

CHAPTER 2

THE RECORDING PROCESS

CHAPTER LEARNING OBJECTIVES

1. **Describe how accounts, debits, and credits are used to record business transactions.** Debit means left and credit means right. The normal balance of an asset is a debit because assets are on the left side of the accounting equation. Assets are increased by debits and decreased by credits. The normal balance of liabilities and owner's capital is a credit because they are on the right side of the accounting equation. Liabilities and owner's capital are increased by credits and decreased by debits. Revenues increase owner's equity and therefore are recorded as credits because credits increase owner's equity. Credits increase revenues and debits decrease revenues. Expenses and drawings decrease owner's equity and therefore are recorded as debits because debits decrease owner's equity. Expenses and drawings are increased by debits and decreased by credits.
2. **State how a journal is used in the recording process and journalize transactions.** The steps in the recording process are the first three steps in the accounting cycle. These steps are: (a) analyze each transaction for its effect on the accounts, (b) record the transaction in a journal, and (c) transfer the journal information to the correct accounts in the ledger.
A journal: (a) discloses the complete effect of a transaction in one place, (b) provides a chronological record of transactions, (c) helps to prevent and locate errors because the debit and credit amounts for each entry can be easily compared, and (d) explains the transaction and, if there is one, identifies the source document.
3. **Explain how a ledger helps in the recording process and post transactions.** The entire group of accounts maintained by a company is called the ledger. The ledger keeps in one place all the information about changes in each of the specific account balances. Posting is the procedure of transferring journal entries to the ledger accounts. After the journal entries have been posted, the ledger will show all of the increases and decreases that have been made to each account.
4. **Prepare a trial balance.** A trial balance is a list of the accounts in the ledger and the account balances at a specific time. Its main purpose is to prove that debits and credits are equal after posting. A trial balance uncovers certain types of errors in journalizing and posting, and is useful in preparing financial statements. Preparing a trial balance is the fourth step in the accounting cycle.

TRUE-FALSE STATEMENTS

1. An account can have debit entries and credit entries.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

2. A debit to an asset account indicates an increase in that account.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

3. The normal balance of all liability accounts is a debit.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

4. An asset is increased by a debit.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

5. The double-entry system of accounting ensures that all the debits will equal all the credits in an entry.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

6. The normal balance in an asset account is a debit.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

7. The drawings account is a subdivision of the owner's capital account and appears as an expense on the income statement.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

8. The normal balance of a revenue account is a credit.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

9. The normal balance for the cash account is a credit.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

10. Each time a transaction is recorded; one side of the entry will be to cash.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

11. The use of different accounts is necessary to allow users to analyze the information.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

12. For transactions to be recorded correctly, debits must always be greater than credits.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

13. Source documents can provide evidence that a transaction has occurred.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

14. A transaction must be analyzed to determine which accounts it will affect.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

15. Transactions are entered in the trial balance and then transferred to journals.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

16. All business transactions must have a corresponding journal entry.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

17. The first step in the recording process is to enter the transaction information in a journal.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

18. The number and types of accounts used by different business enterprises are the same if generally accepted accounting principles are being followed by the enterprises.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

19. The accounting cycle is a series of steps followed by accountants in preparing financial statements.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

20. A simple journal entry requires only one debit to an account and one credit to an account.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

21. A compound journal entry may require debits to several accounts and credits to several accounts.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

22. Transactions are recorded in alphabetical order in a journal.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

23. Transactions are entered in the ledger first and then they are analyzed in terms of their effect on the accounts.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: Analyzing and Recording Transactions

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

24. Posting is the transfer of journal entries to the ledger accounts.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

25. The chart of accounts is a list of all the accounts in a company.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

26. A chart of accounts should be arranged in alphabetical order for easier reference.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

27. A ledger is the entire group of accounts maintained by a company.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

28. Posting is carried out before a trial balance is prepared.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

29. For the trial balance to balance, the debits must equal the credits.

Answer: True

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

30. If the trial balance balances, it proves that all of the entries have been made correctly.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

31. If an entry has been posted to the accounts twice, the trial balance will still balance.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

32. Preparing the trial balance is the first step in the accounting cycle.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

33. A transposition error involves the reversing of numbers in the posting process.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

34. After a transaction has been posted, the trial balance will balance.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

35. A trial balance does NOT prove that all transactions have been recorded or that the ledger is correct.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

36. If a journal entry is posted twice, then this error will be found when the trial balance is produced.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

37. If the trial balance is out of balance and the difference between the debits and the credits is divisible evenly by nine, then there is likely a transposition error.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

38. Errors in a trial balance may only be caused by an error in posting the journal entries to the accounts.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

39. If a journal entry is NOT posted to an account, then the trial balance will NOT balance.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

40. A trial balance that balances proves only that the debit accounts equal the credit accounts.

Answer: True

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

41. A trial balance may be prepared at any time during the accounting cycle.

Answer: True

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

MULTIPLE CHOICE QUESTIONS

42. The left side of an account is

- a) the date.
- b) a description of the account.
- c) the debit side.
- d) the balance of the account.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

43. Which one of the following is NOT a part of an account?

- a) credit side
- b) trial balance
- c) date
- d) title

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

44. An account is used as part of the recording process and is described by all **except** which one of the following?

- a) An account can have either a debit or credit balance.
- b) An account is a source document.
- c) An account may be part of a manual or a computerized accounting system.
- d) An account has a title.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

45. The right side of an account

- a) is the date.
- b) reflects all transactions for the accounting period.
- c) is the debit side.
- d) is the credit side.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

46. An account consists of

- a) a title, a debit balance, and a credit balance.
- b) a title, a left side, and a debit balance.
- c) a title, a debit side, and a credit side.
- d) a title, a right side, and a debit balance.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

47. A T account

- a) is a way of depicting the basic form of an account.
- b) is listed in alphabetical order.
- c) has the debit transactions equal to the credit transactions.
- d) is used for accounts that have both a debit and credit balance.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account
CPA: Financial Reporting
AACSB: Analytic

48. Which of the following statements about the tabular summary and account form of the cash account is correct?

- a) All negative amounts in a tabular summary are cash payments and are recorded as debits under the account form.
- b) All positive amounts in the tabular summary are cash receipts and are recorded as credits under the account form.
- c) A positive cash balance in a tabular summary is reflected as a debit balance under the account form.
- d) Companies are required to use both a tabular summary and the account form.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

49. A debit to an asset account always indicates

- a) an error.
- b) a credit was made to a liability account.
- c) a decrease in the asset.
- d) an increase in the asset.

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

50. A debit to a liability account always indicates

- a) a liability has been incurred.
- b) an expense has been incurred.
- c) the liability has been decreased.
- d) a liability has been paid.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

51. The normal balance of any account is the

- a) left side.
- b) right side.
- c) side which increases that account.
- d) side which decreases that account.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

52. The side of the account where increases are recorded

- a) is always the left side.
- b) is always the right side.
- c) always creates a negative balance.
- d) is the same side as the normal balance for that account.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

53. The double-entry system requires that each transaction must be recorded

- a) in at least two different accounts.
- b) twice.
- c) in a journal and in a ledger.

d) as an asset and as a liability.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

54. A credit is NOT the normal balance for which account listed below?

- a) Capital account
- b) Revenue account
- c) Liability account
- d) Drawings account

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

55. A debit is NOT the normal balance for

- a) an expense account.
- b) a supplies account.
- c) an accounts payable account.
- d) a drawings account.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

56. Which one of the following is equivalent to the expanded basic accounting equation?

- a) $\text{Assets} = \text{Liabilities} + \text{Owner's Capital} + \text{Owner's Drawings} - \text{Revenues} - \text{Expenses}$.

- b) $\text{Assets} + \text{Owner's Drawings} + \text{Expenses} = \text{Liabilities} + \text{Owner's Capital} + \text{Revenues}$.
- c) $\text{Assets} - \text{Liabilities} - \text{Owner's Drawings} = \text{Owner's Capital} + \text{Revenues} - \text{Expenses}$.
- d) $\text{Assets} = \text{Revenues} + \text{Expenses} - \text{Liabilities}$.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

57. Which of the following correctly identifies normal balances of accounts?

- a) Assets Debit
Liabilities Credit
Owner's Equity Credit
Revenues Debit
Expenses Credit
- b) Assets Debit
Liabilities Credit
Owner's Equity Credit
Revenues Credit
Expenses Credit
- c) Assets Credit
Liabilities Debit
Owner's Equity Debit
Revenues Credit
Expenses Debit
- d) Assets Debit
Liabilities Credit
Owner's Equity Credit
Revenues Credit
Expenses Debit

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

58. To increase a liability account, the account is

- a) debited.
- b) credited.
- c) posted.
- d) journalized.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

59. Which of the following is NOT true about an asset?

- a) Its normal balance is a debit.
- b) To increase an asset, a debit entry would be made.
- c) To increase it, a credit entry should be made.
- d) To decrease it, a credit entry should be made.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

60. Which of the following statements is true?

- a) Debits increase assets and increase liabilities.
- b) Credits decrease assets and decrease liabilities.
- c) Credits decrease assets and increase liabilities.
- d) Debits increase liabilities and increase assets.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

61. An awareness of the normal balances of accounts would help you spot which of the following as an error in recording?

- a) a debit balance in an asset account
- b) a credit balance in an expense account
- c) a credit balance in a liabilities account
- d) a credit balance in a revenue account

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

62. Which account below is NOT a subdivision of owner's equity?

- a) Drawings
- b) Revenues
- c) Expenses
- d) Liabilities

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

63. When an owner makes a withdrawal

- a) it doesn't have to be cash, it could be another asset.
- b) the drawings account will be increased with a credit.
- c) the capital account will be directly increased with a debit.
- d) the drawings account will be decreased with a debit.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business

transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

64. The drawings account

- a) appears on the income statement along with the expenses of the business.
- b) must show transactions every accounting period.
- c) is increased with debits and decreased with credits.
- d) is not a proper subdivision of owner's equity.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

65. Which of the following statements is NOT true?

- a) Expenses increase owner's equity.
- b) Expenses have normal debit balances.
- c) Expenses decrease owner's equity.
- d) Expenses are a negative factor in the calculation of profit.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

66. A credit to the accounts receivable account

- a) indicates an increase in the amount owed by customers.
- b) indicates a decrease in the amount owed by customers.
- c) is an error.
- d) must be accompanied by a debit to a liability account.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

67. Funds received before the delivery of goods and services would be shown as

- a) unearned revenue on the statement of earnings.
- b) unearned revenue on the balance sheet.
- c) a credit to cash.
- d) sales or service revenue on the statement of earnings.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

68. Of the following accounts, the one that normally has a debit balance is

- a) Accounts Payable.
- b) Interest Expense.
- c) L. Darnell, Capital.
- d) Consulting Revenue.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

69. An account balance is

- a) not relevant in the accounting cycle.
- b) the sum of all credit transactions within an account.
- c) the net difference between the increases (including the beginning balance) and decreases recorded in the account.
- d) the sum of all debit transactions within an account.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

AACSB: Analytic

70. Transactions are recorded for all of the following reasons **except**

- a) when the transaction causes a change in the financial position of the company.
- b) to make all of the accounts balance.
- c) when evidence of the transaction is available.
- d) when there is a specific effect on the accounting equation.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

71. All of the following transactions should be recorded **except** for

- a) providing services to customers.
- b) purchasing supplies on account.
- c) ordering equipment.
- d) incurring expenses.
- e) All of the above should be recorded.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

72. A debit to an expense account

- a) decreases the owner's equity.
- b) increases owner's equity.
- c) directly affects the drawings account.

d) has no effect on the balance sheet.

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

73. Which of the following statements is NOT true? The book of original entry

a) provides a chronological record of transactions.

b) helps prevent and locate errors.

c) is the same as the chart of accounts.

d) helps ensure debits equal credits.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

74. In recording an accounting transaction in a double-entry system,

a) the number of debit accounts must equal the number of credit accounts.

b) there must always be entries made on both sides of the accounting equation.

c) the amount of the debits must equal the amount of the credits.

d) there must only be two accounts affected by any transaction.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

75. The withdrawal of cash for personal use by the owners of a business requires a ____ to the drawings account and a ____ to the cash account.

a) debit; debit

b) debit; credit

- c) credit; credit
- d) credit; debit

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

76. An accountant has debited an asset account for \$1,000 and credited a liability account for \$500. What can be done to complete the recording of the transaction?

- a) Nothing further must be done.
- b) Debit an owner's equity account for \$500.
- c) Debit another asset account for \$500.
- d) Credit a different asset account for \$500.

Answer: d

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

77. An accountant has debited an expense account for \$1,000 and credited an asset account for \$500. Which of the following would be a correct way to complete the recording of the transaction?

- a) Debit an asset account for \$500.
- b) Credit a liability account for \$500.
- c) Debit an owner's equity account for \$500.
- d) Debit a liability account for \$500.

Answer: b

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

78. A company pays \$5,000 to its creditor. This would

- a) increase both the company's assets and liabilities.

- b) decrease both the company's assets and liabilities.
- c) decrease the company's liquidity.
- d) increase the company's owner's equity.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

79. For the basic accounting equation to stay in balance, each transaction recorded must

- a) affect two or less accounts.
- b) affect two or more accounts.
- c) always affect exactly two accounts.
- d) affect the same number of asset and liability accounts.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

80. A company receives a year's worth of rent in advance. Which of the following statements pertaining to this event is NOT correct?

- a) The company's assets will decrease.
- b) The company's assets will increase.
- c) The company's total equity will remain unchanged.
- d) The company's liabilities will increase.

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

81. If a company has received a payment from a customer, then

- a) its cash account will be debited.

- b) its cash account will be credited.
- c) the cash account debits will be less than the cash account credits.
- d) accounts receivable would be debited.

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

82. The usual sequence of steps in the transaction recording process is

- a) journal → analyze → ledger.
- b) analyze → journal → ledger.
- c) journal → ledger → analyze.
- d) ledger → journal → analyze.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

83. In recording business transactions, evidence that an accounting transaction has taken place is obtained from

- a) source documents of the business.
- b) the Canada Revenue Agency.
- c) the marketing department.
- d) the trial balance.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

84. The usual sequence of steps in the recording process is to

- a) analyze each transaction, enter the transaction in the journal, and transfer the information to the

ledger accounts.

b) analyze each transaction, enter the transaction in the ledger, and transfer the information to the journal.

c) analyze each transaction, enter the transaction in the book of accounts, and transfer the information to the journal.

d) analyze each transaction, enter the transaction in the book of original entry, and transfer the information to the journal.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

85. All of the following activities are performed on a daily basis **except** for

a) collecting source documents.

b) determining the impact of a transaction on the company's financial position.

c) preparing the journal entries.

d) preparing the trial balance.

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

86. Basic transaction analysis

a) is reflected in the accounting records.

b) is required before journalizing an entry.

c) eliminates mistakes.

d) all of the above.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

87. The recording process occurs

- a) once a week.
- b) once a month.
- c) repeatedly during the accounting period.
- d) at the end of the accounting period.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

88. A journal provides

- a) the balances for each account.
- b) information about a transaction in several different places.
- c) a list of all accounts used in the business.
- d) a chronological record of transactions.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

89. When three or more accounts are required in one journal entry, the entry is referred to as a

- a) compound entry.
- b) double entry.
- c) multiple entry.
- d) simple entry.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

90. The journal entry to record the investment of cash by the owners of a business would require a debit to the Cash account and a credit to

- a) Investments.
- b) Revenue.
- c) Owner's Capital.
- d) Accounts Receivable.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

91. Another name for journal is

- a) listing.
- b) book of original entry.
- c) book of accounts.
- d) book of source documents.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

92. A journal is useful for

- a) disclosing in one place the complete effect of a transaction.
- b) locating and preventing errors.
- c) providing a record of transactions.
- d) all of the above.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

93. The name given to entering transaction data in the journal is

- a) debiting.
- b) listing.
- c) posting.
- d) journalizing.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

94. A journal entry

- a) must have the same number of debit entries as credit entries.
- b) must have a debit to an asset and a credit to a liability.
- c) only affects balance sheet accounts.
- d) must have the total of the debit entries equal to the credit entries.

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

95. Journal entries are prepared

- a) only at the end of the month.
- b) only when cash is received or disbursed.
- c) whenever there is a business transaction that will generate an entry.
- d) only when financial statements are prepared.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

96. Which of the following journal entries records the cash collection for sales and outstanding

accounts receivable?

a) Accounts receivable	1,250	
Cash		250
Sales		1,000
b) Accounts receivable	1,000	
Cash	250	
Sales		1,250
c) Cash	1,250	
Sales		1,000
Accounts receivable		250
d) Sales	1,250	
Accounts receivable		1,000
Cash		250

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

97. On June 1, 2021, Joanne White buys a copier machine for her business and finances this purchase with cash and a note. When journalizing this transaction, she will

- a) use two journal entries.
- b) make a compound entry.
- c) make a simple entry.
- d) wait until the end of the month to record the entry.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

98. Which of the following journal entries correctly records the cash payment of salaries and advertising expenses?

a) Advertising Expense	1,500	
Wages Expense		550
Cash		950
b) Wages Expense	1,500	
Advertising Expense		950

	Cash.....		550
c)	Cash.....	1,500	
	Wages Expense.....		550
	Advertising Expense.....		950
d)	Wages Expense	550	
	Advertising Expense	950	
	Cash.....		1,500

Answer: d

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

99. A journal entry will NOT include

- a) account names.
- b) date of the transaction.
- c) the dollar amount of the transaction.
- d) account balance.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

100. Walker Company sells merchandise on credit to Felix Company. The entry for this transaction will include a

- a) credit to Accounts Payable for Walker Company.
- b) credit to Accounts Receivable for Felix Company.
- c) debit to Accounts Payable for Felix Company.
- d) debit to Accounts Receivable for Walker Company.

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

101. Which of the following journal entries would NOT be considered a compound journal entry?

a) Land	60,500	
Building.....	105,500	
Cash.....		166,000
b) Wages Expense	1,500	
Wages Payable		950
Cash.....		550
c) Equipment	10,500	
Notes Payable		10,500
d) Wages Expense	550	
Advertising Expense	950	
Cash.....		1,500

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

AACSB: Analytic

102. A chart of accounts is

- a) only necessary for manual systems.
- b) used only in companies with a complex business structure.
- c) the first step in designing an accounting system.
- d) a relatively simplistic way of classifying accounts.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

103. The following is a record that contains all of the company's accounts.

- a) journal
- b) tabular summary
- c) trial balance
- d) ledger

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

104. In the first month of operations, the total of the debit entries to the cash account amounted to \$900 and the total of the credit entries to the cash account amounted to \$500. The cash account has a

- a) \$500 credit balance.
- b) \$900 debit balance.
- c) \$400 debit balance.
- d) \$400 credit balance.

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

105. In the second month of operations, the total of the debit entries to the cash account amounted to \$900 and the total of the credit entries to the cash account amounted to \$500. The opening balance of the cash account was \$200. The cash account has a

- a) \$500 credit balance.
- b) \$900 debit balance.
- c) \$600 debit balance.
- d) \$400 credit balance.

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

106. In the second month of operations, the total of the debit entries to the accounts receivable account amounted to \$500 and the total of the credit entries to the accounts receivable account amounted to \$300. The opening balance of the accounts receivable account was \$200. The accounts receivable account has a

- a) \$500 debit balance.
- b) \$300 debit balance.
- c) \$400 debit balance.
- d) \$0 balance.

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

107. After a business transaction has been analyzed and entered in the book of original entry, the next step in the recording process is to transfer the information to

- a) the trial balance.
- b) owner's equity.
- c) ledger accounts.
- d) the journal.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

108. After transaction information has been recorded in the journal, it is transferred to the

- a) trial balance.
- b) balance sheet.
- c) posting journal.
- d) ledger.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

109. The final step in the recording process is to transfer the journal information to the

- a) trial balance.
- b) financial statements.
- c) ledger.
- d) general journal.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

110. A chart of accounts does NOT include

- a) account balances.
- b) account numbers.
- c) account titles.
- d) list of all accounts.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

111. A chart of accounts for a company

- a) is a graph of the financial position of the company.
- b) indicates the amount of profit or loss for the period.
- c) lists the accounts and account numbers that identify their location in the ledger.
- d) shows the balance of each account in the general ledger.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

112. A numbering system for a chart of accounts

- a) is prescribed by GAAP.

- b) is uniform for all businesses.
- c) usually starts with income statement accounts.
- d) usually starts with balance sheet accounts.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

113. The first step in designing an accounting system is the creation of the

- a) general ledger.
- b) general journal.
- c) trial balance.
- d) chart of accounts.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

114. For a sole proprietorship, the usual ordering of accounts in the general ledger is

- a) assets, liabilities, owner's capital, drawings, revenues, and expenses.
- b) assets, liabilities, drawings, owner's capital, expenses, and revenues.
- c) liabilities, assets, owner's capital, revenues, expenses, and drawings.
- d) owners' capital, assets, liabilities, drawings, expenses, and revenues.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

115. Management could determine the amounts due from customers by examining which ledger account?

- a) Service Revenue
- b) Accounts Payable

- c) Accounts Receivable
- d) Cash

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

116. Management could determine the amounts owing to suppliers by examining which ledger account?

- a) Supplies
- b) Cash
- c) Accounts Payable
- d) Supplies Expense

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

117. The ledger accounts should be arranged in

- a) chronological order.
- b) alphabetical order.
- c) statement order.
- d) debit accounts first and then credit accounts.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

118. A three-column form of account is so named because it has columns for

- a) debit, credit, and account name.
- b) debit, credit, and reference.
- c) debit, credit, and balance.

d) debit, credit, and date.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

119. The procedure of transferring journal entries to the ledger accounts is called

a) journalizing.

b) analyzing.

c) reporting.

d) posting.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

120. Posting

a) is only done in a manual accounting system.

b) accumulates the effects of journalized transactions in the individual accounts.

c) involves transferring all debits and credits on a journal page to the trial balance.

d) is accomplished by examining ledger accounts and seeing which ones need updating.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

121. After journal entries are posted, the reference column

a) of the general journal will show the account balance.

b) of the general ledger will show journal page numbers.

c) of the general journal will show "Dr" or "Cr."

d) of the general ledger will show account numbers.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

122. Posting to the general ledger in a manual accounting system is usually performed

- a) when the accountant is in the office.
- b) when the transaction is recorded.
- c) when financial statements are being prepared.
- d) when the Canada Revenue Agency performs an audit.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

123. Which of the following is a correct numbering system to identify accounts within the chart of accounts?

- a) 101–Cash; 201–Accounts Payable; 301–K. Clarke; Capital; 401–Consulting Revenue
- b) 101–K. Clarke, Capital; 201–Consulting Revenue; 301–Cash; 401–Accounts Payable
- c) 101–Cash; 201–Consulting Revenue; 301–Accounts Payable; 401–K. Clarke, Capital
- d) 101–Accounts Payable; 201–K. Clarke, Capital; 301–Consulting Revenue; 401–Cash

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

124. Which of the following is typically NOT included within a manual record general ledger?

- a) transaction date
- b) explanation
- c) posting reference
- d) account balance

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

AACSB: Analytic

125. A trial balance does NOT include

- a) account names.
- b) account balances.
- c) journal entries details.
- d) date of trial balance.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

126. The following types of error(s) still allow the trial balance debit and credit columns to be equal.

- a) missed entries
- b) transposed numbers
- c) addition errors
- d) missed accounts

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

127. A listing of the balances of all assets, liabilities, and owner's equity accounts is called a

- a) compound entry.
- b) general journal.
- c) trial balance.
- d) chart of accounts.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

128. A list of accounts and their balances at a given time is called

- a) a journal.
- b) a posting.
- c) a trial balance.
- d) an income statement.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

129. If the sum of the debit column equals the sum of the credit column in a trial balance, it indicates

- a) no errors have been made.
- b) no errors can be discovered.
- c) all entries have been posted.
- d) the mathematical equality of the accounting equation.

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

130. A trial balance is a listing of

- a) transactions in a journal.
- b) the chart of accounts.
- c) general ledger accounts and balances.
- d) the totals from the journal pages.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

131. Customarily, a trial balance in a manual system is prepared

- a) at the end of each day.
- b) after each journal entry is posted.
- c) at the end of an accounting period.
- d) only at the inception of the business.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

132. A trial balance would help in detecting which one of the following errors?

- a) a transaction that is not journalized
- b) a journal entry that is posted twice
- c) offsetting errors made in recording the transaction
- d) a transposition error when transferring the debit side of a journal entry to the ledger

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

133. Sebastian Piel is the accountant for the Canadian Athletic Association. He has just prepared the company's trial balance and discovered that the total debits are \$9,257 and total credits are \$9,230. Sebastian has likely made which of the following errors?

- a) Posted the journal entries to the wrong accounts.
- b) Posted a debit as a credit.
- c) Transposed two numbers during posting.
- d) Forgotten to make a journal entry.

Answer: c

Bloomcode: Evaluation

Difficulty: Hard

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

134. Which of the following statements about errors or irregularities is INCORRECT?

- a) Irregularities are unintentional errors.
- b) An error is neither ethical nor unethical.
- c) An error is the result of an unintentional mistake.
- d) Irregularities are the result of an intentional mistake and are generally considered unethical.

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

135. Ladybug Creamery is producing its first financial statements for its bank. The trial balance does NOT balance. The company should

- a) create a new account called "Suspense" and use it to balance the trial balance.
- b) give the incorrect trial balance to the bank.
- c) ask the bank for more time to find the error.
- d) increase one of the larger accounts so that the trial balance will balance.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

136. Frank's Sports Adventures has hired a new accountant. When she reviewed the financial statements for the previous year, she found a significant error which would mean that the statements were wrong. She should NOT

- a) create a new account called "Suspense" and use it to correct the error.
- b) notify the management of the company immediately of the problem.

- c) research the journal entries to try and find the error.
- d) review all of the transactions for the past year for reasonableness.

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

137. Flinn’s Forest Products showed the following account balances at the end of 2021:

Cash	\$ 62,000
Accounts Receivable	21,000
Accounts Payable	16,600
Unearned Revenue.....	1,200
Sales.....	112,000
Flinn, Capital	71,500
Flinn, Withdrawals.....	62,000
Office Supplies.....	2,800
Wages Expense	45,000
Utilities Expense	8,500

Assuming all accounts have normal balances, what are the totals for the debit and credit columns in the trial balance?

- a) \$201,300
- b) \$200,100
- c) \$139,300
- d) \$129,800

Answer: a

Bloomcode: Application

Difficulty: Medium

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

138. Which of the following is NOT a valid reason for a trial balance to be considered “out of balance”?

- a) an error in copying an account balance from the ledger to the trial balance
- b) a transposition error
- c) posting equally to both sides of an entry
- d) posting only one side of an entry

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

MATCHING QUESTIONS

Match the items below by entering the appropriate code letter in the space provided.

- | | |
|---------------------------|----------------------|
| A. Account | F. Journal |
| B. Normal account balance | G. Posting |
| C. Debit | H. Chart of accounts |
| D. Revenue account | I. Trial balance |
| E. Compound entry | J. Simple entry |

139. The side that increases an account. _____

Answer: B

140. An accounting record of increases and decreases in specific assets, liabilities, and owner's equity items. _____

Answer: A

141. Left side of an account. _____

Answer: C

142. Has a normal credit balance. _____

Answer: D

143. An entry that involves three or more accounts. _____

Answer: E

144. An entry that involves only two accounts. _____

Answer: J

145. A book of original entry. _____

Answer: F

146. A list of all the accounts used by an enterprise. _____

Answer: H

147. Transferring journal entries to ledger accounts. _____

Answer: G

148. A list of accounts and their balances at a given time. _____

Answer: I

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective 1: Describe how accounts, debits, and credits are used to record business transactions.

Learning Objective 2: State how a journal is used in the recording process and journalize transactions.

Learning Objective 3: Explain how a ledger helps in the recording process and post transactions.

Learning Objective 4: Prepare a trial balance.

Section Reference 1: The Account

Section Reference 2: Analyzing and Recording Transactions

Section Reference 3: The Ledger

Section Reference 4: The Trial Balance

CPA: Financial Reporting

AACSB: Analytic

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