer: D

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

74) Given the following journal entry, indicate how it would be posted:

Salaries Expense	10,000	
Cash		10,000

A)

<u>Cash</u>	<u>Salaries Expense</u>
10,000	10,000

B)

<u>Cash</u>	<u>Salaries Expense</u>
10,000	10,000

C)

<u>Cash</u>	<u>Salaries Expense</u>
10,000	10,000

D)

<u>Cash</u>	<u>Salaries Expense</u>
10,000	10,000

Answer: A

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

75) Given the following journal entry, indicate how it would be posted:

Cash	10,000	
Service Revenue		10,000

A)

Cash	Service Revenue
10,000	10,000

B)

Cash	Service Revenue
10,000	10,000

C)

Cash	Service Revenue
10,000	10,000

D)

Cash	Service Revenue
10,000	10,000

Answer: B

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

76) A business purchased land for \$250,000 cash. Record the transaction in the journal.

Answer:

Land	250,000	
Cash		250,000
<i>Purchased land for cash.</i>		

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

77) A business performs services for its customer for \$50,000 on account. Record the transaction in the journal.

Answer:

Accounts Receivable	50,000	
Service Revenue		50,000
<i>Performed services on account.</i>		

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

78) Employees worked and a business paid salaries of \$6,000 in cash. Record the transaction in the journal.

Answer:

Salaries Expense	6,000	
Cash		6,000
<i>Paid salaries.</i>		

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

79) List the four parts of a journal entry.

Answer:

1. Date of the transaction
2. Debit account name and dollar amount
3. Credit account name and dollar amount
4. Brief explanation

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

80) List the five steps of the journalizing and posting process.

Answer:

1. Identify the accounts and the account type.
2. Decide whether each account increases or decreases, then apply the rules of debits and credits.
3. Record the transaction in the journal.
4. Post the journal entry to the ledger.
5. Determine whether the accounting equation is in balance.

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Journalizing and Posting Transactions

81) For each transaction, identify which account is debited and which account is credited. Use proper account titles.

Transaction	Debit	Credit
Received cash on account from a customer		
The sole proprietor, Roberto Sanchez, withdrew cash for personal use.		
Purchased office supplies on account		
Received cash from customers for services to be performed next month		
Paid employee's salary		

Answer:

Transaction	Debit	Credit
Received cash on account from a customer	Cash	Accounts Receivable
The sole proprietor, Roberto Sanchez, withdrew cash for personal use.	Sanchez, Withdrawals	Cash
Purchased office supplies on account	Office Supplies	Accounts Payable
Received cash from customers for services to be performed next month	Cash	Unearned Revenue
Paid employee's salary	Salaries Expense	Cash

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

82) For each transaction, identify which account is debited and which account is credited. Use proper account titles.

Transaction	Debit	Credit
Received a bill for utilities to be paid next month		
Performed services on account		
Paid cash for a 12-month insurance policy, coverage starting next month		
Paid rent for the current month		
Borrowed cash from the bank for business use; a note was signed		

Answer:

Transaction	Debit	Credit
Received a bill for utilities to be paid next month	Utilities Expense	Utilities Payable or Accounts Payable
Performed services on account	Account Receivable	Service Revenue
Paid cash for a 12-month insurance policy, coverage starting next month	Prepaid Insurance	Cash
Paid rent for the current month	Rent Expense	Cash
Borrowed cash from the bank for business use; a note was signed	Cash	Notes Payable

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

83) Journalize the following transactions:

- A. The company received \$30,000 in cash from Todd Jones as an owner contribution.
- B. Purchased \$1,000 of office supplies on account.
- C. Collected cash of \$5,000 for service revenue.
- D. Earned \$4,000 of service revenue on account.

Answer:

Cash	30,000	
Jones, Capital		30,000
Office Supplies	1,000	
Accounts Payable		1,000
Cash	5,000	
Service Revenue		5,000
Accounts Receivable	4,000	
Service Revenue		4,000

Diff: 3

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

84) Journalize the following transactions:

- A. Paid employee salaries of \$1,000 in cash.
- B. Paid \$300 on the accounts payable from previous purchase of office supplies on account.
- C. Collected \$1,000 cash from a previous service revenue earned on account.
- D. Owner, Jack Walker, withdrew \$500 in cash.

Answer:

Salaries Expense	1,000	
Cash		1,000
Accounts Payable	300	
Cash		300
Cash	1,000	
Accounts Receivable		1,000
Walker, Withdrawals	500	
Cash		500

Diff: 3

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

85) Mason's Restaurant and Catering is a sole proprietorship owned by Michael Mason. The business had the following transactions during the month of May.

- May 1 Mason contributed \$45,000 cash in exchange for capital.
- 5 Paid monthly rent on the restaurant equipment, \$1,650.
- 12 Purchased office supplies on account, \$1,500.
- 15 *Borrowed \$25,000 from the bank for business use.*
- 26 *Paid \$30,000 cash for a delivery van.*
- 28 *Paid \$1,500 on account.*
- 29 *The business received \$1,600 for catering services for a wedding on June 11.*
- 31 *Revenues earned during the month included \$20,500 cash and \$14,500 on account.*
- 31 *Received the May utility bill for \$1,000. The amount is due on June 10 and will be paid on that date.*
- 31 *Paid employees' salaries \$5,500; restaurant rent \$3,000 and advertising for May \$800. Record a compound entry.*
- 31 *Received the bill for catering food and supplies used in May, \$8,500.*
- 31 *The bill is due on June 15 and will be paid on that date*
- 31 *Michael Mason withdrew \$6,000 cash from the business for personal use.*

The business uses the following accounts: Cash; Accounts Receivable; Office Supplies; Delivery Van; Accounts Payable; Utilities Payable; Unearned Revenue; Notes Payable; Mason, Capital; Mason, Withdrawals; Service Revenue; Salaries Expense; Equipment Rent Expense; Restaurant Rent Expense; Utilities Expense; Catering Expense; and Advertising Expense.
Required: Journalize each transaction. Explanations are not needed.

Answer:

Date	Accounts	Debit	Credit
May 1	Cash	45,000	
	Mason, Capital		45,000
May 5	Equipment Rent Expense	1,650	
	Cash		1,650
May 12	Office Supplies	1,500	
	Accounts Payable		1,500
May 15	Cash	25,000	
	Notes Payable		25,000
May 26	Delivery Van	30,000	
	Cash		30,000
May 28	Accounts Payable	1,500	
	Cash		1,500
May 29	Cash	1,600	
	Unearned Revenue		1,600
May 31	Cash	20,500	
	Accounts Receivable	14,500	
	Service Revenue		35,000
May 31	Utilities Expense	1,000	
	Utilities Payable		1,000
May 31	Salaries Expense	5,500	
	Restaurant Rent Expense	3,000	
	Advertising Expense	800	
	Cash		9,300
May 31	Catering Expense	8,500	
	Accounts Payable		8,500
May 31	Mason, Withdrawals	6,000	
	Cash		6,000

Diff: 3

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Journalizing and Posting Transactions

86) After posting the journal entries from the journal to the ledger, the accounting equation should be in balance.

Answer: TRUE

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Ledger Accounts After Posting

87) After posting, the journal entry is written.

Answer: FALSE

Explanation: After posting, the description is written.

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Ledger Accounts After Posting

88) The accounting equation should be in balance after the posting of each complete transaction.

Answer: TRUE

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Ledger Accounts After Posting

89) The accounts are grouped under their headings.

Answer: TRUE

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Ledger Accounts After Posting

90) A business purchases \$3,500 of office supplies for cash. Which of the following sets of ledger accounts reflects the posting of this transaction?

A)

Office Supplies	Accounts Payable
3,500	3,500

B)

Office Supplies	Cash
3,500	3,500

C)

Office Supplies	Accounts Payable
3,500	3,500

D)

Office Supplies	Cash
3,500	3,500

Answer: D

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: The Ledger Accounts After Posting

91) The following transactions for the month of March have been journalized and posted to the proper accounts of a sole proprietorship.

Mar. 1 The business received \$9,000 cash from the owner of the business, Morris Tharps. The business gave capital to Morris Tharps.

Mar. 2 Paid the first month's rent of \$600.

Mar. 3 Purchased equipment by paying \$2,500 cash and executing a note payable for \$5,000.

Mar. 4 Purchased office supplies for \$730 cash.

Mar. 5 Billed a client for \$8,000 of design services completed.

Mar. 6 Received \$7,500 on account for the services previously recorded.

What is the balance in Cash on March 6?

A) \$13,270

B) \$12,670

C) \$15,170

D) \$14,000

Answer: B

Explanation: Cash is increased by the March 1 transaction of \$9,000 and the March 6 amount of \$7,500 and decreased by the March 2 payment of \$600, March 3 payment of \$2,500, and March 4 payment of \$730 for a final cash balance of \$12,670.

Diff: 3

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: The Ledger Accounts After Posting

92) Watson Foods Company, a sole proprietorship, reported the following transactions for September:

- a) The business received \$21,000 cash from the owner in exchange for capital.
- b) The business purchased office equipment for \$9,000 for which \$1,000 cash was paid and the balance was put on a note payable.
- c) Paid insurance expense of \$1,400 cash.
- d) Paid the September utility bill for \$900 cash.
- e) Paid \$1,700 cash for September rent.
- f) The business had sales of \$10,000 in September. Of these sales, 60% were cash sales, and the balance was credit sales.
- g) The business paid \$6,000 cash for office furniture.

What are the total liabilities at the for September?

- A) \$10,000
- B) \$1,400
- C) \$8,000
- D) \$9,000

Answer: C

Explanation: Liabilities for the month is Notes Payable in transaction c) balance of \$8,000, calculated by: ($\$9,000 - \$1,000$ paid in cash).

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: The Ledger Accounts After Posting

93) A sole proprietorship reported the following transactions for the month of March. The transactions have been journalized and posted to the proper accounts.

Mar. 1 The business received \$7,000 cash from the owner in exchange for capital.

Mar. 2 Paid the first month's rent of \$600.

Mar. 3 Purchased equipment by paying \$4,000 cash and executing a note payable for \$3,000.

Mar. 4 Purchased office supplies for \$700 cash.

Mar. 5 Billed a client for \$10,000 of design services completed.

Mar. 6 Received \$8,000 on account for the services previously recorded.

What is the balance in Accounts Receivable?

- A) \$8,000
- B) \$2,000
- C) \$3,000
- D) \$10,000

Answer: B

Explanation: Accounts Receivable is increased (debited) by the March 5 amount of \$10,000 and decreased (credited) by the March 6 amount of \$8,000.

Diff: 3

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: The Ledger Accounts After Posting

94) The following transactions have been journalized and posted to the proper accounts. March is the first month of business operations for the sole proprietorship.

- Mar. 1 The business received \$10,000 cash from the owner in exchange for capital.
- Mar. 2 Paid the first month's rent of \$700.
- Mar. 3 Purchased equipment by paying \$3,000 cash and executing a note payable for \$3,000.
- Mar. 4 Purchased office supplies for \$600 cash.
- Mar. 5 Billed a client for \$11,000 of design services completed.
- Mar. 6 Received \$9,000 on account for the services previously recorded.

What is the ending balance in the Service Revenue account?

- A) \$19,000
- B) \$10,000
- C) \$11,000
- D) \$9,000

Answer: C

Explanation:

Service Revenue

Beg bal
0
Mar 5
<u>11,000</u>
End bal
11,000

Diff: 3

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: The Ledger Accounts After Posting

95) A sole proprietorship has the following transactions:

The business receives \$17,000 cash from the owner in exchange for capital.

The business purchases \$600 of office supplies on account.

The business purchases \$3,000 of furniture on account.

The business performs services for various clients totaling \$16,000 on account.

The business pays \$1,500 for salaries expense and \$4,500 for rent expense.

The business pays \$600 to a supplier for the office supplies purchased earlier.

The business collects \$2,000 from one of its clients for services rendered earlier in the month.

At the end of the month, all journal entries are posted to the ledger. Accounts Receivable will appear as which of the following?

A) **Accounts Receivable**

	2,000	16,000	
		14,000	Bal.

B) **Accounts Receivable**

	16,000		
Bal.	16,000		

C) **Accounts Receivable**

	16,000	2,000	
Bal.	14,000		

D) **Accounts Receivable**

	16,000	2,000	
		14,000	Bal.

Answer: C

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: The Ledger Accounts After Posting

96) A sole proprietorship has the following transactions:

The business received \$19,000 cash from the owner in exchange for capital.

The business purchases \$700 of office supplies on account.

The business purchases \$3,000 of furniture on account.

The business performs services to various clients totaling \$17,000 on account.

The business pays out \$2,500 for salaries expense and \$3,500 for rent expense.

The business pays \$700 to a supplier for the office supplies purchased earlier.

The business collects \$3,000 from one of its clients for services rendered earlier in the month.

At the end of the month, all journal entries are posted to the ledger. Accounts Payable will appear as which of the following?

A) **Accounts Payable**

	700	700	
		3,000	
		3,000	Bal.

B) **Accounts Payable**

	700		
		3,000	
		3,700	Bal.

C) **Accounts Payable**

	700		
	3,000		
		700	
Bal.	3,000		

D) **Accounts Payable**

	700		
		3,000	
		700	
		4,400	Bal.

Answer: A

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

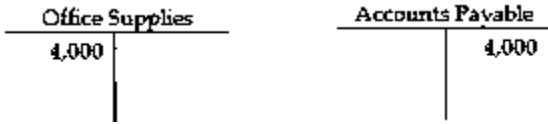
PE Question Type: Application

H2: The Ledger Accounts After Posting

97) A business purchases \$4,000 of office supplies on account. Show the posting in T-accounts. Be sure to label the accounts and place the amount on the proper debit or credit side.



Answer:



Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

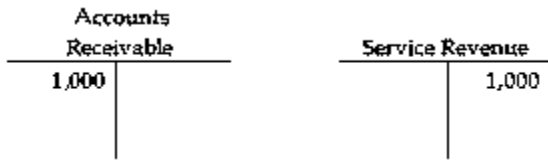
PE Question Type: Application

H2: The Ledger Accounts After Posting

98) A business earns \$1,000 of service revenue on account. Show the posting in T-accounts. Be sure to label the accounts and place the amount on the proper debit or credit side.



Answer:



Diff: 2

LO: F:2-3

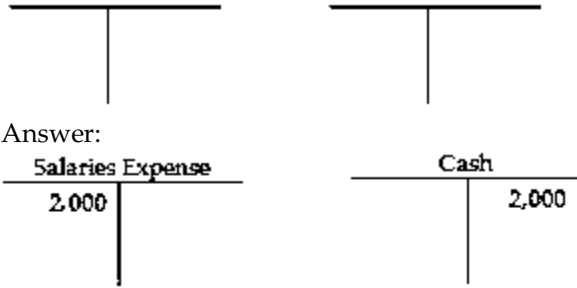
AACSB: Application of knowledge

AICPA Functional: Measurement

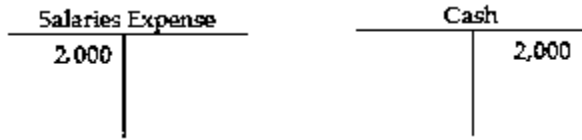
PE Question Type: Application

H2: The Ledger Accounts After Posting

99) A business paid employees \$2,000 in salaries. Show the posting in T-accounts. Be sure to label the accounts and place the amount on the proper debit or credit side.



Answer:



Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: The Ledger Accounts After Posting

100) When using a four-column account, the posting reference column allows the user of the financial data to trace the amounts in the journal back to the ledger.

Answer: FALSE

Explanation: When using a four-column account, the posting reference column allows the user of the financial data to trace the amounts in the ledger back to the journal.

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Four-Column Account: An Alternative to the T-Account

101) In a computerized environment, the posting process is completed automatically when the user enters the journal entry.

Answer: TRUE

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Four-Column Account: An Alternative to the T-Account

102) A posting reference column is used _____.

- A) while preparing the trial balance using the ledger
- B) when the information is transferred from the journal to the ledger
- C) when the information is transferred from the ledger to the post-closing trial balance
- D) while preparing the balance sheet using the trial balance

Answer: B

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Four-Column Account: An Alternative to the T-Account

103) The four-column account _____.

- A) is an alternative to using the ledger
- B) includes the Post. Ref. column which allows a user of the financial data to trace the amount in the journal back to the ledger
- C) is not frequently used in practice because it provides less information than T-accounts
- D) adds two additional columns that are used to determine a running balance

Answer: D

Diff: 1

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Four-Column Account: An Alternative to the T-Account

104) Given the following T-account for Cash, post to the Cash ledger. Assume all transactions were recorded on journal page 1.

		Cash
Dec. 1 10,000	Dec. 2 7,000	
Dec. 3 5,000	Dec. 6 4,000	
Dec. 4 2,000	Dec. 7 3,000	
Dec. 5 1,000	Dec. 8 1,000	

Cash 101

					Balance	
Date	Item	Post Ref.	Debit	Credit	Debit	Credit

Answer:

Cash 101

					Balance	
Date	Item	Post Ref.	Debit	Credit	Debit	Credit
Dec. 1		J1	10,000		10,000	
Dec. 2		J1		7,000	3,000	
Dec. 3		J1	5,000		8,000	
Dec. 4		J1	2,000		10,000	
Dec. 5		J1	1,000		11,000	
Dec. 6		J1		4,000	7,000	
Dec. 7		J1		3,000	4,000	
Dec. 8		J1		1,000	3,000	

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Four-Column Account: An Alternative to the T-Account

105) Given the following T-account for Accounts Payable, post to the Accounts Payable ledger. Assume all transactions were recorded on journal page 1.

Accounts Payable			
Dec. 3	6,000	Dec. 1	7,000
Dec. 4	4,000	Dec. 2	4,000
Dec. 6	2,000	Dec. 5	3,000
Dec. 7	1,000	Dec. 8	1,000

Accounts Payable 201

Balance						
Date	Item	Post Ref.	Debit	Credit	Debit	Credit

Answer:

Accounts Payable 201

Balance						
Date	Item	Post Ref.	Debit	Credit	Debit	Credit
Dec. 1		J1		7,000		7,000
Dec. 2		J1		4,000		11,000
Dec. 3		J1	6,000			5,000
Dec. 4		J1	4,000			1,000
Dec. 5		J1		3,000		4,000
Dec. 6		J1	2,000			2,000
Dec. 7		J1	1,000			1,000
Dec. 8		J1		1,000		2,000

Diff: 2

LO: F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: The Four-Column Account: An Alternative to the T-Account

Learning Objective F:2-4

1) The trial balance is also known as the balance sheet.

Answer: FALSE

Explanation: The trial balance and the balance sheet are not the same.

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is the Trial Balance (H1)

2) The trial balance verifies the equality of debits and credits on a specific date.

Answer: TRUE

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is the Trial Balance (H1)

3) A trial balance is the list of only a company's asset and liability accounts, along with their account numbers, at a point in time.

Answer: FALSE

Explanation: The trial balance is a list of all ledger accounts with their balances at a point in time.

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is the Trial Balance (H1)

4) A trial balance is a list of all of the ledger accounts of a company with their balances at a point in time.

Answer: TRUE

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is the Trial Balance (H1)

5) In a trial balance, total debits must always equal total credits.

Answer: TRUE

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is the Trial Balance (H1)

6) The trial balance is an internal document used only by employees of the company.

Answer: TRUE

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is the Trial Balance (H1)

7) A trial balance summarizes the ledger by listing all the accounts with their balances at a point in time.

Answer: TRUE

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is the Trial Balance (H1)

8) The trial balance reports the balances of assets, liabilities, and equity.

Answer: TRUE

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is the Trial Balance (H1)

9) Which of the following is used by both internal and external users?

A) Chart of Accounts

B) Trial Balance

C) Balance Sheet

D) Costing Reports

Answer: C

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: What is the Trial Balance (H1)

10) Which of the following statements is true of a trial balance?

A) A trial balance has the same format as a balance sheet.

B) A trial balance presents data in debit and credit format.

C) A trial balance shows the total amounts of assets and liabilities, but not equity.

D) A trial balance is prepared after the balance sheet.

Answer: B

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is the Trial Balance (H1)

11) Which of the following sequences states the order in which accounts are listed on a trial balance?

- A) Equity → Assets → Liabilities
- B) Liabilities → Assets → Equity
- C) Assets → Equity → Liabilities
- D) Assets → Liabilities → Equity

Answer: D

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is the Trial Balance (H1)

12) Which of the following statements is true of a trial balance?

- A) A trial balance is the first step in the accounting cycle.
- B) A trial balance is also known as a balance sheet.
- C) A trial balance is a list of all accounts with their balances.
- D) A trial balance is also known as the chart of accounts.

Answer: C

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: What is the Trial Balance (H1)

13) The following are the current month's balances for ABC Financial Services Company before preparing the trial balance.

Accounts Payable	\$10,000
Revenue	6,000
Cash	2,000
Expenses	14,500
Furniture	12,000
Accounts Receivable	14,000
Miller, Capital	?
Notes Payable	5,500

What amount should be shown for Miller, Capital on the trial balance?

- A) \$41,000
- B) \$21,000
- C) \$15,500
- D) \$28,000

Answer: B

Explanation: In a trial balance, the total of debits must match the total of credits. Therefore, the balance of Miller, Capital can be determined by totaling the debit and the credit balances and calculating the balancing amount.

	Debit	Credit
Cash	\$2,000	
Accounts Receivable	14,000	
Furniture	12,000	
Accounts Payable		\$10,000
Notes Payable		5,500
Miller, Capital		?
Revenues		6,000
Expenses	<u>14,500</u>	
Total	<u>\$42,500</u>	<u>\$21,500</u>

Miller, Capital = \$42,500 - \$21,500 = \$21,000

Diff: 2

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: What is the Trial Balance (H1)

14) The following are selected current month's balances for Morgan Company.

Accounts Payable	\$7,000
Revenue	8,000
Cash	2,450
Expenses	1,300
Furniture	11,000
Accounts Receivable	14,000
Morgan, Capital	7,250
Notes Payable	6,500

Based on this information, calculate the total amount of credits for the trial balance.

- A) \$21,500
- B) \$20,750
- C) \$21,750
- D) \$28,750

Answer: D

Explanation:

Accounts Payable	\$7,000
Revenue	8,000
Morgan, Capital	7,250
Notes Payable	<u>6,500</u>
Total credit amounts	<u>\$28,750</u>

Diff: 2

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: What is the Trial Balance (H1)

15) The following are selected current month's balances for Allbright Enterprises.

Accounts Payable	\$9,000
Revenue	11,000
Cash	6,000
Expenses	1,100
Furniture	13,000
Accounts Receivable	15,000
Allbright, Capital	7,250
Notes Payable	7,850

Based on this information, calculate the total amount of debits for the trial balance?

- A) \$28,000
- B) \$29,100
- C) \$34,000
- D) \$35,100

Answer: D

Explanation:

Cash	\$6,000
Expenses	1,100
Furniture	13,000
Accounts Receivable	<u>15,000</u>
Total debits	<u>\$35,100</u>

Diff: 2

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: What is the Trial Balance (H1)

16) The following are the current month's balances for Jones Company. All accounts have normal balances.

Accounts Payable	\$5,800
Service Revenue	3,200
Cash	3,300
Expenses	15,400
Furniture	13,900
Accounts Receivable	12,400
Jones, Capital	25,100
Notes Payable	10,900

What is the total for the trial balance?

- A) 90,000
- B) \$45,000
- C) \$12,200
- D) \$29,600

Answer: B

Explanation:

	Debit	Credit
Cash	\$3,300	
Accounts Receivable	12,400	
Furniture	13,900	
Accounts Payable		\$5,800
Notes Payable		10,900
Jones, Capital		25,100
Service Revenue		3,200
Expenses	<u>15,400</u>	
Total	<u>\$45,000</u>	<u>\$45,000</u>

Diff: 3

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: What is the Trial Balance (H1)

17) The following are the current month's balances for Smith Company. All accounts have normal balances.

Accounts Payable	\$5,800
Service Revenue	3,100
Cash	24,700
Expenses	15,300
Furniture	13,400
Office Supplies	2,600
Smith, Capital	37,200
Salaries Payable	9,900

What is the total for the trial balance?

- A) \$56,000
- B) \$112,000
- C) \$12,200
- D) \$40,700

Answer: A

Explanation:	Debit	Credit
Cash	\$24,700	
Office Supplies	2,600	
Furniture	13,400	
Accounts Payable		\$5,800
Salaries Payable		9,900
Smith, Capital		37,200
Service Revenue		3,100
Expenses	<u>15,300</u>	
Total	<u>\$56,000</u>	<u>\$56,000</u>

Diff: 3

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: What is the Trial Balance (H1)

18) At the end of a month, a business shows the following balances in its ledger.

Cash	
5,600	
Office Supplies	
1,300	
Service Revenue	6,800
Thomas, Capital	2,900
Accounts Receivable	
4,600	
Accounts Payable	4,500
Salaries Expense	
2,700	

What is the total for the trial balance?

- A) \$28,400
- B) \$4,100
- C) \$11,500
- D) \$14,200

Answer: D

Explanation: Trial Balance
Last Day of the Month

Account Title	Debit	Credit
Cash	\$5,600	
Accounts Receivable	4,600	
Office Supplies	1,300	
Accounts Payable		\$4,500
Thomas, Capital		2,900
Service Revenue		6,800
Salaries Expense	<u>2,700</u>	
Total	<u>\$14,200</u>	<u>\$14,200</u>

Diff: 3

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: What is the Trial Balance (H1)

19) Jackson Enterprises is a new company organized as a sole proprietorship. The following transactions occurred during the first month of business.

- Received \$15,000 cash from the owner, Marjorie Jackson, in exchange for capital.
- Paid the first month's rent with \$800 cash.
- Purchased equipment by paying \$4,000 cash and executing a note payable for \$4,000.
- Purchased office supplies for \$200 cash. The supplies remain at the end of the month.
- Billed clients for a total of \$7,000 for design services rendered.
- Received \$1,000 cash from clients for services rendered above.

Required:

- Prepare journal entries and post the journal entries to T-accounts.
- Prepare a trial balance at the end of the first month using the above transactions.

Answer: **1.**

	Accounts	Debit	Credit
(a)	Cash	15,000	
	Jackson, Capital		15,000
(b)	Rent Expense	800	
	Cash		800
(c)	Equipment	8,000	
	Cash		4,000
	Notes Payable		4,000
(d)	Office Supplies	200	
	Cash		200
(e)	Accounts Receivable	7,000	
	Service Revenue		7,000

(f)	Cash	1,000	
	Accounts Receivable		1,000

Cash	
	800(b)
15,000(a)	4,000(c)
1,000(f)	200(d)
Bal.	
11,000	

Accounts Receivable	
7,000(e)	1,000(f)
Bal.	
6,000	

Office Supplies	
200(d)	
Bal.	
200	

Equipment	
8,000(c)	
Bal.	
8,000	

Notes Payable	
	4,000(c)
4,000	Bal.

Jackson, Capital	
	15,000(a)
15,000	Bal.

Service Revenue

	7,000(e)
	7,000 Bal.

Rent Expense

800(b)	
Bal.	
800	

2.

**Jackson Enterprises
Trial Balance
Last Day of Month**

Account Title	Debit	Credit
Cash	\$11,000	
Accounts Receivable	6,000	
Office Supplies	200	
Equipment	8,000	
Notes Payable		\$4,000
Jackson, Capital		15,000
Service Revenue		7,000
Rent Expense	<u>800</u>	
Total	<u>\$26,000</u>	<u>\$26,000</u>

Explanation:

Note:

Cash balance is calculated as:

Capital Contribution	\$15,000
Rent paid	(800)
Cash paid for equipment	(4,000)
Office supplies purchased	(200)
Cash received from clients	<u>1,000</u>
Cash balance	<u>\$11,000</u>

Diff: 3

LO: F:2-1, F:2-3, F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: What is the Trial Balance (H1)

20) Musical Instruments Company sells musical instruments. On December 31, 2025, after its first month of business, Musical Instruments Company had the following balances in its accounts, listed alphabetically.

Accounts Receivable	\$ 5,000
Accounts Payable	15,000
Advertising Expense	2,000
Building	16,500
Cash	?
Jorgensen, Capital	50,000
Jorgensen, Withdrawals	1,200
Equipment	2,000
Land	70,000
Notes Payable	60,000
Office Supplies	3,400
Prepaid Rent	1,200
Salaries Expense	4,000
Service Revenue	72,000
Utilities Expense	4,100

Determine the balance in the cash account and prepare the trial balance.

Answer: The cash balance is the difference between the total debit and credit columns of the Trial Balance, other than cash.

$$\text{Cash balance} = \$197,000 - \$109,400 = \$87,600$$

Musical Instruments
Trial Balance
December 31, 2025

Account Title	Debit	Credit
Cash	\$87,600	
Accounts Receivable	5,000	
Prepaid Rent		1,200
Office Supplies	3,400	
Land	70,000	
Building	16,500	
Equipment	2,000	
Accounts Payable		\$ 15,000
Notes Payable		60,000
Jorgensen, Capital		50,000
Jorgensen, Withdrawals	1,200	
Service Revenue		72,000
Utilities Expense	4,100	
Salaries Expense	4,000	
Advertising Expense	<u>2,000</u>	
Total	<u>\$197,000</u>	<u>\$197,000</u>

Diff: 3

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: What is the Trial Balance (H1)

21) At the end of a month, a sole proprietorship has the following ending balances in its accounts in the ledger.

Cash	\$5,000
Accounts Receivable	1,200
Office Supplies	200
Land	20,000
Accounts Payable	1,300
Larsen, Capital	1,000
Service Revenue	35,500
Rent Expense	4,500
Salaries Expense	6,000
Utilities Expense	900

Use this data to prepare a trial balance.

Answer: Trial Balance
Last Day of the Month

Account Title	Debit	Credit
Cash	\$ 5,000	
Accounts Receivable	1,200	
Office Supplies	200	
Land	20,000	
Accounts Payable		\$ 1,300
Larsen, Capital		1,000
Service Revenue		35,500
Rent Expense	4,500	
Salaries Expense	6,000	
Utilities Expense	900	
Total	<u>\$37,800</u>	<u>\$37,800</u>

Diff: 2

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: What is the Trial Balance (H1)

22) Data from a trial balance is used to prepare the income statement, statement of owner's equity, and the balance sheet.

Answer: TRUE

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Preparing Financial Statements from the Trial Balance

23) The trial balance is one of the basic financial statements that is issued to external users of the business.

Answer: FALSE

Explanation: The trial balance is used to prepare the basic financial statements - income statement, statement of owner's equity, and balance sheet. The trial balance is not a financial statement.

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Preparing Financial Statements from the Trial Balance

24) Data from a trial balance is used to prepare the income statement, statement of owner's equity, but not the balance sheet.

Answer: FALSE

Explanation: Data from the trial balance is used to prepare the income statement, statement of owner's equity, and the balance sheet.

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Preparing Financial Statements from the Trial Balance

25) The beginning capital amount is used when preparing the balance sheet.

Answer: FALSE

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Preparing Financial Statements from the Trial Balance

26) Net income is shown on a Trial Balance.

Answer: FALSE

Explanation: The total of debits and credits are shown on the Trial Balance.

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Preparing Financial Statements from the Trial Balance

27) The amount of cash on the trial balance is the amount of cash for the balance sheet.

Answer: TRUE

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Preparing Financial Statements from the Trial Balance

28) Which of the following is a financial statement that presents a business's accounting equation?

A) Chart of Accounts

B) Trial Balance

C) Income Statement

D) Balance Sheet

Answer: D

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Preparing Financial Statements from the Trial Balance

29) When is a trial balance usually prepared?

A) after each entry is journalized

B) before the financial statements are prepared

C) after the financial statements are prepared

D) at the beginning of an accounting period

Answer: B

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Preparing Financial Statements from the Trial Balance

30) The following are the current month's balances for selected accounts of Sandlin Marketing Company.

Accounts Payable	\$6,000
Revenue	12,000
Cash	8,250
Expenses	1,500
Furniture	10,000
Accounts Receivable	13,000
Sandlin, Capital	7,250
Notes Payable	7,500

What is the net income for Sandlin Marketing for the current month?

A) \$12,000

B) \$10,500

C) \$13,500

D) \$20,250

Answer: B

Explanation:

Revenue \$12,000

Expenses (1,500)

Net Income \$10,500

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Preparing Financial Statements from the Trial Balance

31) Randall's Service Company began operations on January 1, 2025. The following Trial Balance was prepared on December 31, 2025.

Randall's Service Company
Trial Balance
December 31, 2025

Account Title	Debit	Credit
Cash	\$25,400	
Accounts Receivable	5,000	
Prepaid Rent	1,200	
Office Supplies	3,400	
Land	45,000	
Building	16,500	
Equipment	23,000	
Accounts Payable		\$15,000
Unearned Revenue		5,000
Notes Payable		25,000
Randall, Capital		59,000
Randall, Withdrawals	6,400	
Service Revenue		78,500
Salaries Expense	35,000	
Rent Expense	15,000	
Office Expense	5,000	
Repair Expense	<u>1,600</u>	
Total	<u>\$182,500</u>	<u>\$182,500</u>

What is the December 31, 2025 balance of Randall, Capital on the Balance Sheet?

- A) \$87,300
- B) \$73,300
- C) \$74,500
- D) \$79,500

Answer: C

Explanation: Service Revenue \$78,500 - (Salaries Expense \$35,000 + Rent Expense \$15,000 + Office Expense \$5,000 + Repair Expense \$1,600) = Net Income \$21,900

Beginning Capital of \$0+ Contributions of \$59,000 + Net Income \$21,900 - Randall, Withdrawals \$6,400 = Ending Capital of \$74,500

Diff: 2

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Preparing Financial Statements from the Trial Balance

32) Donaldson's Delivery Company began operations on January 1, 2025. The following Trial Balance was prepared on December 31, 2025.

Donaldson's Delivery Service Company
Trial Balance
December 31, 2025

Account Title	Debit	Credit
Cash	\$15,500	
Accounts Receivable	8,000	
Prepaid Rent		2,400
Office Supplies	1,400	
Land	25,000	
Building	32,000	
Equipment	23,000	
Accounts Payable		\$10,400
Unearned Revenue		2,500
Notes Payable		20,000
Donaldson, Capital		54,000
Donaldson, Withdrawals	6,700	
Service Revenue		82,300
Salaries Expense	34,000	
Rent Expense	14,000	
Truck Expense	5,900	
Office Expense	<u>1,300</u>	
Total	<u>\$169,200</u>	<u>\$169,200</u>

What is the net income for the year ended December 31, 2025?

- A) \$20,400
- B) \$27,100
- C) \$29,600
- D) \$74,400

Answer: B

Explanation: Service Revenue \$82,300 - (Salaries Expense \$34,000 + Rent Expense \$14,000 + Truck Expense \$5,900 + Office Expense \$1,300) = Net Income \$27,100

Diff: 2

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Preparing Financial Statements from the Trial Balance

33) The following are the current month's balances for selected accounts of Basic Company. All accounts have normal balances.

Accounts Payable	\$8,800
Revenue	7,500
Cash	7,200
Expenses	1,100
Furniture	12,400
Accounts Receivable	13,400
Basic, Capital	10,000
Notes Payable	7,800

What is the net income for the current month?

- A) \$8,600
- B) \$34,100
- C) \$6,400
- D) \$11,000

Answer: C

Explanation: Revenue \$7,500

Expenses (1,100)

Net Income \$6,400

Diff: 2

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Preparing Financial Statements from the Trial Balance

34) The following are the current month's balances for selected accounts of Basic Company. All accounts have normal balances.

Accounts Payable	\$8,900
Service Revenue	7,300
Cash	7,500
Expenses	1,200
Furniture	12,300
Accounts Receivable	13,800
Basic, Capital	10,400
Notes Payable	8,200

Calculate total assets for the current month.

- A) \$21,300
- B) \$34,800
- C) \$40,900
- D) \$33,600

Answer: D

Explanation: Cash	\$7,500
Accounts Receivable	13,800
Furniture	<u>12,300</u>
Total Assets	<u>\$33,600</u>

Diff: 2

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Preparing Financial Statements from the Trial Balance

35) When preparing the financial statements, the net income is carried from the income statement to the

- A) Statement of Owner's Equity
- B) Balance Sheet
- C) Trial Balance
- D) All of the above

Answer: A

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Preparing Financial Statements from the Trial Balance

36) Which financial statement will the following accounts appear on?

Account	Financial Statement
Salaries Expense	
Cash	
Accounts Payable	
Service Revenue	
Owner, Withdrawals	
Accounts Receivable	
Land	
Prepaid Rent	
Owner, Capital	
Utilities Expense	
Notes Payable	
Building	

Answer:

Account	Financial Statement
Salaries Expense	Income Statement
Cash	Balance Sheet
Accounts Payable	Balance Sheet
Service Revenue	Income Statement
Owner, Withdrawals	Statement of Owner's Equity
Accounts Receivable	Balance Sheet
Land	Balance Sheet
Prepaid Rent	Balance Sheet
Owner, Capital	Balance Sheet
Utilities Expense	Income Statement
Notes Payable	Balance Sheet
Building	Balance Sheet

Diff: 2

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Preparing Financial Statements from the Trial Balance

37) Indicate in the column to the right of the trial balance which financial statement the account would appear on.

Account	Debit	Credit	Financial Statement
Cash	10,000		
Accounts Receivable	15,000		
Office Supplies	5,000		
Accounts Payable		10,000	
Jones, Capital		13,000	
Jones, Withdrawals	2,000		
Service Revenue		20,000	
Wages Expense	1,000		
Rent Expense	5,000		
Utilities Expense	3,000		
Insurance Expense	2,000		
Total	43,000	43,000	

Answer:

Account	Debit	Credit	Financial Statement
Cash	10,000		Balance Sheet
Accounts Receivable	15,000		Balance Sheet
Office Supplies	5,000		Balance Sheet
Accounts Payable		10,000	Balance Sheet
Jones, Capital		13,000	Balance Sheet
Jones, Withdrawals	2,000		Statement of Owner's Equity
Service Revenue		20,000	Income Statement
Wages Expense	1,000		Income Statement
Rent Expense	5,000		Income Statement
Utilities Expense	3,000		Income Statement
Insurance Expense	2,000		Income Statement
Total	43,000	43,000	

Diff: 2

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Preparing Financial Statements from the Trial Balance

38) Given the following Trial Balance, prepare the Income Statement.

Account	Debit	Credit
Cash	\$10,000	
Accounts Receivable	15,000	
Office Supplies	5,000	
Accounts Payable		\$10,000
Nickel, Capital		13,000
Nickel, Withdrawals	2,000	
Service Revenue		20,000
Salaries Expense	5,000	
Rent Expense	4,000	
Utilities Expense	2,000	
Total	\$43,000	\$43,000

Answer:

Revenue:		
Service Revenue		\$ 20,000
Expenses:		
Salaries Expense	\$ 5,000	
Rent Expense	4,000	
Utilities Expense	2,000	
Total Expense		11,000
Net Income		<u>\$ 9,000</u>

Diff: 2

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Preparing Financial Statements from the Trial Balance

39) Given the following Trial Balance, prepare the Statement of Owner's Equity. Assume that beginning capital is zero and that the amount on the trial balance for capital represents a contribution during the period.

Account	Debit	Credit
Cash	12,000	
Accounts Receivable	15,000	
Office Supplies	5,000	
Accounts Payable		10,000
Harman, Capital		13,000
Harman, Withdrawals	2,000	
Service Revenue		22,000
Salaries Expense	5,000	
Rent Expense	4,000	
Utilities Expense	2,000	
Total	45,000	45,000

Answer:

Harman, Capital, Beginning		\$ 0
Net Income		
(\$22,000 - \$5,000 - \$4,000 - \$2,000)		<u>11,000</u>
		11,000
Less: Harman, Withdrawals		<u>(2,000)</u>
Harman, Capital, Ending		<u>\$ 9,000</u>

Diff: 2

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Preparing Financial Statements from the Trial Balance

40) Given the following Trial Balance, prepare the Balance Sheet. Assume the ending Jones, Capital is \$22,000.

Account	Debit	Credit
Cash	12,000	
Accounts Receivable	15,000	
Office Supplies	5,000	
Accounts Payable		10,000
Jones, Capital		13,000
Jones, Withdrawals	2,000	
Service Revenue		22,000
Salaries Expense	5,000	
Rent Expense	4,000	
Utilities Expense	2,000	
Total	45,000	45,000

Answer:

Assets	
Cash	\$ 12,000
Accounts Receivable	15,000
Office Supplies	5,000
Total Assets	<u>\$ 32,000</u>

Liabilities	
Accounts Payable	\$ 10,000
Owner's Equity	
Jones, Capital	22,000
Total Liabilities and	
Owner's Equity	<u>\$ 32,000</u>

Diff: 3

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Preparing Financial Statements from the Trial Balance

41) Given the following Trial Balance, prepare the Income Statement, Statement of Owner's Equity, and the Balance Sheet for Smith Service Company, for year ending December 31, 20XX. Assume there were no additional owner contributions.

Account	Debit	Credit
Cash	\$ 20,000	
Accounts Receivable	25,000	
Office Supplies	5,000	
Accounts Payable		\$ 15,000
Smith, Capital		18,000
Smith, Withdrawals	2,000	
Service Revenue		30,000
Salaries Expense	5,000	
Rent Expense	4,000	
Utilities Expense	2,000	
Total	\$ 63,000	\$ 63,000

Answer: Smith Service Company
 Income Statement
 For Year Ended December 31, 20XX

Revenue:		
Service Revenue		\$ 30,000
Expenses:		
Salaries Expense	\$ 5,000	
Rent Expense	4,000	
Utilities Expense	2,000	
Total Expenses		11,000
Net Income		<u>\$ 19,000</u>

 Smith Service Company
 Statement of Owner's Equity
 For Year Ended December 31, 20XX

Smith, Capital, January 1	\$ 18,000
Net Income	<u>19,000</u>
	37,000
Owner Withdrawal	<u>(2,000)</u>
Retained Earnings, December 31	<u>\$ 35,000</u>

Smith Service Company
Balance Sheet
December 31, 20XX

Assets	
Cash	\$ 20,000
Accounts Receivable	25,000
Office Supplies	<u>5,000</u>
Total Assets	<u>\$ 50,000</u>

Liabilities	
Accounts Payable	\$ 15,000
Owner's Equity	
Smith, Capital	35,000
Total Liabilities and	
Owner's Equity	<u>\$ 50,000</u>

Diff: 3

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Preparing Financial Statements from the Trial Balance

42) Given the following Trial Balance, prepare the Income Statement, the Statement of Owner's Equity, and the Balance Sheet for Jones Company, for year ending December 31, 20XX. Assume there were no additional owner contributions.

Account	Debit	Credit
Cash	\$ 35,000	
Accounts Receivable	5,000	
Office Supplies	2,000	
Accounts Payable		\$ 10,000
Jones, Capital		18,000
Jones, Withdrawals	3,000	
Service Revenue		27,000
Salaries Expense	6,000	
Rent Expense	3,000	
Utilities Expense	1,000	
Total	\$ 55,000	\$ 55,000

Answer: Jones Company
Income Statement
For Year Ended December 31, 20XX

Revenue:		
Service Revenue		\$ 27,000
Expenses:		
Salaries Expense	\$ 6,000	
Rent Expense	3,000	
Utilities Expense	1,000	
Total Expense		10,000
Net Income		<u>\$ 17,000</u>

Jones Company
Statement of Owner's Equity
For Year Ended December 31, 20XX

Jones, Capital, January 1	\$ 18,000
Net Income	<u>17,000</u>
	35,000
Owner Withdrawal	<u>(3,000)</u>
Jones, Capital, December 31	<u>\$ 32,000</u>

Jones Company
Balance Sheet
December 31, 20XX

Assets	
Cash	\$ 35,000
Accounts Receivable	5,000
Office Supplies	<u>2,000</u>
Total Assets	<u>\$ 42,000</u>

Liabilities	
Accounts Payable	\$ 10,000
Owner's Equity	
Jones, Capital	32,000
Total Liabilities and	
Owner's Equity	<u>\$ 42,000</u>

Diff: 3

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Preparing Financial Statements from the Trial Balance

43) Provide a definition of each of the following accounting terms.

Accounting Term	Definition
Chart of accounts	
Posting	
Normal balance	

Answer:

Accounting Term	Definition
Chart of accounts	A list of all accounts with their account numbers
Posting	Transferring amounts from the journal to the ledger
Normal balance	Side of an account where increases are recorded

Diff: 2

LO: F:2-1, F:2-2, F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Preparing Financial Statements from the Trial Balance

44) Provide a definition of each of the following accounting terms.

Accounting Term	Definition
Ledger	
Trial Balance	
Debit	

Answer:

Accounting Term	Definition
Ledger	The record holding all the accounts of a business, the changes in those accounts, and their account balances
Trial Balance	A list of all accounts with their balances at a point in time
Debit	Left side of a T-account

Diff: 2

LO: F:2-1, F:2-2, F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Preparing Financial Statements from the Trial Balance

45) Provide a definition of each of the following accounting terms.

Accounting Term	Definition
Compound journal entry	
Journal	
Account	

Answer:

Accounting Term	Definition
Compound journal entry	A journal entry that is characterized by having multiple debits and/or multiple credits
Journal	A record of transactions in date order
Account	A detailed record of all increases and decreases that have occurred in a particular asset, liability, or equity account during a period

Diff: 2

LO: F:2-1, F:2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Preparing Financial Statements from the Trial Balance

46) Balancing errors can be detected by computing the difference between total debits and total credits on the trial balance.

Answer: TRUE

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Correcting Trial Balance Errors

47) If the total debits equal the total credits on the trial balance, the individual account balances will be error free.

Answer: FALSE

Explanation: Total debits can equal total credits on the trial balance; however, there still could be errors in individual account balances because an incorrect amount might have been recorded in an individual journal entry.

Diff: 1

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Correcting Trial Balance Errors

48) A journal entry for a \$75 payment for rent expense was posted as a debit to Salaries Expense and a credit to Cash. Which of the following statements correctly states the impact to the trial balance?

A) The sum of the credits will equal the sum of the debits.

B) The sum of the debits will exceed the sum of the credits by \$75.

C) The sum of the debits will exceed the sum of the credits by \$150.

D) The sum of the credits will exceed the sum of the debits by \$150.

Answer: A

Diff: 2

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Correcting Trial Balance Errors

49) A journal entry for a \$290 payment to purchase office supplies was erroneously recorded as a debit to Office Supplies for \$590 and a credit to Cash for \$290. Which of the following statements correctly states the effect of the error on the trial balance?

A) The sum of the credits will exceed the sum of the debits by \$300.

B) The sum of the debits will exceed the sum of the credits by \$290.

C) The sum of the debits will exceed the sum of the credits by \$300.

D) The sum of the debits will exceed the sum of the credits by \$590.

Answer: C

Diff: 2

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Correcting Trial Balance Errors

50) The debits on a company's trial balance total \$100,000 and the credits total \$102,115. One possible reason is that an amount of a credit entry should have been recorded as _____ and it was recorded instead as _____.

- A) \$235; \$2,350
- B) \$2,350; \$235
- C) \$2,115; \$2,350
- D) \$211.50; \$2,115

Answer: A

Diff: 2

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Correcting Trial Balance Errors

51) A journal entry for a \$800 payment for Prepaid Rent was erroneously recorded as a debit to Prepaid Rent for \$1,000 and a credit to Cash for \$800. Which of the following statements correctly states the effect of the error on the trial balance?

- A) The sum of the credits will exceed the sum of the debits by \$1,000.
- B) The sum of the debits will exceed the sum of the credits by \$800.
- C) The sum of the debits will exceed the sum of the credits by \$200.
- D) The sum of the debits will exceed the sum of the credits by \$1,800.

Answer: C

Diff: 2

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Correcting Trial Balance Errors

52) A journal entry for a \$400 payment for Prepaid Rent was erroneously recorded as a debit to Prepaid Rent for \$100. and a credit to Cash for \$400. Which of the following statements correctly states the effect of the error on the trial balance?

- A) The sum of the credits will exceed the sum of the debits by \$300.
- B) The sum of the debits will exceed the sum of the credits by \$100.
- C) The sum of the debits will exceed the sum of the credits by \$300.
- D) The sum of the credits will exceed the sum of the debits by \$100.

Answer: A

Diff: 2

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Correcting Trial Balance Errors

53) Balancing errors can be detected by computing the difference between total debits and total credits on the trial balance. List three actions that can then be used to find the errors.

- Answer: 1. Search the trial balance for a missing account.
2. Divide the difference between total debits and total credits by 2.
3. Divide the out-of-balance amount by 9.

Diff: 2

LO: F:2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Correcting Trial Balance Errors

Learning Objective F:2-5

1) The debt ratio shows the proportion of assets financed with debt.

Answer: TRUE

Diff: 1

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

2) The debt ratio is one indication of the ability of a company to fulfill its obligation to repay liabilities.

Answer: TRUE

Diff: 1

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

3) Baytown Paper Company has a debt ratio of 25%, which means that 75% of the assets are financed by creditors.

Answer: FALSE

Explanation: A debt ratio of 25% means that 25% of assets are financed with debt.

Diff: 1

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

4) The higher the debt ratio, the lower the risk of default.

Answer: FALSE

Explanation: The lower the debt ratio, the lower the risk of default.

Diff: 1

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

5) If total liabilities are \$8,000 and total assets are \$16,000, the debt ratio is .5.

Answer: TRUE

Diff: 1

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

6) Smith Company has a debt ratio of 25%, which means that 25% of the assets are financed by creditors.

Answer: TRUE

Diff: 1

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

7) If the debit ratio is 0.5 and the total liabilities are \$10,000, then the total assets must be \$5,000.

Answer: FALSE

Explanation: The total assets would be $\$10,000 / 0.5 = \$20,000$.

Diff: 1

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

8) ABC Company reported assets of \$19,000 and equity of \$8,550. What is its debt ratio?

- A) 45%
- B) 50%
- C) 100%
- D) 55%

Answer: D

Explanation: Total liabilities = Total assets - Total equity = \$19,000 - \$8,550 = \$10,450

Debt ratio = Total liabilities / Total assets

Debt ratio = \$10,450 / \$19,000 = 0.55 or 55.00%

Diff: 2

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

9) Turnkey Company had the following total assets, liabilities, and equity as of December 31.

Total Assets	\$55,000
Total Liabilities	24,750
Total Equity	30,250

What is the company's debt ratio as of December 31?

- A) 50%
- B) 55%
- C) 100%
- D) 45%

Answer: D

Explanation: Debt ratio = \$24,750 / \$55,000 = 0.45 or 45.00%

Diff: 1

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

10) Classic Designs Company had the following total assets, liabilities, and equity as of December 31.

Total Assets	\$617,000
Total Liabilities	246,800
Total Equity	370,200

What is the company's debt ratio as of December 31?

- A) 35%
- B) 40%
- C) 100%
- D) 60%

Answer: B

Explanation: Debt ratio = $\$246,800 / \$617,000 = 0.4$ or 40.00%

Diff: 1

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

11) Given the debt ratios for three companies below, rank these companies from most likely to least likely to default on loans.

Company 1	54%
Company 2	30%
Company 3	46%

- A) Company 1, Company 2, Company 3
- B) Company 1, Company 3, Company 2
- C) Company 2, Company 3, Company 1
- D) Company 3, Company 1, Company 2

Answer: B

Diff: 2

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

12) Given the following debt ratios, which company has the strongest financial position.

ABC Company	0.357
DEF Company	0.235
GHI Company	0.223
JKL Company	0.435

- A) ABC Company
- B) DEF Company
- C) JKL Company
- D) GHI Company

Answer: D

Diff: 2

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

13) Which of the following is the correct formula to calculate the debt ratio?

- A) Debt ratio = Total liabilities \times Total assets
- B) Debt ratio = Total liabilities + Total assets
- C) Debt ratio = Total liabilities - Total assets
- D) Debt ratio = Total liabilities / Total assets

Answer: D

Diff: 1

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

14) The proportion of assets that are financed with debt can be calculated using the _____ ratio.

- A) quick
- B) debt
- C) asset
- D) cash

Answer: B

Diff: 1

LO: F:2-5

AACSB: Interpersonal relations and teamwork

AICPA Functional: Measurement

PE Question Type: Concept

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

15) The ability of a company to pay its debts can be evaluated by using the _____.

- A) earnings per share
- B) return on assets ratio
- C) debt ratio
- D) fully diluted earnings per share

Answer: C

Diff: 1

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

16) Converse Florists & Co. reported assets of \$1,100 and equity of \$300. What is its debt ratio? (Round your percentage answer to two decimal places.)

- A) 72.73%
- B) 27.27%
- C) 100.00%
- D) 77.73%

Answer: A

Explanation: Total liabilities = \$1,100 - \$300 = \$800

Debt ratio = Total liabilities / Total assets

Debt ratio = \$800 / \$1,100 = 0.727,3 or 72.73%

Diff: 1

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

17) Durable Plastics Company had the following total assets, liabilities, and equity as of December 31.

Total Assets	\$400,000
Total Liabilities	133,000
Total Equity	267,000

What is the company's debt ratio as of December 31? (Round your percentage answer to two decimal places.)

- A) 33.25%
- B) 66.75%
- C) 100.00%
- D) 49.81%

Answer: A

Explanation: Debt ratio = Total liabilities / Total assets

Debt ratio = $\$133,000 / \$400,000 = 0.3325$ or 33.25%

Diff: 2

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

18) Which of the following is assessed using the debt ratio?

- A) profitability
- B) revenues
- C) risk of default
- D) net income

Answer: C

Diff: 1

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

19) Calculate the debt ratio using the following trial balance of Superior Instruments as of December 31, 2025.

Superior Instruments
Trial Balance
December 31, 2025

Account Title	Debit	Credit
Cash	\$88,800	
Accounts Receivable	5,000	
Office Supplies	3,400	
Land	70,000	
Building	16,500	
Equipment	2,000	
Accounts Payable		\$ 15,000
Notes Payable		60,000
Mills, Capital		50,000
Mills, Withdrawals	1,200	
Service Revenue		72,000
Utilities Expense	4,100	
Salaries Expense	4,000	
Advertising Expense	<u>2,000</u>	
Total	<u>\$197,000</u>	<u>\$197,000</u>

Answer: **Liabilities**

Accounts Payable	\$15,000
Notes Payable	<u>60,000</u>
Total Liabilities	<u>\$75,000</u>

Assets

Accounts Receivable	\$ 5,000
Building	16,500
Cash	88,800
Equipment	2,000
Land	70,000
Office Supplies	<u>3,400</u>
Total assets	<u>\$185,700</u>

Debt ratio = Total liabilities / Total assets

Debt ratio = \$75,000 / \$185,700 = 0.4039 or 40.39%

Diff: 3

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

20) What are two ways in which a company can improve their debt ratio?

Answer: Increase assets

Reduce debt

Diff: 2

LO: F:2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)