

## Chapter 2

# ANALYZING AND RECORDING TRANSACTIONS

### *True /False Questions*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Processing Transactions*

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

Answer: False

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Processing Transactions*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Processing Transactions*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Processing Transactions*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Accounts*

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

Answer: False

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Accounts*

7. Withdrawals by the owner are a business expense.

Answer: False

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Accounts*

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

Answer: False

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Accounts*

9. Unearned revenues are liabilities.

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Accounts*

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

Answer: False

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Accounts*

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

Answer: False

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C2*  
*Topic: Accounts*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C3*  
*Topic: Ledger and Chart of Accounts*

13. An account balance is the difference between the debits and credits for an account including any beginning balance.

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Account*

14. Debit means the right side of an account.

Answer: False

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

15. In a double-entry accounting system, the total amount debited must always equal the total amount credited.

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*

*Topic: Debits and Credits*

16. Increases in liability accounts are recorded as debits.

Answer: False

*Blooms: Understand  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 02-C4  
Topic: Debits and Credits*

17. Debits increase asset and expense accounts.

Answer: True

*Blooms: Understand  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 02-C4  
Topic: Debits and Credits*

18. Credits always increase account balances.

Answer: False

*Blooms: Understand  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 02-C4  
Topic: Debits and Credits*

19. Crediting an expense account decreases it.

Answer: True

*Blooms: Understand  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 02-C4  
Topic: Debits and Credits*

20. A revenue account normally has a debit balance.

Answer: False

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

21. Accounts are normally decreased by debits.

Answer: False

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

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

Answer: False

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

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

Answer: False

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

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

Answer: False

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

25. A debit entry is always favorable.

Answer: False

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

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

Answer: True

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

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

Answer: True

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

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

Answer: True

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

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

Answer: True

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

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

Answer: False

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

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

Answer: False

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*

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*Topic: Transaction Analysis*

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

Answer: False

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

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

Answer: True

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

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

Answer: True

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

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

Answer: False

*Blooms: Remember*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

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

Answer: True

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

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

Answer: False

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

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

Answer: False

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

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*Feedback: Debt Ratio = Total Liabilities/Total Assets*  
*Debt Ratio = \$105 million/\$350 million = 30%*

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

Answer: False

*Blooms: Remember*  
*AACSB: Reflective Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: Easy*  
*Learning 1 Objective: 02-A1*  
*Topic: Transaction Analysis*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Recording Transactions and Posting Entries*

41. Transactions are first recorded in the ledger.

Answer: False

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Processing Transactions*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Processing Transactions*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Processing Transactions*

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

Answer: False

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Processing Transactions*

45. The trial balance is a list of all general ledger accounts and their balances at a point in time.

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*

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

Answer: True

*Blooms: Remember*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*

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

Answer: False

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*

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

Answer: False

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*

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

Answer: False

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

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

Answer: False

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

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

Answer: False

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

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

Answer: True

*Blooms: Understand  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 02-P3  
Topic: Financial Statements*

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

Answer: True

*Blooms: Understand  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 02-P3  
Topic: Financial Statements*

54. Both U.S. GAAP and IFRS prepare the same four basic financial statements.

Answer: True

*Blooms: Understand  
AACSB: Communication  
AICPA BB: Global  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 02-P3  
Topic: Financial Statements*

55. Both U.S. GAAP and IFRS do not require the use of accrual basis accounting.

Answer: False

*Blooms: Understand  
AACSB: Communication  
AICPA BB: Global  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 02-P3  
Topic: Financial Statements*

## ***Multiple Choice Questions***

56. The accounting process begins with:

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

Answer: A

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C1*

*Topic: Processing Transactions*

57. All of the following statements regarding a sales invoice are true *except*:

- A. A sales invoice is a type of source document.
- B. A sales invoice is used by sellers to record the sale.
- C. A sales invoice is used by buyers to record purchases.
- D. A sales invoice gives rise to an entry in the accounting process.
- E. A sales invoice does not provide objective evidence about a transaction.

Answer: E

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C1*

*Topic: Processing Transactions*



58. Source documents include all of the following *except*:

- A. Sales tickets.
- B. Ledgers.
- C. Checks.
- D. Purchase orders.
- E. Bank statements.

Answer: B

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C1*  
*Topic: Processing Transactions*

59. Source documents:

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

Answer: B

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C1*  
*Topic: Processing Transactions*

60. A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense is a(n):

- A. Journal.
- B. Posting.
- C. Trial balance.
- D. Account.
- E. Chart of accounts.

Answer: D

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Accounts*

61. An account used to record the owner's investments in the business is called a(n):

- A. Withdrawals account.
- B. Capital account.
- C. Revenue account.
- D. Expense account.
- E. Liability account.

Answer: B

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Accounts*

62. The account used to record the transfers of assets from a business to its owner is:

- A. A revenue account.
- B. The owner's withdrawals account.
- C. The owner's capital account.
- D. An expense account.
- E. A liability account.

Answer: B

*Blooms: Remember*  
*AACSB: Communications*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*

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*Topic: Accounts*

63. Which of the following statements is correct?

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

Answer: B

*Blooms: Apply*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 3Hard*  
*Learning Objective: 02-C2*  
*Topic: Accounts*

64. Unearned revenues are:

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

Answer: C

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C2*  
*Topic: Accounts*

65. Prepaid expenses are:

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

**Answer: D**

*Blooms: Understand  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 02-C2  
Topic: Accounts*

66. A formal promise to pay (in the form of a promissory note) a future amount is a(n):

- A. Unearned revenue.
- B. Prepaid expense.
- C. Credit account.
- D. Note payable.
- E. Account receivable.

**Answer: D**

*Blooms: Understand  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 02-C2  
Topic: Accounts*

67. A collection of all accounts and their balances used by a business is called a:

- A. Journal.
- B. Book of original entry.
- C. General Journal.
- D. Balance column journal.
- E. Ledger.

**Answer: E**

*Blooms: Understand  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 02-C3  
Topic: Ledger and Chart of Accounts*

68. A ledger is:

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

Answer: E

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C3*  
*Topic: Ledger and Chart of Accounts*

69. A list of all accounts and the identification number assigned to each account used by a company is called a:

- A. Source document.
- B. Journal.
- C. Trial balance.
- D. Chart of accounts.
- E. General Journal.

Answer: D

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C3*  
*Topic: Ledger and Chart of Accounts*

70. The numbering system used in a company's chart of accounts:

- A. Is the same for all companies.
- B. Is determined by generally accepted accounting principles.
- C. Depends on the source documents used in the accounting process.
- D. Typically begins with balance sheet accounts.
- E. Typically begins with income statement accounts.

Answer: D

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C3*  
*Topic: Ledger and Chart of Accounts*

71. A debit:
- A. Always increases an account.
  - B. Is the right-hand side of a T-account.
  - C. Always decreases an account.
  - D. Is the left-hand side of a T-account.
  - E. Is not need to record a transaction.

Answer: D

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

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

Answer: C

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

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

Answer: D

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

74. A credit is used to record:
- A. An increase in an expense account.
  - B. A decrease in an asset account.
  - C. A decrease in an unearned revenue account.
  - D. A decrease in a revenue account.
  - E. A decrease in a capital account.

Answer: B

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

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

Answer: D

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

76. Which of the following statements is correct?

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

Answer: C

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

77. An account balance is:

- A. The total of the credit side of the account.
- B. The total of the debit side of the account.
- C. The difference between the total debits and total credits for an account including the beginning balance.
- D.  $\text{Assets} = \text{liabilities} + \text{equity}$ .
- E. Always a credit.

Answer: C

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*



78. Of the following accounts, the one that normally has a credit balance is:

- A. Cash.
- B. Office Equipment.
- C. Wages Payable.
- D. Owner, Withdrawals.
- E. Sales Salaries Expense.

Answer: C

*Blooms: Remember*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

79. A debit is used to record:

- A. A decrease in an asset account.
- B. A decrease in an expense account.
- C. An increase in a revenue account.
- D. An increase in the balance of an owner's capital account.
- E. An increase in the balance of the owner's withdrawals account.

Answer: E

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

80. A credit entry:

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

Answer: C

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

81. Double-entry accounting is an accounting system:

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

Answer: B

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits or Credits*

82. Rocky Industries received its telephone bill in the amount of \$300, and immediately paid it. Rocky's general journal entry to record this transaction will include a

- A. Debit to Telephone Expense for \$300.
- B. Credit to Accounts Payable for \$300.
- C. Debit to Cash for \$300.
- D. Credit to Telephone Expense for \$300.
- E. Debit to Accounts Payable for \$300.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

83. Management Services, Inc. provides services to clients. On May 1, a client prepaid Management Services \$60,000 for 6-months services in advance. Management Services' general journal entry to record this transaction will include a:

- A. Debit to Unearned Management Fees for \$60,000.
- B. Credit to Management Fees Earned for \$60,000.
- C. Credit to Cash for \$60,000.
- D. Credit to Unearned Management Fees for \$60,000.
- E. Debit to Management Fees Earned for \$60,000.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

84. Wisconsin Rentals purchased office supplies on credit. The general journal entry made by Wisconsin Rentals will include a:

- A. Debit to Accounts Payable.
- B. Debit to Accounts Receivable.
- C. Credit to Cash.
- D. Credit to Accounts Payable.
- E. Credit to Wisconsin Rentals, Capital.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

85. An asset created by prepayment of an expense is:

- A. Recorded as a debit to an unearned revenue account.
- B. Recorded as a debit to a prepaid expense account.
- C. Recorded as a credit to an unearned revenue account.
- D. Recorded as a credit to a prepaid expense account.
- E. Not recorded in the accounting records until the earnings process is complete.

Answer: B

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

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

- A. Debit Assets \$200,000; credit Haddon, Capital, \$200,000.
- B. Debit Cash and Land, \$200,000; credit Haddon, Capital, \$200,000.
- C. Debit Cash \$70,000; debit Land \$130,000; credit Haddon, Capital, \$200,000.
- D. Debit Haddon, Capital, \$200,000; credit Cash \$70,000, credit Land, \$130,000.
- E. Debit Haddon, Capital, \$200,000; credit Assets, \$200,000.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

87. A liability created by the receipt of cash from customers in payment for products or services that have not yet been delivered to the customers is:

- A. Recorded as a debit to an unearned revenue account.
- B. Recorded as a debit to a prepaid expense account.
- C. Recorded as a credit to an unearned revenue account.
- D. Recorded as a credit to a prepaid expense account.
- E. Not recorded in the accounting records until the earnings process is complete.

Answer: C

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

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

Answer: B

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

*Feedback: Beginning Cash Balance + Debits – Credits = Ending Cash Balance*  
 $Beginning\ Cash\ Balance + \$12,200 - \$11,500 = \$5,000$   
 $Beginning\ Cash\ Balance + \$700 = \$5,000; Beginning\ Balance = \$4,300\ debit\ balance$

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

Answer: B

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

*Feedback: Beginning Accounts Receivable Balance + Credit Sales (Debits) – Customer Payments (Credits) = Ending Accounts Receivable Balance*  
 $\$18,000 + Credit\ Sales\ (Debits) - \$52,000 = \$13,000$   
 $Credit\ Sales\ (Debits) - \$34,000 = \$13,000$   
 $Credit\ Sales\ (Debits) = \$47,000$

90. During the month of February, Hoffer Company had cash receipts of \$7,500 and cash disbursements of \$8,600. The February 28 cash balance was \$1,800. What was the January 31 beginning cash balance?

- A. \$700.
- B. \$1,100.
- C. \$2,900.
- D. \$0.
- E. \$4,300.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

*Feedback: Beginning Cash Balance + Cash Receipts – Cash Disbursements = Ending Cash Balance*  
*Beginning Cash Balance + \$7,500 - \$8,600 = \$1,800*  
*Beginning Cash Balance - \$1,100 = \$1,800*  
*Beginning Cash Balance = \$2,900*

91. The following transactions occurred during July:

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

What was the amount of revenue for July?

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

Answer: B

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

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*Feedback: Revenues = \$900 (from #1) + \$375 (from #4) = \$1,275*

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

Answer: D

*Blooms: Apply  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 02-A1  
Topic: Transaction Analysis*

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

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

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

Answer: C

*Blooms: Apply  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 02-A1  
Topic: Transaction Analysis*

*Feedback: Ending Cash Balance = \$40,000 (#1) - \$1,200 (#3) + \$4,500 (#4) = \$43,300*

94. At the beginning of January of the current year, Thomas Law Center's ledger reflected a normal balance of \$52,000 for accounts receivable. During January, the company collected \$14,800 from customers on account and provided additional services to customers on account totaling \$12,500. Additionally, during January one customer paid Thomas \$5,000 for services to be provided in the future. At the end of January, the balance in the accounts receivable account should be:

- A. \$54,700.
- B. \$49,700.
- C. \$2,300.
- D. \$54,300.
- E. \$49,300.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

*Feedback: Beginning Accounts Receivable Balance + Services on Account – Collections from Customers = Ending Accounts Receivable Balance*  
$$\$52,000 + \$12,500 - \$14,800 = \text{Ending Accounts Receivable Balance}$$
$$\text{Ending Accounts Receivable} = \$49,700$$

95. During the month of March, Cooley Computer Services made purchases on account totaling \$43,500. Also during the month of March, Cooley was paid \$8,000 by a customer for services to be provided in the future and paid \$36,900 of cash on its accounts payable balance. If the balance in the accounts payable account at the beginning of March was \$77,300, what is the balance in accounts payable at the end of March?

- A. \$83,900.
- B. \$91,900.
- C. \$6,600.
- D. \$75,900.
- E. \$4,900.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*

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Topic: Transaction Analysis

*Feedback: Beginning Accounts Payable Balance + Purchases on Account – Payments on Accounts  
= Ending Accounts Payable Balance*

$$\$77,300 + \$43,500 - \$36,900 = \text{Ending Accounts Payable Balance}$$

$$\text{Ending Accounts Payable} = \$83,900$$

96. On January 1 of the current year, Bob's Lawn Care Service reported owner's capital totaling \$122,500. During the current year, total revenues were \$96,000 while total expenses were \$85,500. Also, during the current year Bob withdrew \$20,000 from the company. No other changes in equity occurred during the year. If, on December 31 of the current year, total assets are \$196,000, the **change** in owner's capital during the year was:

- A. A decrease of \$9,500.
- B. An increase of \$9,500.
- C. An increase of \$30,500.
- D. A decrease of \$30,500
- E. Impossible to determine from the information provided.

**Answer: A**

*Blooms: Apply*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 3 Hard*

*Learning Objective: 02-A1*

*Topic: Transaction Analysis*

*Feedback: Beginning Owner's Capital + Revenues – Expenses – Withdrawals = Ending Owner's  
Capital*

$$\$122,500 + \$96,000 - \$85,500 - \$20,000 = \text{Ending Owner's Capital}$$

$$\text{Ending Owner's Capital} = \$113,000$$

$$\text{Change in Equity} = \text{Beginning Owner's Capital} - \text{Ending Owner's Capital}$$

$$\text{Change in Equity} = \$122,500 - \$113,000 = \$9,500 \text{ Decrease}$$

97. Andrea Conaway opened Wonderland Photography on January 1 of the current year. During January, the following transactions occurred and were recorded in the company's books:

1. Conaway invested \$13,500 cash in the business.
2. Conaway contributed \$20,000 of photography equipment to the business.
3. The company paid \$2,100 cash for an insurance policy covering the next 24 months.
4. The company received \$5,700 cash for services provided during January.
5. The company purchased \$6,200 of office equipment on credit.
6. The company provided \$2,750 of services to customers on account.
7. The company paid cash of \$1,500 for monthly rent.
8. The company paid \$3,100 on the office equipment purchased in transaction #5 above.
9. Paid \$275 cash for January utilities.

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

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

Answer: B

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

*Feedback: Ending Cash Balance = \$13,500 (#1) - \$2,100 (#3) + \$5,700 (#4) - \$1,500 (#7) - \$3,100 (#8) - \$275 (#9) = \$12,225*

98. Andrea Conaway opened Wonderland Photography on January 1 of the current year. During January, the following transactions occurred and were recorded in the company's books:

1. Conaway invested \$13,500 cash in the business.
2. Conaway contributed \$20,000 of photography equipment to the business.
3. The company paid \$2,100 cash for an insurance policy covering the next 24 months.
4. The company received \$5,700 cash for services provided during January.
5. The company purchased \$6,200 of office equipment on credit.
6. The company provided \$2,750 of services to customers on account.
7. The company paid cash of \$1,500 for monthly rent.
8. The company paid \$3,100 on the office equipment purchased in transaction #5 above.
9. Paid \$275 cash for January utilities.

Based on this information, the balance in the Andrea Conaway, Capital account reported on the Statement of Owner's Equity at the end of the month would be:

- A. \$31,400.
- B. \$39,200.
- C. \$31,150.
- D. \$40,175.
- E. \$30,875.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

*Feedback: Ending Capital Balance = \$13,500 (#1) + \$20,000 (#2) + \$5,700 (#4) + \$2,750 (#6) – \$1,500 (#7) - \$275 (#9) = \$40,175*

99. The debt ratio is used:

- A. To measure the ratio of equity to expenses.
- B. To assess the risk associated with a company's use of liabilities.
- C. Only by banks when a business applies for a loan.
- D. To determine how much debt a firm should pay off.
- E. To determine how much debt a company should borrow.

Answer: B

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Risk Analysis*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

100. Which of the following is the formula used to calculate the debt ratio?

- A. Total Equity/Total Liabilities.
- B. Total Liabilities/Total Equity.
- C. Total Liabilities/Total Assets.
- D. Total Assets/Total Liabilities.
- E. Total Equity/Total Assets.

Answer: C

*Blooms: Remember*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Risk Analysis*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

101. Which of the following statements is *incorrect*?

- A. Higher financial leverage involves higher risk.
- B. Risk is higher if a company has more liabilities.
- C. Risk is higher if a company has higher assets.
- D. The debt ratio is one measure of financial risk.
- E. Lower financial leverage involves lower risk.

Answer: C

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Risk Analysis*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

102. Stride Along has total assets of \$425 million. Its total liabilities are \$110 million. Its equity is \$315 million. Calculate the debt ratio.

- A. 38.6%.
- B. 13.4%.
- C. 34.9%.
- D. 25.9%.
- E. 14.9%.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Risk Analysis*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A2*

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Topic: Debt Ratio

Feedback:  $Debt Ratio = Total Liabilities/Total Assets$

$Debt Ratio = \$110 million/\$425 million; Debt Ratio = 0.2588 = 25.9\%$

103. Stride Along has total assets of \$385 million. Its total liabilities are \$100 million and its equity is \$285 million. Calculate its debt ratio.

- A. 35.1%.
- B. 26.0%.
- C. 38.5%.
- D. 28.5%.
- E. 58.8%.

Answer: B

Blooms: Apply

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Risk Analysis

Difficulty: 3 Hard

Learning Objective: 02-A2

Topic: Debt Ratio

Feedback:  $Debt Ratio = Total Liabilities/Total Assets$

$Debt Ratio = \$100 million/\$385 million; Debt Ratio = 0.2597 = 26.0\%$

104. Which of the following statements describing the debt ratio is *false*?

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

Answer: B

Blooms: Apply

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Risk Analysis

Difficulty: 3 Hard

Learning Objective: 02-A2

Topic: Debt Ratio

105. At the end of the current year, Norman Company reported total liabilities of \$300,000 and total equity of \$100,000. The company's debt ratio on the last year-end was:

- A. 300%.
- B. 33.3%
- C. 75.0%.
- D. \$400,000.
- E. Cannot be determined from the information provided.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Risk Analysis*  
*Difficulty: Hard*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

*Feedback: Debt Ratio = Total Liabilities/Total Assets*

$$\text{Debt Ratio} = \$300,000/\$400,000^*; \text{Debt Ratio} = 0.75 = 75\%$$

$$^*\text{Total Assets} = \text{Total Liabilities} + \text{Total Equity}$$

$$\text{Total Assets} = \$300,000 + \$100,000; \text{Total Assets} = \$400,000$$

106. At the beginning of the current year, Taunton Company's total assets were \$248,000 and its total liabilities were \$175,000. During the year, the company reported total revenues of \$93,000, total expenses of \$76,000 and owner withdrawals of \$5,000. There were no other changes in owner's capital during the year and total assets at the end of the year were \$260,000. Taunton Company's debt ratio at the end of the current year is:

- A. 70.6%.
- B. 67.3%.
- C. 32.7%.
- D. 48.6%.
- E. Cannot be determined from the information provided.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Risk Analysis*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

*Feedback: Debt Ratio = Total Liabilities/Total Assets*

$$\text{Debt Ratio} = \$175,000^{**}/\$260,000; \text{Debt Ratio} = 0.6730 = 67.3\%$$

$$^*\text{Beginning Total Assets} = \text{Beginning Total Liabilities} + \text{Beginning Total Equity}$$

$$\$248,000 = \$175,000 + \text{Beginning Total Equity}; \text{Beginning Total Equity} = \$73,000$$

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$$\begin{aligned}
 & \text{**Ending Total Assets} = \text{Ending Total Liabilities} + \text{Ending Total Equity} \\
 & \$260,000 = \text{Ending Total Liabilities} + (\text{Beginning Equity} + \text{Revenues} - \text{Expenses} - \\
 & \quad \text{Withdrawals}) \\
 & \$260,000 = \text{Ending Total Liabilities} + (\$73,000 + \$93,000 - \$76,000 - \$5,000) \\
 & \$260,000 = \text{Ending Total Liabilities} + \$85,000; \text{Ending Total Liabilities} = \$175,000
 \end{aligned}$$

107. The process of transferring general journal information to the ledger is:

- A. Double-entry accounting.
- B. Posting.
- C. Balancing an account.
- D. Journalizing.
- E. Not required unless debits do not equal credits.

Answer: B

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Recording Transactions and Posting Entries*

108. A column in journals and ledger accounts used to cross reference journal and ledger entries is the:

- A. Account balance column.
- B. Debit column.
- C. Posting reference column.
- D. Credit column.
- E. Description column.

Answer: C

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Recording Transactions and Posting Entries*

109. The record in which transactions are first recorded is the:

- A. Account balance.
- B. Ledger.
- C. Journal.
- D. Trial balance.
- E. Cash account.

Answer: C

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Recording Transactions and Posting Entries*

110. The general journal provides a place for recording all of the following *except*:

- A. The transaction date.
- B. The names of the accounts involved.
- C. The amount of each debit and credit.
- D. An explanation of the transaction.
- E. The balance in each account.

Answer: E

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Recording Transactions and Posting Entries*

111. A balance column ledger account is:

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

Answer: B



*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Recording Transactions and Posting Entries*

112. A general journal is:

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

Answer: C

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Recording Transactions and Posting Entries*

113. A record in which the effects of transactions are first recorded and from which transaction amounts are posted to the ledger is a(n):

- A. Account.
- B. Trial balance.
- C. Journal.
- D. T-account.
- E. Balance column account.

Answer: C

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Recording Transactions and Posting Entries*

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

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

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

- A. \$ 45,200.
- B. \$ 67,000.
- C. \$104,800.
- D. \$209,600.
- E. \$186,600.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*

*Feedback: Total Debits on Trial Balance = Cash + Accounts Receivable + Rent Expense + Insurance Expense + Supplies + Sam, Withdrawals*  
*Total Debits on Trial Balance = \$30,000 + \$32,000 + \$15,000 + \$4,800 + \$5,000 + \$18,000*  
*Total Debits on Trial Balance = \$104,800*

115. An accountant has debited an account for \$3,500 and credited a liability account for \$2,000. Which of the following would be an *incorrect* way to complete the recording of this transaction:

- A. Credit another asset account for \$1,500.
- B. Credit another liability account for \$1,500.
- C. Credit an expense account for \$1,500.
- D. Credit the owner's capital account for \$1,500.
- E. Debit another asset account for \$1,500.

Answer: E

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Recording Transactions and Posting Entries*

116. A report that lists accounts and their balances, in which the total debit balances should equal the total credit balances, is called a(n):

- A. Account balance.
- B. Trial balance.
- C. Ledger.
- D. Chart of accounts.
- E. General Journal.

Answer: B

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*

117. Which of the following statements is *true*?

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

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Answer: D

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*

118. While in the process of posting from the journal to the ledger a company failed to post a \$500 debit to the Office Supplies account. The effect of this error will be that:
- A. The Office Supplies account balance will be overstated.
  - B. The trial balance will not balance.
  - C. The error will overstate the debits listed in the journal.
  - D. The total debits in the trial balance will be larger than the total credits.
  - E. The error will overstate the credits listed in the journal.

Answer: B

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*

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

Answer: B

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

120. A trial balance taken at year-end showed total credits exceed total debits by \$4,950. This discrepancy could have been caused by:

- A. An error in the general journal where a \$4,950 increase in Accounts Receivable was recorded as an increase in Cash.
- B. A net income of \$4,950.
- C. The balance of \$49,500 in Accounts Payable being entered in the trial balance as \$4,950.
- D. The balance of \$5,500 in the Office Equipment account being entered on the trial balance as a debit of \$550.
- E. An error in the general journal where a \$4,950 increase in Accounts Payable was recorded as a decrease in Accounts Payable.

Answer: D

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*

121. In which of the following situations would the trial balance not balance?

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

Answer: E

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*

122. The credit purchase of a delivery truck for \$4,700 was posted to Delivery Trucks as a \$4,700 debit and to Accounts Payable as a \$4,700 debit. What effect would this error have on the trial balance?

- A. The total of the Debit column of the trial balance will exceed the total of the Credit column by \$4,700.
- B. The total of the Credit column of the trial balance will exceed the total of the Debit column by \$4,700.
- C. The total of the Debit column of the trial balance will exceed the total of the Credit column by \$9,400.
- D. The total of the Credit column of the trial balance will exceed the total of the Debit column by \$9,400.
- E. The total of the Debit column of the trial balance will equal the total of the Credit column.

Answer: C

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*

123. If the Debit and Credit column totals of a trial balance are equal, then:

- A. All transactions have been recorded correctly.
- B. All entries from the journal have been posted to the ledger correctly.
- C. All ledger account balances are correct.
- D. The total debit entries and total credit entries are equal.
- E. The balance sheet would be correct.

Answer: D

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*

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

Answer: B

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*

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

Answer: C

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*

126. All of the following are asset accounts *except*:

- A. Accounts Receivable.
- B. Buildings.
- C. Supplies expense.
- D. Cash.
- E. Prepaid insurance.

Answer: C

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C3*  
*Topic: Ledger and Chart of Accounts*

127. All of the following are liability accounts *except*:

- A. Accounts Payable.
- B. Unearned Ticket Revenue.
- C. Taxes Payable.
- D. Commissions Earned.
- E. Notes Payable.

Answer: D

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C3*  
*Topic: Ledger and Chart of Accounts*

128. Which financial statement reports an organization's financial position at a point in time?

- A. Income statement.
- B. Balance sheet.
- C. Statement of owner's equity.
- D. Cash flow statement.
- E. Trial balance.

Answer: B

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

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129. Hal Smith opened Smith's Repairs on March 1 of the current year. During March, the following transactions occurred and were recorded in the company's books:

1. Smith invested \$25,000 cash in the business.
2. Smith contributed \$100,000 of equipment to the business.
3. The company paid \$2,000 cash to rent office space for the month.
4. The company received \$16,000 cash for repair services provided during March.
5. The company paid \$6,200 for salaries for the month.
6. The company provided \$3,000 of services to customers on account.
7. The company paid cash of \$500 for monthly utilities.
8. The company received \$3,100 cash in advance of providing repair services to a customer.
9. Smith withdrew \$5,000 for his personal use from the company.

Based on this information, net income for March would be:

- A. \$10,300.
- B. \$13,400
- C. \$5,300
- D. \$8,400
- E. \$13,500.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

*Feedback: Net Income = Revenues – Expenses*

$$\text{Net Income} = \$16,000 \text{ (#4)} - \$2,000 \text{ (#3)} - \$6,200 \text{ (#5)} + \$3,000 \text{ (#6)} - \$500 \text{ (#7)} = \$10,300$$

130. Hal Smith opened Smith's Repairs on March 1 of the current year. During March, the following transactions occurred and were recorded in the company's books:

1. Smith invested \$25,000 cash in the business.
2. Smith contributed \$100,000 of equipment to the business.
3. The company paid \$2,000 cash to rent office space for the month.
4. The company received \$16,000 cash for repair services provided during March.
5. The company paid \$6,200 for salaries for the month.
6. The company provided \$3,000 of services to customers on account.
7. The company paid cash of \$500 for monthly utilities.
8. The company received \$3,100 cash in advance of providing repair services to a customer.
9. Smith withdrew \$5,000 for his personal use from the company.

Based on this information, the balance in Hal Smith, Capital reported on the Statement of Owner's Equity at the end of March would be:

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- A. \$133,400.
- B. \$130,300
- C. \$125,300
- D. \$8,400
- E. \$13,500.

**Answer: B**

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

*Feedback: Ending Capital = \$25,000 (#1) + \$100,000 (#2) + \$16,000 (#4) + \$3,000 (#6) - \$2,000 (#3) - \$6,200 (#5) - \$500 (#7) - \$5,000 (#9) = \$130,300*

131. Inge Industries received \$3,000 from a customer for services rendered and not previously recorded. Inge's general journal entry to record this transaction will be:

- A. Debit Services Revenue, credit Accounts Receivable.
- B. Debit Cash, credit Accounts Payable.
- C. Debit Cash, credit Accounts Receivable.
- D. Debit Cash, credit Services Revenue.
- E. Debit Accounts Payable, credit Services Revenue.

**Answer: D**

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Recording Transactions and Posting Entries*

## Matching Questions

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

- \_\_\_\_ 1. Source documents
- \_\_\_\_ 2. Debit
- \_\_\_\_ 3. Posting
- \_\_\_\_ 4. Double-entry accounting
- \_\_\_\_ 5. Ledger
- \_\_\_\_ 6. Journal
- \_\_\_\_ 7. Account
- \_\_\_\_ 8. Credit
- \_\_\_\_ 9. T-account
- \_\_\_\_ 10. Accounting records

A. Decrease in an asset and expense account, and increase in a liability, owner's capital and revenue account; recorded on the right side of a T-account.

B. A file containing all accounts of a company and their balances.

C. An accounting system where each transaction affects and is recorded in at least two accounts; the sum of the debits for each entry must equal its credits.

D. A company's record of each transaction in one place that shows debits and credits for each transaction.

E. An increase in an asset and expense account, and decrease in a liability, owner's capital, and revenue account; recorded on the left side of a T-account.

F. A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense item.

G. A simple account form used as a helpful tool in showing the effects of transactions and events on specific accounts.

H. Another name for the accounting books, or simply the books.

I. The process of transferring journal entry information to the ledger.

J. The sources of accounting information.

Answer:

1. J; 2. E; 3. I; 4. C; 5. B; 6. D; 7. F; 8. A; 9. G; 10. H

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 1 Easy*

*Learning Objective: 02-C1*

*Learning Objective: 02-C2*

*Learning Objective: 02-C3*

*Learning Objective: 02-C4*

*Topic: Processing Transactions*

*Topic: Accounts*

*Topic: Ledger and Chart of Accounts*

*Topic: Debits and Credits*

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

- \_\_\_\_ 1. Debit
- \_\_\_\_ 2. Note payable
- \_\_\_\_ 3. Ledger
- \_\_\_\_ 4. Journal
- \_\_\_\_ 5. Debt ratio
- \_\_\_\_ 6. Chart of accounts
- \_\_\_\_ 7. Trial balance
- \_\_\_\_ 8. Credit
- \_\_\_\_ 9. Account balance
- \_\_\_\_ 10. Balance column account

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

Answer:

1. A; 2. C; 3. J; 4. I; 5. G; 6. F; 7. E; 8. B; 9. D; 10. H

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 1 Easy*

*Learning Objective: 02-A2*

*Learning Objective: 02-C1*

*Learning Objective: 02-C2*

*Learning Objective: 02-C3*

*Learning Objective: 02-C4*

*Topic: Debt Ratio*

*Topic: Processing Transactions*

*Topic: Accounts*

*Topic: Ledger and Chart of Accounts*

*Topic: Debits and Credits*

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

- \_\_\_ 1. General journal
- \_\_\_ 2. Chart of accounts
- \_\_\_ 3. Note receivable
- \_\_\_ 4. T-account
- \_\_\_ 5. Unearned revenues
- \_\_\_ 6. Compound journal entry
- \_\_\_ 7. Posting reference column
- \_\_\_ 8. Posting
- \_\_\_ 9. Account
- \_\_\_ 10. Trial Balance

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

Answer:

1. B; 2. F; 3. D; 4. A; 5. J; 6. C; 7. I; 8. G; 9. E; 10. H

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 1 Easy*

*Learning Objective: 02-C1*

*Learning Objective: 02-C2*

*Learning Objective: 02-C3*

*Learning Objective: 02-C4*

*Topic: Processing Transactions*

*Topic: Accounts*

*Topic: Ledger and Chart of Accounts*

*Topic: Debits and Credits*

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

- \_\_\_ 1. Salary Expense
- \_\_\_ 2. Cash
- \_\_\_ 3. Equipment
- \_\_\_ 4. Owner, Capital
- \_\_\_ 5. Fees Revenue
- \_\_\_ 6. Accounts Receivable
- \_\_\_ 7. Accounts Payable
- \_\_\_ 8. Owner, Withdrawals
- \_\_\_ 9. Supplies
- \_\_\_ 10. Unearned Fee Revenue
- \_\_\_ 11. Prepaid Insurance
- \_\_\_ 12. Office Furniture

Answer:

1. E; 2. A; 3. A; 4. OE; 5. R; 6. A; 7. L; 8. OE; 9. A; 10. L; 11. A; 12. A

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C3*

*Topic: Ledger and Chart of Accounts*

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

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

Answer:

1. BS; 2. IS; 3. BS; 4. IS; 5. BS; 6. BS; 7. IS; 8. BS; 9. BS; 10. BS

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Blooms: Understand  
 AACSB: Communication  
 AICPA BB: Industry  
 AICPA FN: Reporting  
 Difficulty: 2 Medium  
 Learning Objective: 02-P3  
 Topic: Financial Statements

## Essay Questions

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

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

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

Answer:

	Debit	Credit
A	3	8
B	5	1
C	1	3
D	7	3
E	12	3

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

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

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



Example:

Completed an appraisal for a client who promised to pay at a later date.

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

Debit	Credit
2	3

Answer:

	Debit	Credit
A	4	12
B	7	1
C	14	4
D	11	4
E	10	4
F	1	4
G	4	3

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

## ***Short Answer Questions***

139. List the steps in processing transactions.

**Answer:** Business transactions and events are the starting point. Source documents are analyzed for the effects of the transactions and events on the accounting records. The information is recorded into the journal. The information is then posted to the accounts and a trial balance is prepared. The final step is the preparation of financial statements and reports for decision makers.

*Blooms: Understand*  
*AACSB: Communications*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C1*  
*Topic: Processing Transactions*

140. Describe source documents and their purpose.

**Answer:** Source documents are the sources of information that identify and describe transactions and events. They provide objective and reliable evidence about transactions and their amounts. Examples of source documents include checks, invoices, sales receipts, credit card statements, and bank statements. They can be in hard copy or electronic form.

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Processing Transactions*

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

**Answer:** Accounts are classified into three general categories: assets, liabilities and equity. Accounts are records of increases and decreases of specific items in these categories. The accounts serve as the information resource for financial statements and reports.

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C2*  
*Topic: Accounts*

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

Answer: A ledger is a record containing all of the accounts of a business and their balances. The chart of accounts is a list of all of the accounts in the ledger that includes an identification number for the accounts.

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C3*  
*Topic: Ledger and Chart of Accounts*

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

Answer: Debit refers to the left side of an account and credit refers to the right side of an account. Debits and credits are part of the double-entry accounting system. This system is based on the concept that all transactions and events affect at least two accounts. The double entry system is organized around the accounting equation which states that assets = liabilities + equity. Assets and expenses have normal debit balances, and liabilities, owner's equity and revenues have normal credit balances

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

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

Answer: The debt ratio is calculated by dividing total liabilities by total assets. It reveals the percentage of the company's assets that are financed by creditors. The higher the ratio, the more risk a company has in trying to repay the debt with interest.

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Risk Analysis*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

145. Explain the recording and posting processes.

**Answer:** Information from business transactions and events is recorded in the journal in the form of journal entries. The journal entries include the date, the account titles, and debit and credit amounts. Journal entries may also include a further description of the transaction. During the posting process the debit and credit amounts recorded in the journal are transferred to the individual accounts in the ledger.

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P1*  
*Topic: Recording Transactions and Posting Entries*

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

**Answer:** The trial balance is a list of all of the accounts in the ledger with balances at a point in time. The list is organized by debit and credit balances. The purpose of the trial balance is to summarize the account totals and to verify the accuracy of the total debits and credits. If the total debits and credits are not equal, then the trial balance is out of balance which indicates an error in the accounting records. However, even if debits do equal credits this is no guarantee that no errors were made in recording and posting transactions.

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*

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

**Answer:** The income statement shows the amount of net income the company has earned. That income is carried to the statement of owner's equity. The net income is added to the beginning owner's equity, and owner's withdrawals are subtracted to determine the ending owner's equity. The ending owner's equity is then carried to the balance sheet.

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

## Problems

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

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

Answer:

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

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C1*  
*Topic: Processing Transactions*

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

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

*Answer:*

a. Credit, b. Credit, c. Debit, d. Debit, e. Credit, f. Credit, g. Credit, h. Debit

*Blooms: Understand  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 02-C4  
Topic: Debits and Credits*

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

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

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

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

Answer:

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

*Blooms: Understand*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C2*

*Learning Objective: 02-C3*

*Learning Objective: 02-C4*

*Topic: Accounts*

*Topic: Ledger and Chart of Accounts*

*Topic: Debits and Credits*

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

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

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

*Answer:*

a.	Cash .....	10,000	
	Computer Equipment .....	15,000	
	Dolly Barton, Capital .....		25,000
b.	Prepaid Insurance .....	500	
	Cash .....		500
c.	Cash .....	1,000	
	Office Services Revenue .....		1,000
d.	Office Supplies .....	200	
	Cash .....		200
e.	Rent Expense .....	2,000	
	Cash .....		2,000

*Blooms: Apply*

*AACSB: Analytic*

*AICPA BB: Industry*

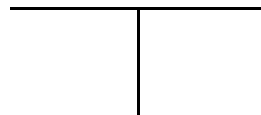
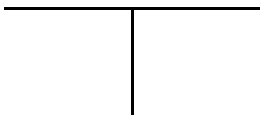
*AICPA FN: Measurement*

*Difficulty: 3 Hard*

*Learning Objective: 02-P1*

*Topic: Recording Transactions and Posting Entries*

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





*Answer:*

Accounts Receivable
2,500

Delivery Fees Earned
2,500

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

153. A company paid \$2,500 cash to satisfy a previously recorded account payable. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.







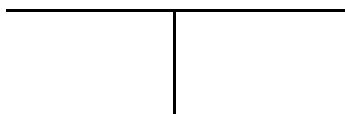
*Answer:*

Accounts Payable
2,500

Cash
2,500

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

154. A business paid \$100 cash to Karen Smith (the owner of the business) for her personal use. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.



*Answer:*

Karen Smith, Withdrawals	
	100

Cash	
	100

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*

155. On December 3, the Matador Company paid \$5,400 cash in salaries to office personnel. Prepare the general journal entry to record this transaction.

*Answer:*

12/3	Office Salaries Expense .....	5,400	
	Cash .....		5,400

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P1*  
*Topic: Recording Transactions and Posting Entries*

156. On February 5, Textron Stores purchased a van that cost \$35,000. The firm made a down payment of \$5,000 cash and signed a long-term note payable for the balance. Show the general journal entry to record this transaction.

Answer:

2/5	Van .....	35,000	
	Cash .....		5,000
	Note Payable.....		30,000

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Recording Transactions and Posting Entries*

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

Cash	
9/01	(a) 4,200
9/11	(d) 150
9/15	(e) 190

Equipment	
9/1	(a) 800
9/4	(b) 2,550

K.Krenz, Capital	
	9/1(a) 5,000

Notes Payable	
	9/4 (b) 2,000

Accounts Receivable	
9/9	(c) 275
	9/15 (e) 190

Revenue	
	9/9 (c) 275
	9/11 (d) 150

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

Answer:

a.	Sept. 1	Cash .....	4,200	
		Equipment .....	800	
		K. Krenz, Capital.....		5,000
		To record initial investment.		
b.	4	Equipment.....	2,550	
		Cash .....		550
		Notes Payable .....		2,000
		To record purchase of equipment, paying \$550 in cash and paying a \$2,000 note payable for the balance due.		
c.	9	Accounts Receivable .....	275	
		Revenue .....		275
		To record credit sale of services.		
d.	11	Cash .....	150	
		Revenue .....		150
		To record cash sale of services.		
e.	15	Cash .....	190	
		Accounts Receivable .....		190
		To record collection from customer.		

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Recording Transactions and Posting Entries*

158. Flora Accounting Services completed these transactions in February:

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

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

*Answer:*

a. Office Supplies .....	300	
Accounts Payable .....		300
b. Accounts Receivable.....	500	
Accounting Services Revenue .....		500
c. Accounts Payable .....	300	
Cash .....		300
d. Cash .....	800	
Accounting Services Revenue .....		800
e. Cash .....	500	
Accounts Receivable.....		500
f. Cash .....	1,000	
Unearned Accounting Service Revenue .....		1,000

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Recording Transactions and Posting Entries*

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

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

Prepare general journal entries to record these transactions.

*Answer:*

Dec. 1	Cash.....	15,000	
	Office Equipment .....	5,000	
	L Matson, Capital.....		20,000
	Owner invested in business.		
2	Office Equipment .....	1,200	
	Accounts Payable.....		1,200
	Purchased office equipment and supplies on credit.		
3	Office Supplies .....	300	
	Accounts Payable.....		300
4	Cash.....	900	
	Fees Earned.....		900
	Rendered services for cash.		
8	Accounts Receivable .....	1,700	
	Fees Earned.....		1,700
	Rendered services on account.		

10	Accounts Payable .....	300	
	Cash.....		300
	Paid amount owed for supplies		
14	Prepaid Insurance .....	960	
	Cash.....		960
	Paid insurance premium for one year.		
18	Cash.....	1,700	
	Accounts Receivable.....		1,700
	Received payment on account.		
27	L. Matson, Withdrawals .....	650	
	Cash.....		650
	Owner withdrew cash.		
30	Utility Expense .....	175	
	Cash.....		175
	Paid utility bills.		
30	Cash.....	2,000	
	Unearned Fees.....		2,000

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Recording Transactions and Posting Entries*

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

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

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

*Answer:*

<u>Cash</u>	<u>Office Equipment</u>	<u>M. Sanchez, Withdrawals</u>
(a) 15,000 (d) 3,500 (c) 1,500 (f) 2,000 (g) 2,500 (h) 2,500	(b) 7,500	(f) 2,000
<u>Accounts Receivable</u>	<u>Accounts Payable</u>	<u>Legal Fees Earned</u>
(e) 4,000 (g) 2,500	(d) 3,500 (g) 2,500	(c) 1,500 (e) 4,000



Law Library	M. Sanchez, Capital	Salaries Expense
(a) 6,000	(a) 21,000	(h) 2,500

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Sanchez Law

Firm  
Trial Balance

---

November 30  
**Account**

Cash .....	\$11,000	
Accounts Receivable .....	1,500	
Law Library.....	6,000	
Office Equipment .....	7,500	
Accounts Payable.....		4,000
Maria Sanchez, Capital .....		21,000
Maria Sanchez, Withdrawal .....	2,000	
Legal Fees Earned .....		5,500
Salaries Expense .....	<u>2,500</u> .....	
Totals .....	<u>\$ 30,500</u>	<u>\$ 30,500</u>

*Bloom's: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Learning Objective: 02-P1*  
*Learning Objective: 02-P2*  
*Topic: Transaction Analysis*  
*Topic: Recording Transactions and Posting Entries*  
*Topic: Trial Balance*

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

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

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

*Answer:*

Beginning owner's equity = \$114,000 - \$68,000 = \$46,000

Ending owner's equity = \$135,000 - \$73,000 = \$62,000

Increase in owner's equity = \$62,000 - \$46,000 = \$16,000

Since there were no investments or withdrawals during the year, the net income is \$16,000.

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Learning Objective: 02-P3*  
*Topic: Transaction Analysis*  
*Topic: Financial Statements*

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

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

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

*Answer:*

Beginning owner's equity = \$114,000 - \$68,000 = \$46,000

Ending owner's equity = \$135,000 - \$73,000 = \$62,000

Increase in owner's equity = \$62,000 - \$46,000 = \$16,000

Net income = \$16,000 - \$12,000 = \$4,000

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Learning Objective: 02-P3*  
*Topic: Transaction Analysis*  
*Topic: Financial Statements*

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

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

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

*Answer:*

Beginning owner's equity = \$114,000 - \$68,000 = \$46,000  
 Ending owner's equity = \$135,000 - \$73,000 = \$62,000  
 Increase in owner's equity = \$62,000 - \$46,000 = \$16,000  
 Net income = \$16,000 + \$5,000 = \$21,000

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Learning Objective: 02-P3*  
*Topic: Transaction Analysis*  
*Topic: Financial Statements*

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

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

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

*Answer:*

Beginning owner's equity =  $\$114,000 - \$68,000 = \$46,000$

Ending owner's equity =  $\$135,000 - \$73,000 = \$62,000$

Increase in owner's equity =  $\$62,000 - \$46,000 = \$16,000$

Net income =  $\$16,000 - \$12,000 + \$5,000 = \$9,000$

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Learning Objective: 02-P3*  
*Topic: Transaction Analysis*  
*Topic: Financial Statements*

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

*Answer:*

*Debt Ratio = Total Liabilities/ Total Assets =  $\$101,500/\$350,000 = 29\%$*

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*AICPA FN: Risk Analysis*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

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

*Answer:*

*Debt Ratio = Total Liabilities/Total Assets =  $\$275,500/\$475,000 = 58\%$*

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*AICPA FN: Risk Analysis*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

167. List the steps in recording transactions.

*Answer:*

1. Analyze each transaction and event from source documents.
2. Record relevant transactions and events in a journal.
3. Post journal entry information to ledger accounts.
4. Prepare and analyze the trial balance.

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Processing Transactions*

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

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

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

*Answer:*

Error	Amount Out of Balance	Column With Larger Total
a.	\$100	Debit
b.	\$1,710	Debit
c.	—	—
d.	\$562.50	Credit
e.	\$520	Debit

Blooms: Apply  
 AACSB: Analytic  
 AICPA BB: Industry  
 AICPA FN: Decision Making  
 Difficulty: 3 Hard  
 Learning Objective: 02-P2  
 Topic: Trial Balance

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

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

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

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

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

*Answer:*

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

Yes, the trial balance will be out of balance.

Blooms: Apply  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 3 Hard  
Learning Objective: 02-P2  
Topic: Trial Balance

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

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

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

Answer:

MAINTENANCE CO.		MIKE'S
Trial Balance		
For Year Ended December 31		
Cash** .....	\$9,500	
Accounts receivable.....	7,000	
Maintenance supplies .....	1,200	
Land .....	50,000	
Building .....	125,000	
Accounts payable.....		\$ 6,500
Unearned maintenance fees.....		4,000
Mike Capital .....		118,700
Mike, Withdrawal.....	48,000	
Maintenance revenue.....		175,000
Wages expense.....	36,000	
Rent expense.....	6,000	
Supplies expense.....	21,500	

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Totals.....	<u>\$304,200</u>	<u>\$304,200</u>
**Total credits .....	\$304,200	
Total debits (excluding cash) .....	<u>294,700</u>	
Cash.....	<u>\$ 9,500</u>	

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*

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

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

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



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

Answer:

Error	Would the error cause the trial balance to be out of balance?		Amount of Imbalance	Correcting Journal Entry Required	
	Yes	No		Yes	No
1.	X		\$500		X
2.	X		311		X
3.		X	0	X	
4.	X		1,360		X
5.		X	0	X	
6.		X	0	X	
7.		X	0	X	
8.		X	0	X	
9.	X		18,000		X
10.		X	0	X	

Blooms: Apply  
 AACSB: Analytic  
 AICPA BB: Industry  
 AICPA FN: Measurement  
 Difficulty: 3 Hard  
 Learning Objective: 02-P1  
 Learning Objective: 02-P2  
 Topic: Recording Transactions and Posting Entries  
 Topic: Trial Balance

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

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

Because the trial balance did not balance, you decided to examine the accounting records.

You found that the following errors had been made:

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

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

Answer:

HAL'S AUTO REPAIR

Trial Balance

October 31

<u>Debit</u>	<u>Credit</u>		
Cash <sup>a</sup> .....		\$ 2,100	
Accounts receivable <sup>b</sup> .....		4,400	
Supplies.....		500	
Repair equipment <sup>c</sup> .....		12,200	
Office equipment <sup>d</sup> .....		7,400	
Accounts payable <sup>e</sup> .....		\$ 5,000	
Hal Frederick, Capital <sup>f</sup> .....			24,000
Hal Frederick, Withdrawals <sup>g</sup> .....		4,800	
Repair fees earned <sup>h</sup> .....			11,000
Supplies expense.....	8,600		
Totals.....	<u>\$ 40,00</u>	<u>\$ 40,000</u>	

<sup>a</sup>Cash: Balance \$975 + \$1,000 (2) + 125 (6) = \$2,100

<sup>b</sup>Accounts Receivable: Bal. \$3,800 + 600 (3) = \$4,400

<sup>c</sup>Repair Equipment: Bal. \$13,000 - 800 (5) = \$12,200

<sup>d</sup>Office Equipment: Bal. \$6,600 + 800 (5) = \$7,400

<sup>e</sup>Accounts Payable: Bal \$4,510 + 490 (1) = \$5,000

<sup>f</sup>Hal Frederick, Capital: Bal. \$23,000 + 1,000 (2) = \$24,000

<sup>g</sup>Hal Frederick, Withdrawals: Bal. \$4,200 + 600 (4) = \$4,800

<sup>h</sup>Repair fees earned: Bal \$10,875 + 125 (6) = \$11,000

*Blooms: Apply*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 3 Hard*

*Learning Objective: 02-A1*

*Learning Objective: 02-P2*

*Topic: Transaction Analysis*

*Topic: Trial Balance*

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

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

a. Calculate net income.

b. Determine the amount of owner's equity to be shown on the August 31 balance sheet.

*Answer:*

A.	\$75,000	Service revenues earned
	(3,600)	Rent expense
	(5,000)	Advertising expense
	<u>(30,000)</u>	Salaries expense
	<u>\$36,400</u>	Net income
B.	\$58,100	J. Flaherty, Capital (beginning)
	36,400	Net income
	<u>(24,000)</u>	J. Flaherty, Withdrawals
	<u>\$70,500</u>	J. Flaherty, Capital (ending)

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

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

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

*Answer:*

Sal's Beauty Shop Income Statement For Year Ended December 31		
Revenue earned.....		\$72,000
Expenses:		
Beauty supplies expense....	\$ 3,425	
Rent expense.....	6,000	
Wages expense.....	<u>22,000</u>	
Total expenses.....		31,425
Net Income.....		<u>\$40,575</u>

Sal's Beauty Shop.  
Statement of Owner's Equity  
For Year Ended December 31

Sal Style, Capital, January 1	\$21,155
Plus: Net income	<u>40,575</u>
	\$61,730
Less: Withdrawals by owner	<u>(36,000)</u>
Sal Style, Capital, December 31	<u>\$25,730</u>

Sal's Beauty Shop  
Balance Sheet

At December 31

Assets		Liabilities	
Cash.....	\$ 6,500	Accounts payable.....	\$ 745
Accounts receivable.....	475		
Beauty supplies.....	2,500	Equity	
Beauty shop equipment....	<u>17,000</u>	Sal Style, Capital.....	<u>\$25,730</u>
Total assets.....	<u>\$26,475</u>	Total liabilities and equity.	<u>\$26,475</u>

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

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

- May 1 Haley invested \$20,000 cash and his sailboat valued at \$90,000 in the business.
- May 2 Haley paid \$3,000 cash for office equipment to help him keep track of business activities.
- May 3 Haley bought sailing supplies costing \$2,500 on credit.
- May 4 Haley negotiated with the harbor master and paid \$500 cash for the first month's dock rental.
- May 5 Haley paid \$1,800 cash for a six-month insurance policy.
- May 10 Haley received \$2,000 cash from clients for his first tour.

- May 12 Haley provided a \$3,500 tour on credit, the customer has agreed to pay within 10 days
- May 19 Haley paid for the sailing supplies originally purchased on May 3.
- May 22 Haley receives payment on the account from the client entry on May 12.
- May 25 Haley received \$2,750 cash for additional tours.
- May 31 Haley paid his deck hand a salary of \$1,000.
- May 31 Haley withdrew \$2,000 for personal use.

*Answer*

:

May 1	Cash.....		
	...	20,000	
	Sailboat.....		
	...	90,000	
			J. Haley,
	Capital.....		110,000
	Owner invested in business.		
2	Office Equipment.....	3,000	
	Cash.....		
	..		3,000
	Purchased office equipment.		
3	Sailing Supplies.....		
	....	2,500	
			Accounts
	Payable.....		2,500
	Purchased supplies on account.		
4	Rent expense.....	500	
	Cash.....		
	.....		500
	Paid for dock rent.		
5	Prepaid Insurance.....	1,800	
	Cash.....		
	....		1,800
	Paid for six month insurance policy.		

10	Cash.....		
	.....	2,000	
	Sailing tour		
	revenue.....		2,000
	Recorded tour revenue.		
12	Accounts		
	Receivable.....	3,500	
	Sailing tour		
	revenue.....		3,500
	Recorded tour revenue provided on		
	account.		
19	Accounts		
	Payable.....	2,500	
	Cash.....		
	.....		2,500
	Paid on account.		
22	Cash.....		
	.....	3,500	
	Accounts		
	Receivable.....		3,500
	Record collection on account.		
25	Cash.....		
	.....	2,750	
	Sailing tour		
	revenue.....		2,750
	Recorded tour revenue.		
31	Salary		
	expense.....	1,000	
	Cash.....		
	..		1,000
	Paid assistant's salary.		
31	J. Haley,		
	Withdrawals.....	2,000	
	Cash.....		2,000
	Record owner's withdrawals.		



Blooms: Apply  
 AACSB: Analytic  
 AICPA BB: Industry  
 AICPA FN: Measurement  
 Difficulty: 3 Hard  
 Learning Objective: 02-P1  
 Topic: Recording Transactions and Posting Entries

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

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

*Answer:*

### Smyth's Repair Shop Income Statement

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For Year Ended December 31		
Service revenue .....		\$125,000
Expenses:		
Supplies expense.....	\$ 3,425	
Rent expense.....	18,000	
Utilities expense.....	6,000	
Gas expense.....	7,200	
Wages expense.....	<u>22,000</u>	
Total expenses.....	<u>56,625</u>	
Net Income.....		<u>\$68,375</u>

---

Statement of Owner's Equity  
For Year Ended December 31

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Smyth's Repair Shop

Smyth, Capital, January 1 .....	\$39,525
Plus: Net income.....	68,375
	\$107,900
Less: Withdrawals by owner .....	<u>(36,000)</u>
Smyth, Capital, December 31 .....	<u>\$71,900</u>

Smyth's Repair Shop  
Balance Sheet  
December 31

Assets		Liabilities	
Cash	\$ 12,500	Accounts payable	\$ 2,600
Accounts receivable	1,500		
Supplies	500	Equity	
Repair shop equipment	27,000		
Service truck	<u>33,000</u>	Smyth, Capital	<u>\$71,900</u>
Total assets	<u>\$74,500</u>	Total liabilities and equity	<u>\$74,500</u>

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

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

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

*Answer:*

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

*Bloom's: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C3*  
*Learning Objective: 02-C4*  
*Topic: Ledger and Chart of Accounts*  
*Topic: Debits and Credits*

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

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

*Answer:*

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

*Blooms: Remember*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

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

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

*Answer:*

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

*Blooms: Remember  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 02-P3  
Topic: Financial Statements*

180. Tom Pines decided to open a bed and breakfast in his hometown. Prepare journal entries to record the following transactions.

June 1	Pines invested \$400,000 into the business
June 2	Pines purchased a log chalet for the bed and breakfast costing \$900,000. The purchase appraisal allocated \$200,000 for land and \$700,000 to the chalet. Pines paid \$250,000 and financed the remainder with a mortgage note payable.
June 3	Paid \$6,000 for a six month insurance policy on the chalet.
June 5	Purchased linens and other supplies costing \$4,000 on account.
June 10	Received advance payments of \$12,000 from customers that will be staying at the B&B in July. Payments will be refunded if the customer cancels within 7 days of their scheduled arrival time.
June 14	Received cash payments of \$13,000 from current customers staying at the B&B in June.
June 15	Paid the staff \$2,000 for the first semi-monthly payroll.
June 16	Paid \$500 for general maintenance and repairs expense.
June 17	Received \$10,000 payment for wedding party fees for the weekend. The B&B also provides a venue for weddings.
June 18	Paid the caterer \$2,500 for providing catering services for the wedding party.
June 18	Paid Party Rentals \$1,000 for table and chair rental.
June 19	Paid the florist \$2,000 for flowers for the wedding.
June 24	Paid for the linens and supplies purchased on June 5.
June 25	Received an additional \$5,000 from current customers for June.
June 30	Paid the staff \$2,000 for the second semi-monthly payroll.
June 30	The owner withdrew \$4,000 for personal use.

*Answer:*

June 1	Cash	400,000	
	Pines, Capital		400,000
June 2	Land	200,000	
	Chalet	700,000	
	Cash		250,000
	Mortgage Note Payable		650,000
June 3	Prepaid Insurance	6,000	
	Cash		6,000

June 5	Supplies	4,000	
	Accounts Payable		4,000
June 10	Cash	12,000	
	Unearned Rental Revenue		12,000
June 14	Cash	13,000	
	Rental Revenue		13,000
June 15	Salaries expense	2,000	
	Cash		2,000
June 16	Maintenance and repairs expense	500	
	Cash		500
June 17	Cash	10,000	
	Wedding party revenue		10,000
June 18	Catering expense	2,500	
	Cash		2,500
June 18	Wedding rental expense	1,000	
	Cash		1,000
June 19	Wedding flowers expense	2,000	
	Cash		2,000
June 24	Accounts Payable	4,000	
	Cash		4,000
June 25	Cash	5,000	
	Rental Revenue		5,000
June 30	Salaries expense	2,000	
	Cash		2,000
June 30	Pines, Withdrawals	4,000	
	Cash		4,000



Blooms: Apply  
 AACSB: Analytic  
 AICPA BB: Industry  
 AICPA FN: Measurement  
 Difficulty: 3 Hard  
 Learning Objective: 02-P1  
 Topic: Recording Transactions and Posting Entries

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

Account Title	Account Type	Normal Balance
a. Prepaid Rent		
b. Accounts Payable		
c. Owner, Capital		
d. Repairs expense		
e. Land		
f. Services revenue		
g. Notes Receivable		
h. Advertising expense		
i. Unearned Rental Revenue		
j. Rental Revenue		

*Answer:*

Account Title	Account Type	Normal Balance
a. Prepaid Rent	asset	debit
b. Accounts Payable	liability	credit
c. Owner, Capital	equity	credit
d. Repairs expense	expense	debit
e. Land	asset	debit
f. Services revenue	revenue	credit
g. Notes Receivable	asset	debit
h. Advertising expense	expense	debit
i. Unearned Rental Revenue	liability	credit
j. Rental Revenue	revenue	credit

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C3*  
*Learning Objective: 02-C4*  
*Topic: Ledger and Chart of Accounts*  
*Topic: Debits and Credits*

### ***Fill in the Blank Questions***

182. \_\_\_\_\_ and \_\_\_\_\_ are the starting points for the analyzing and recording process.

Answer: Business transactions; Events

*Feedback: answers can appear in either order*

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C1*  
*Topic: Processing Transactions*

183. The second step in the analyzing and recording process is to record the transactions and events in the \_\_\_\_\_.

Answer: journal

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C1*  
*Topic: Processing Transactions*

184. The third step in the analyzing and recording process is to post the information to \_\_\_\_\_.

Answer: ledger accounts

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C1*  
*Topic: Processing Transactions*

185. \_\_\_\_\_ identify and describe transactions and events and provide objective evidence and amounts for recording.

Answer: Source documents

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C1*  
*Topic: Processing Transactions*

186. Revenues and expenses are two categories of \_\_\_\_\_ accounts.

Answer: equity

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C2*  
*Topic: Accounts*

187. The \_\_\_\_\_ is a record containing all accounts used by a company.

Answer: general ledger (or ledger)

*Feedback: either answer is acceptable*

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 02-C3  
Topic: Ledger and Chart of Accounts*

188. The three general categories of accounts in a general ledger are \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_.

Answer: assets; liabilities; equity

*Feedback: answers can appear in any order*

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 02-C3  
Topic: Ledger and Chart of Accounts*

189. \_\_\_\_\_ are promises of payment from customers to sellers.

Answer: Accounts receivable

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 02-C2  
Topic: Accounts*

190. Unearned revenue is classified as a(an) \_\_\_\_\_ that is satisfied by delivering products or services in the future.

Answer: liability

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Accounts*

191. The four categories of equity accounts are \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_.

Answer: owner, capital; owner, withdrawals; revenues; expenses

*Feedback: answers can appear in any order*

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Accounts*

192. A \_\_\_\_\_ is a list of all the accounts used by a company and their identification codes.

Answer: chart of accounts

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C3*  
*Topic: Ledger and Chart of Accounts*

193. A \_\_\_\_\_ is a record containing all accounts for a company along with their balances.

Answer: ledger

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C3*  
*Topic: Ledger and Chart of Accounts*

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

Answer: double-entry accounting

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

195. The difference between total debits and total credits for an account, including any beginning balance is the \_\_\_\_\_.

Answer: account balance

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Accounts*

196. Increases in assets are \_\_\_\_\_ to asset accounts, increases in liabilities are \_\_\_\_\_ to liability accounts.

Answer: debited; credited

*Feedback: answers need to appear in the order shown above*

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*

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Topic: Debits and Credits

197. FastForward purchased \$25,000 of equipment for cash. The Equipment asset account is \_\_\_\_\_ for \$25,000 and the cash account is \_\_\_\_\_ for \$25,000.

Answer: debited; credited

Feedback: answers need to appear in the order as shown above

Blooms: Understand  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 02-C4  
Topic: Debits and Credits

198. Stride Along had total liabilities of \$130 million and total assets of \$375 million. Its debt ratio was \_\_\_\_\_.

Answer: 34.7%

Blooms: Apply  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 3 Hard  
Learning Objective: 02-A2  
Topic: Debt Ratio

Feedback:  $Debt\ Ratio = Total\ Liabilities / Total\ Assets$   
 $Debt\ Ratio = \$130\ million / \$375\ million = 34.7\%$

199. \_\_\_\_\_ is the process of transferring journal entry information to the ledger.

Answer: Posting

Blooms: Remember  
AACSB: Communications  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 02-P1  
Topic: Recording Transactions and Posting Entries

200. A \_\_\_\_\_ gives a complete record of each transaction in one place, and shows debits and credits for each transaction.

Answer: journal

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Recording Transactions and Posting Entries*

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

Answer: balance column account

*Blooms: Remember*  
*AACSB: Communications*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Accounts*

202. The posting process is the link between the \_\_\_\_\_ and the \_\_\_\_\_.

Answer: journal; ledger

*Feedback: answers can be recorded in either order*

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Recording Transactions and Posting Entries*