

Fundamentals of Financial Accounting, 6e (Phillips)
Chapter 2 The Balance Sheet

- 1) A transaction is an exchange or event that directly affects the assets, liabilities, or stockholders' equity of a company.
- 2) General Motors (GM) signs a new labor agreement that its workers will receive a 5% wage increase next year. This transaction affects GM's financial statements in the current year.
- 3) If total assets decrease, then either total liabilities or total stockholders' equity must also decrease.
- 4) Goodrich, Inc. signed an agreement to rent a warehouse from Ellie Co. This is an example of a transaction that should not be recorded.
- 5) A business is obliged to repay both debt and equity financing.
- 6) You are pleasantly surprised to discover that a popular actress appears on *The Tonight Show* wearing your company's jeans. Later, your company's sales increase by \$500,000 as a result. When the actress appeared on TV, you would have recorded an asset because the TV appearance was expected to bring future economic benefits to your company.
- 7) Eagle Company used \$50,000,000 of its cash to pay off debt, as a result, Eagle's stockholders' equity will decrease \$50,000,000.
- 8) Puffin, Inc. issues \$1,000,000 in new stock for cash. Puffin's stockholders' equity does not change because as new shares are sold, the value of its existing shares falls.
- 9) The record-analyze-summarize process is applied only to daily transactions, month-end adjustments need not be analyzed and summarized.
- 10) The list of account names and reference numbers that the company will use when accounting for transactions is called the chart of accounts.
- 11) A debit may increase or decrease an account, depending on the type of account.
- 12) The normal balance of an account is on the same side that decreases the account.
- 13) If the total dollar value of debits to an account exceeds the total dollar value of credits to that account, the ending balance of the account will be a debit balance.
- 14) Every transaction increases at least one account and decreases at least one account.
- 15) Accounts increase on the same side as they appear in the accounting equation: $A = L + SE$.
- 16) Journal entries show the effects of transactions on the elements of the accounting equation, as well as the account balances.

17) The general ledger is an internal report that lists all the accounts and their balances and is used to check that total debits equals total credits.

18) A trial balance shows a subtotal for current assets and current liabilities.

19) When a company prepares a classified balance sheet, liability accounts must be shown in subcategories of current and noncurrent.

20) The trial balance is a financial statement that reports the assets, liabilities, and equity of a business at a point in time.

21) The acquisition of inventory in an exchange for a company's stock would increase the current ratio of the company.

22) The current ratio can be used to evaluate a company's ability to pay liabilities in the short term, and in general, a higher ratio means better ability to pay.

23) Owners of a company:

- A) hold promissory notes as evidence of their ownership claim.
- B) are entitled to repayment of their investment.
- C) have a claim that is secondary to creditor's claims.
- D) have a claim equal to the amount of liabilities a company owes.

24) If a company borrows money from a bank and signs an agreement to repay the loan several years from now, in which account would the company report the amount borrowed?

- A) Common Stock
- B) Accounts Payable
- C) Notes Payable (long-term)
- D) Retained Earnings

25) The Sweet Smell of Success Fragrance Company borrowed \$60,000 from the bank to be paid back in five years and used all of the money to purchase land for a new store. Sweet Smell's balance sheet would show this as:

- A) \$60,000 under Land and \$60,000 under Notes Payable (long-term).
- B) \$60,000 under Depreciation Expense and \$60,000 under Notes Payable (long-term).
- C) \$60,000 under Land and \$60,000 under Notes Receivable (long-term).
- D) \$60,000 under Other Assets and \$60,000 under Other Liabilities.

26) Typical steps needed before a business can start selling goods and/or services to customers include:

- A) financing and investing activities.
- B) only financing activities.
- C) only investing activities.
- D) only operating activities.

27) Who has first claim to a business's assets should the company go out of business?

- A) Creditors
- B) Stockholders
- C) Customers
- D) Management

28) The creditors' claims to a company's resources are represented by:

- A) common stock.
- B) total stockholder's equity.
- C) total liabilities.
- D) retained earnings.

29) A difference between debt financing and equity financing is that:

- A) debt financing must be repaid, while repayment of equity financing is not required.
- B) equity financing must be repaid, while repayment of debt financing is not required.
- C) only debt financing can be used to purchase assets.
- D) only equity financing can be used to purchase assets.

30) Debt financing is financing obtained from:

- A) stockholders.
- B) creditors.
- C) selling goods or services on credit.
- D) both creditors and stockholders.

31) Equity financing is financing obtained from:

- A) creditors.
- B) stockholders.
- C) selling goods or services on credit.
- D) both creditors and stockholders.

32) The cost principle is used:

- A) to refer to the two sources of financing available to businesses.
- B) to measure the amount used to record assets on the date of the transaction.
- C) by small businesses, but not by large businesses.
- D) to measure internal events, but not external exchanges.

33) Transactions include which two types of events?

- A) Direct events, indirect events
- B) Monetary events, production events
- C) External exchanges, internal events
- D) Past events, future events

34) Which of the following is an accounting transaction?

- A) A manager hires an employee.
- B) A manager orders supplies.
- C) A manager signs a promissory note and receives cash.
- D) A manager agrees to deliver their product in three weeks.

- 35) Your company places an order for inventory with suppliers for delivery in two weeks.
- A) This is an internal event and it does not affect the balance sheet.
 - B) This is an activity that does not affect the balance sheet.
 - C) This is an internal event that affects the balance sheet.
 - D) This is an external exchange and it affects the balance sheet.
- 36) The characteristic shared by all liabilities is that they:
- A) provide a future economic benefit.
 - B) result in an inflow of resources to the company.
 - C) always end in the word "payable."
 - D) obligate the company to do something in the future.
- 37) Which of the following is a financing activity?
- A) The business receives land and gives a check for \$1,000.
 - B) The business receives \$1,000 cash and in exchange gives a promissory note.
 - C) The business promises to hire an employee on the 15th of the month.
 - D) The business orders supplies and promises to pay for them at the end of the month.
- 38) Which of the following would not be recorded as an accounting transaction?
- A) Issuing stock to owners in exchange for cash
 - B) Ordering supplies to be delivered next month
 - C) Selling inventory to customers in exchange for cash to be received next month
 - D) Paying the bank for a portion of a note payable
- 39) The Flynn Company started business by obtaining financing through debt financing and equity financing. Which of the following statements is not correct?
- A) Equity financing refers to the money obtained through owners' contributions and reinvestments of profit.
 - B) Debt financing refers to the money obtained through loans.
 - C) The business is obligated to repay debt financing.
 - D) The business is obligated to repay equity financing.
- 40) Which of the following is an asset?
- A) Common Stock
 - B) Retained Earnings
 - C) Notes Receivable
 - D) Notes Payable
- 41) Which of the following transactions for Bill's Fish 'n Chips restaurant would be treated as an accounting transaction?
- A) Bill distributed coupons to local hotels for 10% off and requested that the coupons be distributed to hotel guests.
 - B) Bill spoke to a local high school about the rewards and challenges of being an entrepreneur.
 - C) Bill signed an agreement with a local fisherman to purchase 20 pounds of halibut each month.
 - D) Bill purchased a fryer and a dishwasher, which will be paid for next month.

- 42) _____ are of special importance because they are the only activities that enter the financial accounting system.
- A) External exchanges
 - B) Internal events
 - C) Documents
 - D) Transactions
- 43) Which account is affected by recording the buying of goods on credit?
- A) Cash
 - B) Retained Earnings
 - C) Common Stock
 - D) Accounts Payable
- 44) Which of the following is not true regarding the double-entry system?
- A) Transactions must be recorded twice to ensure accuracy.
 - B) Debits must equal credits.
 - C) Assets must equal liabilities plus stockholders' equity.
 - D) Both what is received and what is given in exchange must be recorded.
- 45) Every transaction involves a(n):
- A) receiving and giving something of value.
 - B) increase in assets.
 - C) increase in stockholder's equity.
 - D) exchange of promises.
- 46) Which events are recorded in the accounting system?
- A) External exchanges only
 - B) Internal events only
 - C) Both external exchanges and internal events
 - D) Transactions are not recorded in the accounting system
- 47) Doug's Doodle Shop, specializing in dog supplies, signs a contract with a pet groomer. Next month, the groomer will begin leasing a portion of Doug's store and provide grooming services. The signing of the contract:
- A) has no effect on the accounting equation.
 - B) increases assets.
 - C) increases liabilities.
 - D) decreases stockholders' equity.
- 48) Spin Co. has \$52,000 in its Cash account, \$20,000 in its Inventory account, and \$12,000 in its Notes Payable (short-term) account. If Spin's only other account is Common Stock, what is the balance of that account?
- A) \$20,000.
 - B) \$84,000.
 - C) \$60,000.
 - D) \$44,000.

- 49) Amounts invested and reinvested by a company's owners is called:
- A) stockholders' equity in a corporation.
 - B) assets, or the resources presently owned by a business that generate future economic benefits.
 - C) a trial balance, proving that all amounts are accounted for.
 - D) liabilities, or the amounts presently owed by a business.
- 50) Typical cash flows from investing activities include:
- A) payments to purchase property and equipment.
 - B) repayment of loans.
 - C) proceeds from issuing notes payable.
 - D) receipts from cash sales.
- 51) The requirement that transactions be recorded at their exchange price at the transaction date is called the:
- A) conservatism exception.
 - B) separate entity assumption.
 - C) cost principle.
 - D) monetary unit assumption.
- 52) Candy Cane opened an ice cream store on June 1 and hired an accounting intern to help her establish the business. The intern has identified the following transactions. Which of these transactions is not an accounting transaction?
- A) Purchased \$3,400 of milk and cream from a local dairy
 - B) Signed a contract to deliver \$1,200 of ice cream for a July 4th party
 - C) Paid June rent of \$2,300
 - D) Borrowed money from the bank by signing a promissory note for \$5,000
- 53) Candy Cane's ice cream shop, which opened in June, is a local hit. In July, Candy Cane hired a new employee at a rate of \$1,200 per month to start work at the beginning of August. In July, Candy Cane should record:
- A) nothing, because an exchange of promises is not a transaction.
 - B) a \$1,200 increase to Prepaid Wages and a \$1,200 decrease to Cash.
 - C) a \$1,200 increase to Wage Expense and a \$1,200 decrease to Cash.
 - D) a \$1,200 increase in Wages Payable and a \$1,200 increase in Wages Expense.
- 54) A _____ is a list of account titles with corresponding reference numbers used by companies so that transaction items are consistently named.
- A) chart of accounts
 - B) trial balance
 - C) classified balance sheet
 - D) ledger
- 55) What does a business typically receive when it issues stock to owners?
- A) Promissory note
 - B) Stock certificate
 - C) Equipment
 - D) Cash

- 56) When a business issues stock, what does it give to its owners?
- A) Note Payable
 - B) Common Stock
 - C) Retained Earnings
 - D) Cash
- 57) Transactions are entered into a(n) _____ each day they occur.
- A) journal
 - B) ledger
 - C) trial balance
 - D) classified balance sheet
- 58) A(n) _____ is a collection of records that summarizes the effects of multiple transactions whereas a(n) _____ is a record of each day's transactions.
- A) ledger; journal
 - B) journal; ledger
 - C) trial balance; journal
 - D) trial balance; ledger
- 59) Account titles in the chart of accounts are:
- A) general purpose and do not indicate the nature of the account.
 - B) consistent with those used by other companies.
 - C) linked to account numbers.
 - D) the names mandated for use by the FASB.
- 60) Every transaction:
- A) increases one account and decreases another account.
 - B) has at least two effects on the basic accounting equation.
 - C) affects only balance sheet accounts or only income statement accounts.
 - D) is analyzed from the standpoint of the business owners.
- 61) Charlie Co. owes \$800,000 to Tilly, Inc. from whom Charlie buys its inventory. Which account would Charlie use to report the amount owed?
- A) Cash
 - B) Accounts Payable
 - C) Notes Payable
 - D) Accounts Receivable
- 62) Bolt Enterprises receives \$100,000 cash from its customers on account. Bolt uses the cash to pay off \$100,000 on a bank loan, the net result is that:
- A) assets would increase by \$100,000 while liabilities would decrease by \$100,000.
 - B) liabilities would decrease by \$100,000 while stockholders' equity would increase by \$100,000.
 - C) assets would decrease by \$100,000 and liabilities would decrease by \$100,000.
 - D) liabilities would decrease by \$100,000 and stockholders' equity would decrease by \$100,000.

- 63) What is the minimum number of accounts that must be involved in any transaction?
- A) One
 - B) Two
 - C) Three
 - D) There is no minimum.
- 64) Amounts owed to suppliers for goods purchased on credit are called:
- A) Common Stock.
 - B) Retained Earnings.
 - C) Accounts Payable.
 - D) Inventory.
- 65) In part, a transaction affects the accounting equation by decreasing a liability. There is no effect on assets. Which of the following statements is correct with regards to this transaction?
- A) If other liabilities are unchanged, stockholders' equity must be decreasing.
 - B) If other liabilities are unchanged, stockholders' equity must be increasing.
 - C) If stockholders' equity is unchanged, another liability must be decreasing.
 - D) If stockholders' equity is unchanged, other liabilities must be unchanged.
- 66) Sue Shells, Inc. pays back \$200,000 on a loan it had obtained earlier from a bank.
- A) Assets decrease by \$200,000; liabilities and stockholders' equity are both unchanged.
 - B) Assets decrease by \$200,000, liabilities decrease by \$200,000, and stockholders' equity is unchanged.
 - C) Assets decrease by \$200,000 and liabilities increase by \$200,000.
 - D) Assets decrease by \$200,000, liabilities are unchanged, and stockholders' equity decreases by \$200,000.
- 67) Sue Shells, Inc. issues \$400,000 in new stock. It later uses the cash received to purchase land. What accounts are affected by these two transactions?
- A) Common Stock, Cash, and Land.
 - B) Common Stock, Cash, and Investments.
 - C) Cash, Common Stock, and Investments, and Land.
 - D) Common Stock, and Land.
- 68) A business can obtain financing by issuing stock or borrowing from third parties, such as banks. What are the balance sheet effects of issuing stock to obtain cash?
- A) No effect on assets; Decrease liabilities; Increase stockholders' equity
 - B) Increase assets; Increase liabilities; Increase stockholders' equity
 - C) Increase assets; No effect on liabilities; Increase stockholders' equity
 - D) Increase assets; Increase liabilities; No effect on stockholders' equity
- 69) What will be the effect on the balance sheet of issuing shares of common stock in exchange for cash?
- A) An increase in Retained Earnings
 - B) A decrease in Common Stock
 - C) A decrease in Retained Earnings
 - D) An increase in Common Stock

70) Kirby, Inc. borrows \$16 million from its bank. It then uses this money to buy equipment. How do these two transactions affect the company's accounting equation?

- A) Assets and liabilities both increase by \$16 million.
- B) Assets increase by \$8 million and liabilities decrease by \$8 million.
- C) Assets increase by \$16 million, liabilities increase by \$8 million, and stockholders' equity increases by \$8 million.
- D) Assets remain unchanged and liabilities increase by \$16 million.

71) A company receives \$100,000 cash from investors in exchange for stock. Several weeks later, the company buys a \$250,000 machine using all of the cash from the stock issue and signing a promissory note for the remainder. The accounts involved in these two transactions are:

- A) Cash; Equipment; Noncurrent Investments; and Accounts Payable.
- B) Cash; Noncurrent Investments; Common Stock; and Notes Payable.
- C) Cash; Equipment; Common Stock; and Notes Payable.
- D) Equipment; Notes Payable; and Retained Earnings.

72) During the current year, Sue Shells, Inc.'s total liabilities decreased by \$50,000 and stockholders' equity increased by \$10,000. By what amount and in what direction did Sue's total assets change during the same time period?

- A) \$40,000 increase
- B) \$40,000 decrease
- C) \$60,000 increase
- D) \$60,000 decrease

73) A company issues \$20 million in new stock. The company later uses this money to acquire a building. What is the effect of these two transactions on the company's accounts?

- A) Buildings increases and Common Stock increases.
- B) Buildings increases and Common Stock decreases.
- C) Cash increases, Buildings increases, and Common Stock increases.
- D) Cash decreases, Buildings increases, and Common Stock decreases.

74) Park & Company was recently formed with a \$25,000 investment in the company by stockholders in exchange for common stock. The company then borrowed \$10,000 from a local bank, purchased \$5,000 of supplies on account, and also purchased \$25,000 of equipment by paying \$10,000 in cash and signing a promissory note for the balance. Based on these transactions, the company's total assets are:

- A) \$35,000.
- B) \$45,000.
- C) \$50,000.
- D) \$55,000.

75) Danny Company purchased supplies using cash. What is the effect on Danny's balance sheet?

- A) No effect on total assets; decrease total liabilities; increase total stockholders' equity
- B) Increase total assets; increase total liabilities; increase total stockholders' equity
- C) Decrease total assets; no effect on total liabilities; increase total stockholders' equity
- D) No effect on total assets; no effect on total liabilities; no effect on total stockholders' equity

76) The Noble Corp. installs \$75,000 of equipment, paying \$25,000 cash and promising to pay the remaining \$50,000 in 6 months. What is the impact to this transaction on the accounting equation?

- A) Total assets are increased by \$50,000.
- B) Current assets are increased by \$50,000.
- C) Total assets are increased by \$75,000.
- D) Current assets are increased by \$75,000.

77) If land is purchased for cash:

- A) total assets will increase.
- B) total assets will decrease.
- C) total assets will remain the same.
- D) stockholders' equity will increase.

78) What is the effect on the balance sheet if a company purchases \$100 of supplies using cash?

- A) Total assets will remain the same.
- B) Total assets will decrease.
- C) Liabilities will decrease.
- D) Total assets will increase.

79) Puffin, Inc. purchased land costing \$54,000 by paying cash of \$13,500 and signing a 90-day note for the balance. The entry to record this transaction would:

- A) increase total assets.
- B) decrease total liabilities.
- C) decrease Common Stock.
- D) increase total assets and decrease total liabilities.

80) On January 1, Kirk Corporation had total assets of \$425,000. During the month, the following activities occurred:

Kirk Corporation acquired equipment costing \$3,000, promising to pay cash for it in 60 days.

Kirk Corporation purchased \$1,750 of supplies for cash.

Kirk Corporation sold land, which it had acquired 2 years ago. The land had cost \$7,500 and it was sold for \$7,500 cash.

Kirk Corporation signed an agreement to rent additional storage space next month at a charge of \$500 per month.

What is the amount of total assets of Kirk Corporation at the end of the month?

- A) \$429,750
- B) \$428,000
- C) \$418,750
- D) \$420,000

81) When accounts receivable are collected:

- A) stockholders' equity increases.
- B) total assets increase.
- C) total assets decrease.
- D) the amount of total assets is unchanged.

82) A company was formed with \$300,000 cash contributed by its owners in exchange for common stock. The company borrowed \$150,000 from a bank. The company purchased \$50,000 of inventory and paid cash for it. The company also purchased \$350,000 of equipment by paying \$50,000 in cash and issuing a note for the remainder.

What is the amount of the total assets to be reported on the balance sheet?

- A) \$750,000
- B) \$800,000
- C) \$450,000
- D) \$400,000

83) A company was formed with \$300,000 cash contributed by its owners in exchange for common stock. The company borrowed \$150,000 from a bank. The company purchased \$50,000 of inventory and paid cash for it. The company also purchased \$350,000 of equipment by paying \$50,000 in cash and issuing a note for the remainder.

What is the amount of the total liabilities to be reported on the balance sheet?

- A) \$300,000
- B) \$0
- C) \$450,000
- D) \$400,000

84) Assets totaled \$24,250 and liabilities totaled \$8,500 at the beginning of the year. During the year, assets decreased by \$3,500 and liabilities increased by \$2,800.

What is the amount of the change in stockholders' equity during the year?

- A) \$5,750 increase
- B) \$700 decrease
- C) \$6,300 decrease
- D) \$550 increase

85) Assets totaled \$24,250 and liabilities totaled \$8,500 at the beginning of the year. During the year, assets decreased by \$3,500 and liabilities increased by \$2,800.

What is the amount of stockholders' equity at the end of the year?

- A) \$9,450
- B) \$15,750
- C) \$15,050
- D) \$14,450

86) During its first year of operations, a company entered into the following transactions:

Borrowed \$20,000 from the bank by signing a promissory note.

Issued stock to owners for \$40,000.

Purchased \$4,000 of supplies on account.

Paid \$1,600 to suppliers as payment on account for the supplies purchased.

What is the amount of total assets at the end of the year?

A) \$64,000

B) \$22,400

C) \$60,000

D) \$62,400

87) During its first year of operations, a company entered into the following transactions:

Borrowed \$20,000 from the bank by signing a promissory note.

Issued stock to owners for \$40,000.

Purchased \$4,000 of supplies on account.

Paid \$1,600 to suppliers as payment on account for the supplies purchased.

What is the amount of total liabilities at the end of the year?

A) \$24,000

B) \$62,400

C) \$64,000

D) \$22,400

88) The Smith Corp. began business this year and entered into the following transactions during the year. The company issued common stock in exchange for cash of \$80,000 from stockholders, borrowed \$40,000 from a bank, bought \$12,000 of inventory on account, and purchased \$32,000 of equipment by paying \$12,000 in cash and issuing a note for the remainder. What is the amount of total assets to be reported on the balance sheet at the end of the year?

A) \$104,000

B) \$120,000

C) \$128,000

D) \$152,000

89) Meridian Furniture had the transactions for the month that are summarized below.

Purchased \$3,600 in supplies with cash.

Issued 400 shares of stock for \$45 per share.

Ordered supplies at a cost of \$8,000.

Paid a utility bill for \$1,000.

If the Cash account had a beginning balance of \$20,000, what was the balance at the end of the month?

- A) \$22,600
- B) \$25,400
- C) \$33,400
- D) \$40,600

90) Which of the following requires a credit?

- A) Decreases in liabilities
- B) Decreases in stockholders' equity
- C) Increases to assets
- D) Increases to liabilities

91) In addition to requiring that the accounting equation remain in balance, the double-entry system also requires that:

- A) the number of asset accounts must equal the number of liability and stockholder's equity accounts.
- B) for any transaction, only two accounts are affected.
- C) for any transaction, both sides of the accounting equation are affected.
- D) the total dollar amount of debits must equal the total dollar amount of credits.

92) Which of the following statements regarding debits and credits is always correct?

- A) Debits decrease accounts while credits increase them.
- B) The total value of all debits recorded in the ledger must equal the total value of all credits recorded in the ledger.
- C) The total value of all debits to a particular account must equal the total value of all credits to that account.
- D) The normal balance for an account is the side on which it decreases.

93) Accounts Payable had a balance of \$9,100 at the beginning of the month. During the month, three debits in the amounts of \$2,350, \$5,650, and \$7,400 were posted to Accounts Payable, and three credits in the amounts of \$1,800, \$4,750, and \$6,350 were posted to Accounts Payable.

What is the ending balance of the Accounts Payable account?

- A) \$6,600
- B) \$2,500
- C) \$11,600
- D) \$24,500

94) How do debits appear in a T-account?

- A) They are listed on the left side for asset accounts, but listed on the right side for liabilities and stockholders' equity accounts.
- B) They are always listed on the right side of the account.
- C) They are always listed on the left side of the account.
- D) They are listed on the right side for asset accounts, but listed on the left side for liabilities and stockholders' equity accounts.

95) Within the debit/credit framework, the best interpretation of the word "credit" is:

- A) left side of an account.
- B) increase side of an account.
- C) right side of an account.
- D) decrease side of an account.

96) The Accounts Payable account:

- A) has a normal credit balance.
- B) is increased by a debit.
- C) is an asset.
- D) is increased when a company receives cash from customers.

97) The Accounts Receivable account:

- A) has a normal credit balance.
- B) is increased by a debit.
- C) is a liability.
- D) is increased when a company receives cash from its customers.

98)

Cash	
Beginning Balance	371,700
(a)	44,100
(b)	114,900
	(c) 18,000
	(d) 17,400
	(e) 22,200
	(f) 36,000
	(g) 33,600

What is the ending balance of the Cash account?

- A) \$657,900
- B) \$339,900
- C) \$85,500
- D) \$403,500

99)

		Cash	
Beginning Balance	371,700		
(a)	44,100	(c)	18,000
(b)	114,900	(d)	17,400
		(e)	22,200
		(f)	36,000
		(g)	33,600

In the T-account above:

A) (a) and (b) are credits.

B) (c) through (g) are debits.

C) if the sum of (a) and (b) is less than the sum of (c) through (g), the Cash account balance will increase.

D) (a) and (b) are increases.

100) A debit would make which of the following accounts increase?

A) Common Stock

B) Inventory

C) Notes Payable

D) Retained Earnings

101) Cash had a beginning balance of \$206,700. During the month, Cash was credited for \$48,000 and debited for \$54,900. At the end of the month, the balance is:

A) \$213,600 credit.

B) \$213,600 debit.

C) \$199,800 debit.

D) \$199,800 credit.

102) Which of the following statements about normal account balances is correct?

A) Assets have debit balances and liabilities have credit balances.

B) Assets and liabilities have credit balances.

C) Assets have credit balances and liabilities have debit balances.

D) Assets and liabilities have debit balances.

103) For both accounts and amounts, the standard formatting for a journal entry lists:

A) credits first and then debits, both aligned to the left.

B) credits first and then debits, indented underneath.

C) debits first and then credits, both aligned to the right.

D) debits first and then credits, indented to the right underneath.

104) The standard formatting for a journal entry lists the dollar amounts for:

A) credits underneath and to the right of the dollar amounts for debits.

B) debits and credits aligned equally to the right.

C) debits underneath and to the right of the dollar amounts for credits.

D) debits and credits aligned equally to the left.

- 105) Which of the following statements about the debit/credit framework is correct?
- A) Stockholders' Equity = Assets + Liabilities.
 - B) The total value of credits in all accounts must always equal the total value of debits in all accounts.
 - C) The normal balance for an account is the side on which it decreases.
 - D) A decrease in Common Stock would be recorded with a credit.
- 106) The normal balance of any account is the:
- A) left side.
 - B) right side.
 - C) side which increases that account.
 - D) side which decreases that account.
- 107) A company started the year with a normal balance of \$136,000 in the Inventory account. During the year, debits totaling \$90,000 and credits totaling \$110,000 were posted to the Inventory account. Which of the following statements about the Inventory account is correct?
- A) The normal balance of the Inventory account is a credit balance.
 - B) After these amounts are posted, the balance in the Inventory account is a credit balance of \$116,000.
 - C) The Inventory account is decreased by debits.
 - D) The debits and credits posted to the Inventory account caused it to decrease by \$20,000.
- 108) Which of the following statements about the debit/credit framework is correct?
- A) All asset accounts have a normal debit balance with the exception of cash, which has a normal credit balance.
 - B) The Common Stock account is increased by debits.
 - C) When payment is made on a liability such as accounts payable, the liability account is decreased with a debit.
 - D) The total amount of asset accounts must equal the total amount of liability accounts minus the total amount of stockholders' equity accounts.
- 109) A company purchased equipment for use in the business at a cost of \$36,000, one-fourth was paid in cash, and the company signed a note for the balance. The journal entry to record this transaction will include a:
- A) debit to Notes Payable of \$27,000.
 - B) debit to Cash of \$36,000.
 - C) credit to Notes Payable of \$27,000.
 - D) debit to Equipment of \$9,000.
- 110) Which account would be decreased with a credit?
- A) Retained Earnings
 - B) Accounts Receivable
 - C) Common Stock
 - D) Notes Payable

111) Which account would be increased with a debit?

- A) Supplies
- B) Accounts Payable
- C) Common Stock
- D) Retained Earnings

112) Shaylee, Inc. borrowed \$62,000 from a bank, depositing those funds in its bank account and signing a formal agreement to repay the loan in two years. What is the correct journal entry for this transaction?

- A) Debit notes payable and credit cash for \$62,000
- B) Debit notes payable and debit cash for \$62,000
- C) Credit notes payable and credit cash for \$62,000
- D) Debit cash and credit notes payable for \$62,000

113) A company borrows money from a bank. The journal entry to record the transaction would include a:

- A) credit to Notes Payable and debit to Common Stock.
- B) debit to Cash and a credit to Notes Payable.
- C) debit to Cash and a credit to Common Stock.
- D) credit to Cash and a debit to Notes Payable.

114) If a company pays back money borrowed from a bank, which of the following would be included in the journal entry to record this transaction?

- A) Credit Notes Payable and debit Common Stock
- B) Debit Cash and credit Notes Payable
- C) Debit Cash and credit Common Stock
- D) Credit Cash and debit Notes Payable

115) Carol Co. has total debits in its cash T-account of \$155,000 and total credits of \$120,000. The balance in the cash T-account is a:

- A) debit of \$155,000.
- B) debit of \$35,000.
- C) credit of \$120,000.
- D) credit of \$35,000.

116) Forrest Industries has the following information in regard to its Cash account for the month of August. The account had a normal balance of \$62,500 on August 1. During August, it had three debit entries totaling \$250,000. The balance in the Cash account on August 31 was \$112,500. What was the total of the credit entries to the Cash account during the month of August?

- A) \$50,000
- B) \$112,500
- C) \$200,000
- D) \$300,000

117) Which of the following statements about the debit/credit framework is correct?

- A) Asset and liability accounts have a normal debit balance.
- B) To debit an account means to increase it.
- C) Common Stock has a normal credit balance.
- D) To credit an account means to decrease it.

118) Which of the following statements about transaction analysis is correct?

- A) Transactions are analyzed from the standpoint of the owners.
- B) All business activities are considered to be accounting transactions.
- C) The transaction amount is determined for each exchange based on the cost of the items given and received.
- D) A business needs journal entries only to show how transactions affect the balance sheet.

119) Which of the following statements about liabilities is not correct?

- A) Liabilities are amounts owed by a business.
- B) Liability accounts have a normal credit balances.
- C) Financing activities may affect the amount of liabilities.
- D) Examples of liabilities include Notes Payable, Common Stock, and Income Tax Payable.

120) Each account is assigned a number; this listing of all accounts is called a:

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

121) Baldwin Company purchased equipment for \$420,000 and planned to use it when the company expanded one of its product lines. However, six months later, the company changed its plans and sold the equipment to Stick, Inc. for \$420,000. Stick signed a note for \$420,000 that is due in 60 days. The journal entry prepared by Baldwin Company to record the sale of the equipment would include which of the following?

- A) Credit to Note Receivable
- B) Debit to Cash
- C) Credit to Equipment
- D) Debit to Accounts Payable

122) B. Darin Company issued common stock to investors and received \$50,000. Which of the following statements about this transaction is correct?

- A) This is an example of a cash inflow from an investing activity.
- B) The journal entry to record this transaction will include a credit to Cash.
- C) This is an example of a cash outflow from a financing activity.
- D) The journal entry to record this transaction will include a credit to Common Stock.

123) Transactions are first entered in the:

- A) ledger.
- B) journal.
- C) T-accounts.
- D) chart of accounts.

124) T-accounts represent a simplified version of the:

- A) ledger.
- B) journal.
- C) trial balance.
- D) financial statements.

125) A ledger is used to:

- A) show increases and decreases in individual accounts, as well as the ending balance.
- B) report the results of operations to stockholders, creditors, and managers.
- C) prove that debits equal credits.
- D) make a balance sheet unnecessary.

126) When a company purchases an asset but only pays for a portion of it and owes the remainder, which of the following is true?

- A) The asset is debited for the amount paid plus the amount owed.
- B) The asset is debited for the amount paid. The amount owed will be debited to the asset once paid.
- C) The asset is credited for the amount paid plus the amount owed.
- D) The asset is credited for the amount paid. The amount owed will be debited to the asset once paid.

127) The journal entry to record the purchase of supplies on account includes a credit to:

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

128) On September 5, Heidi Co., purchases \$87,000 of supplies; payment is not required until October 4. What action should be taken by Heidi on September 5?

- A) No journal entry is required; this transaction should not be recorded until the payment is made.
- B) A journal entry that includes a credit to Accounts Payable should be prepared.
- C) A journal entry that includes a debit to Accounts Payable should be prepared.
- D) A journal entry that includes a debit to Prepaid Expenses should be prepared.

129) A company uses \$100,000 in cash to pay off \$100,000 in notes payable. This would result in a:

- A) \$100,000 debit to Notes Payable and a \$100,000 credit to Cash.
- B) \$100,000 credit to Cash and a \$100,000 credit to Notes Payable.
- C) \$100,000 debit to Cash and a \$100,000 credit to Notes Payable.
- D) \$100,000 debit to Cash and a \$100,000 debit to Notes Payable.

130) Purrfect Pets, Inc., makes a \$10,000 payment on account. This would result in a:

- A) \$10,000 credit to Cash and a \$10,000 credit to Accounts Payable.
- B) \$10,000 debit to Cash and a \$10,000 debit to Accounts Payable.
- C) \$10,000 debit to Accounts Payable and a \$10,000 credit to Cash.
- D) \$10,000 debit to Cash and a \$10,000 credit to Accounts Payable.

131) Slug, Inc. purchases equipment for \$1,200,000 million paying \$180,000 in cash and issuing \$1,020,000 in promissory notes. When the journal entry is posted to the related accounts:

- A) \$1,200,000 will be credited and \$180,000 will be debited to asset accounts; \$1,020,000 will be debited to liability accounts.
- B) \$1,200,000 will be debited to asset accounts; \$1,020,000 will be credited to liability accounts.
- C) \$1,200,000 will be debited and \$180,000 will be credited to asset accounts; \$1,020,000 will be credited to liability accounts.
- D) \$1,200,000 will be credited to asset accounts; \$1,200,000 will be debited to liability accounts.

132) Consider the following journal entry:

Software	18,000	
Cash		7,200
Note Payable		10,800

Which of the following explanations best describes this journal entry?

- A) The company buys \$18,000 of software, pays cash of \$7,200, and signs a note for \$10,800.
- B) The company receives \$7,200 in cash and \$10,800 in notes payable in exchange for selling \$18,000 of software.
- C) The company buys \$18,000 of software, pays \$7,200 cash, and promises to cancel a debt owed to the company in the amount of \$10,800.
- D) The company sells \$18,000 of software, receives \$7,200 in cash, and pays off \$10,800 it owes on the software.

133) Which of the following is a report for internal use only?

- A) Balance sheet
- B) Statement of financial position
- C) Trial balance
- D) Classified balance sheet

134) Which of the following would cause a trial balance to be out of balance?

- A) A transaction was recorded twice.
- B) A transaction was not recorded.
- C) A transaction was posted to the wrong accounts.
- D) Only the credit portion of a transaction was recorded.

135) Assume a company only entered into financing and investing activities and has prepared its journal entries and posted them to T-accounts. How would the related account balances be listed on its trial balance?

- A) Credits first, followed by debits
- B) Debits first, followed by credits
- C) Alphabetically
- D) In descending order by dollar amount

136) All of the following would be classified as current on a classified balance sheet except:

- A) Common Stock.
- B) Cash.
- C) Accounts Payable.
- D) Supplies.

137) Broadway, Inc.'s trial balance was in balance at the end of the period and showed the following accounts:

Account	Balance
Accounts Payable	\$ 30,600
Cash	62,100
Common Stock	30,000
Equipment	13,500
Land	45,000
Notes Payable	60,000

What is the balance of the credit column on Broadway's trial balance?

- A) \$241,200
- B) \$120,600
- C) \$90,600
- D) \$90,000

138) The following account balances were listed on the trial balance of Edgar Company at the end of the period:

Account	Balance
Accounts Payable	\$ 30,600
Cash	48,900
Common Stock	30,000
Equipment	13,500
Land	45,000
Notes Payable	60,000

The company's trial balance is not in balance and the company's accountant has determined that the error is in the cash account. What is the correct balance in the cash account?

- A) \$57,900
- B) \$31,500
- C) \$2,100
- D) \$62,100

139) In a classified balance sheet, assets and liabilities are classified according to whether they are current or noncurrent. Which of the following statements is not correct about current assets?

- A) They will be acquired within one year.
- B) They will be converted to cash within one year.
- C) They will be sold within one year.
- D) They will be used up within one year.

140) With a classified balance sheet, current assets are usually listed:

- A) in alphabetical order.
- B) in the order of when the assets were acquired.
- C) from the largest to smallest dollar amount.
- D) in the order of liquidity.

141) Which one of the following is not a current asset?

- A) Cash
- B) Supplies
- C) Equipment
- D) Prepaid Insurance

142) Which of the following would be listed as a current liability?

- A) Cash
- B) Notes Payable (due in two years)
- C) Supplies
- D) Accounts Payable

143) A noncurrent liability is one that the company:

- A) has owed for over one year.
- B) has owed for over five years.
- C) will not pay within 12 months.
- D) will not pay within five years.

144) A current asset is one that the company:

- A) has owned for over one year.
- B) has owned for over five years.
- C) will use up or convert into cash in less than 12 months.
- D) has updated to reflect its current value.

145) At the start of the first year of operations, Retained Earnings would be:

- A) equal to zero.
- B) equal to Common Stock.
- C) equal to stockholders' equity.
- D) equal to the Net Income.

146) Current liabilities are expected to be:

- A) converted to cash within one year.
- B) fulfilled within one year.
- C) used in the business within one year.
- D) acquired within one year.

147) Assets are listed on a classified balance sheet:

- A) in alphabetical order.
- B) from the largest dollar amount to the lowest dollar amount.
- C) beginning with noncurrent assets and ending with current assets.
- D) beginning with current assets and starting with Cash.

148) Which of the following would not be classified as a current asset?

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

149) Which of the following would be classified as a noncurrent liability on the balance sheet at December 31, Year 1?

- A) An accounts payable due on January 30, Year 2
- B) A notes payable due November 30, Year 2
- C) A note receivable that matures on April 30, Year 3
- D) A notes payable due January 15, Year 3

150) Constable Co. reported the following information at December 31, Year 1:

Accounts Payable	\$ 6,750
Accounts Receivable	14,025
Cash	35,235
Common Stock	135,000
Equipment	74,250
Inventory	46,800
Notes Payable due December 31, Year 3	3,750
Retained Earnings, December 31, Year 1	21,135
Wages Payable	3,675

What is the amount of current assets on the classified balance sheet?

- A) \$170,310
- B) \$96,060
- C) \$49,260
- D) \$123,255

151) Constable Co. reported the following information at December 31, Year 1:

Accounts Payable	\$ 6,750
Accounts Receivable	14,025
Cash	35,235
Common Stock	135,000
Equipment	74,250
Inventory	46,800
Notes Payable due December 31, Year 3	3,750
Retained Earnings, December 31, Year 1	21,135
Wages Payable	3,675

What is the amount of current liabilities on the classified balance sheet?

- A) \$14,175
- B) \$10,425
- C) \$170,310
- D) \$6,750

152) Constable Co. reported the following information at December 31, Year 1:

Accounts Payable	\$ 6,750
Accounts Receivable	14,025
Cash	35,235
Common Stock	135,000
Equipment	74,250
Inventory	46,800
Notes Payable due December 31, Year 3	3,750
Retained Earnings, December 31, Year 1	21,135
Wages Payable	3,675

What is the total of the credit balance accounts?

- A) \$166,560
- B) \$156,135
- C) \$170,310
- D) \$162,885

153) Which of the following statements about the balance sheet is correct?

- A) A classified balance sheet is one that contains privileged information.
- B) Current liabilities are debts and other obligations that will be paid or fulfilled within 12 months of the balance sheet date.
- C) All companies use the chart of account names defined by the Financial Accounting Standards Board (FASB).
- D) A balance sheet is prepared for a period of time.

- 154) Which of the following statements about the balance sheet is correct?
- A) An item on a balance sheet that is labeled as "payable" is a liability of that company.
 - B) Assets are listed on the balance sheet in alphabetical order.
 - C) The balance sheet balances when assets plus liabilities equal stockholders' equity.
 - D) The balance sheet proves that asset debits = liability credits.

- 155) Which of the following statements regarding posting and classification is correct?
- A) Posting journal entries involves copying the dollar amounts from the ledger into the journal.
 - B) If a \$100 debit is erroneously posted to an account as a \$100 credit, the accounts will be out of balance by \$100.
 - C) If a \$5,000 credit to a stockholders' equity account is misclassified as a \$5,000 credit to a liability, the accounting equation will still balance.
 - D) If a purchase of supplies on account for \$100 is recorded with a debit to Supplies of \$10 and a credit to Accounts Payable for \$10, the accounting equation will not balance.

156)

PURRFECT PETS, INC.			
Balance Sheet			
at June 30, Year 1			
Assets		Liabilities	
Cash	\$ 732,600	Accounts Payable	\$ 349,200
Accounts Receivable	419,200	Notes Payable due June 30, Year 3	268,900
Supplies	58,400	Total Liabilities	<u>618,100</u>
Equipment	118,500		
Other Assets	<u>69,400</u>	Stockholders' Equity	
		Common Stock	662,100
		Retained Earnings	<u>117,900</u>
		Total Stockholders' Equity	<u>780,000</u>
Total Assets	<u>\$ 1,398,100</u>	Total Liabilities & Stockholders' Equity	<u>\$ 1,398,100</u>

Which line items would be classified as noncurrent on a classified balance sheet?

- A) Cash; Supplies; Accounts Payable
- B) Equipment; Other Assets; Notes Payable
- C) Supplies; Equipment; Notes Payable
- D) Accounts Receivable; Equipment; Other Assets

157)

PURRFECT PETS, INC.

Balance Sheet

at June 30, Year 1

Assets		Liabilities	
Cash	\$ 732,600	Accounts Payable	\$ 349,200
Accounts Receivable	419,200	Notes Payable due June 30, Year 3	268,900
Supplies	58,400	Total Liabilities	<u>618,100</u>
Equipment	118,500	Stockholders' Equity	
Other Assets	<u>69,400</u>	Common Stock	662,100
		Retained Earnings	<u>117,900</u>
		Total Stockholders' Equity	<u>780,000</u>
Total Assets	<u>\$ 1,398,100</u>	Total Liabilities & Stockholders' Equity	<u>\$ 1,398,100</u>

How much financing did the stockholders of Purrfect Pets, Inc., directly contribute to the company?

- A) \$117,900
- B) \$662,100
- C) \$780,000
- D) \$1,398,100

158) Which of the following sequences indicates the correct order of steps in the accounting cycle?

- A) Post to ledger, prepare journal entries, prepare trial balance, and prepare financial statements.
- B) Post to ledger, prepare journal entries, prepare financial statements, and prepare trial balance.
- C) Prepare journal entries, post to ledger, prepare trial balance, and prepare financial statements.
- D) Prepare journal entries, post to ledger, prepare financial statements, and prepare trial balance.

159) T-account:

Accounts Receivable		
Beg. Bal.	187,500	
	104,900	18,000
	63,900	5,400
		14,700
		19,200

Partial list of account balances at the end of the year:

Cash	\$	28,000
Accounts Receivable		Unknown
Equipment		35,600
Accounts Payable		5,900

The amount of total current assets that will be reported on the company's balance sheet at the end of the year is:

- A) \$362,600.
- B) \$368,500.
- C) \$139,500.
- D) \$327,000.

160) T-account:

Accounts Receivable		
Beg. Bal.	187,500	
	104,900	18,000
	63,900	5,400
		14,700
		19,200

Partial list of account balances at the end of the year:

Cash	\$	28,000
Accounts Receivable		Unknown
Equipment		35,600
Accounts Payable		5,900

Which of the following is an accurate description of the economic events involving Accounts Receivable as documented in the T-account above?

- A) Sales to customers on account exceeded the payments received from customers on account.
- B) Payments received from customers on account exceeded the sales made to customers on account.
- C) The company paid off its debt more than it incurred new debt.
- D) The company incurred more debt than it paid off.

161) Which of the following statements about transaction analysis is not correct?
A) A transaction is an exchange or event that has a direct and measurable financial effect.
B) Every transaction has at least two effects.
C) Cash is the account credited when a bank loan is repaid.
D) Notes Payable is the account debited when money is borrowed from a bank using a promissory note.

162) What does the current ratio measure?
A) The relative proportion of current versus noncurrent assets
B) Whether current assets are sufficient to pay current liabilities
C) The speed which current assets can be converted to cash
D) Whether cash is sufficient to pay current liabilities

163) The current ratio:
A) is a measure of a firm's ability to pay its current liabilities.
B) equals current liabilities divided by current assets.
C) equals total assets divided by total liabilities.
D) is a measure of profitability.

164) Which of the following statements about the concepts underlying the balance sheet is correct?
A) A company bought land for \$5 million dollars 10 years ago. The land is now worth \$15 million. The company should increase the book value of this asset on its balance sheet to reflect its current value.
B) All events affecting the current value of a company are reported on the balance sheet.
C) According to the cost principle, assets are valued at their replacement cost.
D) If an asset's value increases, the increase in value is generally not recorded under GAAP.

165) In Year 2, the Denim Company bought an acre of land that cost \$15,000. In Year 5, another company purchased a nearby acre of land for \$28,000 and a different company purchased another nearby acre of land for \$26,000. As a result, an appraiser estimated that the acre owned by Denim had increased in value to \$27,000. If Denim prepares a balance sheet at the end of Year 5, the acre of land that it owns should be reported at:
A) \$15,000.
B) \$28,000.
C) \$27,000.
D) the average of all of the amounts.

166) How will a company's current ratio be affected by the purchase of equipment for cash?
A) The current ratio will increase because current assets increase.
B) The current ratio will decrease because current liabilities increase.
C) The current ratio will decrease because current assets decrease.
D) The current ratio will remain unchanged.

167) How will a company's current ratio be affected when the company receives \$20,000 from owners and issues common stock to them?

- A) The current ratio will increase because current assets increase.
- B) The current ratio will increase because current liabilities decrease.
- C) There will be no change in the company's current ratio.
- D) The current ratio will decrease because current liabilities increase.

168) Your company's president donates a large amount of her own money to charity and receives significant publicity that includes the company's name. How would the benefits of this publicity appear on the balance sheet?

- A) It would appear as a current asset.
- B) It would appear as Common Stock.
- C) It would appear as a noncurrent asset.
- D) It would not appear on the balance sheet.

169) Which of the following would a company be most likely to overstate if the company was trying to mislead potential creditors as to its ability to pay debts as they become due?

- A) Accounts Receivable
- B) Notes Payable
- C) Salaries Expense
- D) Accounts Payable

170) Which concept should be applied when reporting a piece of land that was bought for \$50,000 five years ago, and which would probably now sell for \$80,000?

- A) The cost principle
- B) The accounting equation
- C) The separate entity concept
- D) The monetary concept

171) The classified balance sheet for a company reported current assets of \$811,925, total liabilities of \$399,770, Common Stock of \$500,000, and Retained Earnings of \$65,130. The current ratio was 2.5.

What is the total amount of noncurrent assets?

- A) \$246,795
- B) \$412,155
- C) \$324,770
- D) \$152,975.

172) The classified balance sheet for a company reported current assets of \$811,925, total liabilities of \$399,770, Common Stock of \$500,000, and Retained Earnings of \$65,130. The current ratio was 2.5.

What is the total amount of current liabilities?

- A) \$324,770
- B) \$2,029,813
- C) \$385,960
- D) \$399,770

173) The classified balance sheet for a company reported current assets of \$811,925, total liabilities of \$399,770, Common Stock of \$500,000, and Retained Earnings of \$65,130. The current ratio was 2.5.

Which of the following statements is not correct?

- A) Total Assets are \$964,900.
- B) Total Stockholders' equity is \$565,130.
- C) Noncurrent liabilities are \$65,130.
- D) The amount of current assets is 2.5 times the amount of current liabilities.

174) Which of the following statements about the current ratio is not correct?

- A) When making comparisons across companies, it's far easier to express the relationship as a ratio.
- B) The current ratio is used to evaluate a company's ability to pay current obligations.
- C) Having more current assets than current liabilities will yield a current ratio less than 1.0.
- D) A high current ratio suggests good liquidity.

175) A company's trial balance included the following account balances:

Accounts Payable	\$ 19,207
Accounts Receivable	81,336
Cash	73,324
Income Tax Payable	3,512
Inventory	25,816
Note Payable, due in two years	1,709
Equipment	54,128
Stockholders' Equity	202,808
Supplies	5,512
Wages Payable	12,880

What is the amount of Total Assets on the Balance Sheet?

- A) \$240,116
- B) \$214,300
- C) \$442,924
- D) \$480,232

176) A company's trial balance included the following account balances:

Accounts Payable	\$ 19,207
Accounts Receivable	81,336
Cash	73,324
Income Tax Payable	3,512
Inventory	25,816
Note Payable, due in two years	1,709
Equipment	54,128
Stockholders' Equity	202,808
Supplies	5,512
Wages Payable	12,880

What is the amount of Total Liabilities on the Balance Sheet?

- A) \$240,116
- B) \$37,308
- C) \$35,599
- D) \$20,916

177) A company's trial balance included the following account balances:

Accounts Payable	\$ 19,207
Accounts Receivable	81,336
Cash	73,324
Income Tax Payable	3,512
Inventory	25,816
Note Payable, due in two years	1,709
Equipment	54,128
Stockholders' Equity	202,808
Supplies	5,512
Wages Payable	12,880

What is the amount of the current ratio? **(Round your answer to 2 decimal places.)**

- A) 8.05
- B) 6.44
- C) 5.22
- D) 1.00

178) Oats, Inc., has \$14,000 in Cash, \$37,000 in Accounts Receivable, \$2,500 in Supplies, \$52,000 in Accounts Payable and \$12,400 in Wages Payable. If Oats uses Cash to pay off \$8,000 of the Wages Payable, which of the following statements is correct?

- A) The company's current ratio will not change since current assets decreased by the same amount that current liabilities decreased.
- B) The company will look more favorable to creditors.
- C) The company has a greater ability to pay current liabilities.
- D) The company's current ratio will decrease.

179) Which of the following statements is correct?

- A) A current ratio of 1.60 means the company's current assets are probably not sufficient to pay its current liabilities.
- B) The separate entity assumption requires that the financial activities of the owners of a company be reported on the company's balance sheet.
- C) The cost principle states that recording activities at cost will result in the balance sheet representing the true value of the company.
- D) A transaction is recorded if it has a measurable financial effect on the assets, liabilities or stockholders' equity of a business.

180) Which of the following is an example of proper accounting when it comes to reporting values on a company's balance sheet?

- A) X Company reported its land at the amount it could be sold for on the balance sheet date, which is higher than the original cost of the land.
- B) X Company reported its damaged equipment at an amount lower than it originally cost.
- C) X Company reported its inventory at its current market value, which is higher than its original cost.
- D) X Company reported its notes receivable at the amount it originally loaned to employees, some of whom have since been laid off.

181) Consider the following account balances of Evan McGruder, Inc., as of December 31, Year 3:

Accounts Payable	\$ 298,500	Retained Earnings	136,750
Equipment	1,054,000	Notes Payable, due Year 5	858,000
Common Stock	500,000	Accounts Receivable	506,250
Income Tax Payable	9,750	Cash	242,750

Required:

Prepare a classified balance sheet at December 31, Year 3.

182) Selected accounts for Moonbills Corporation appear below.

Required:

For each account, indicate the following:

Part a. In the first column at the right, indicate the nature of each account, using the following abbreviations: Asset – A, Liability – L, Stockholders' Equity – SE.

Part b. In the second column, indicate the normal balance by inserting *dr* (for debit) or *cr* (for credit).

	(Part a) Type of Account	(Part b) Normal Balance
1. Supplies		
2. Notes Payable		
3. Income Tax Payable		
4. Equipment		
5. Accounts Payable		
6. Accounts Receivable		
7. Common Stock		
8. Cash		
9. Retained Earnings		
10. Land		

183) Grizzly Co. enters into the following transactions:

Stockholders contribute \$25,000 cash to a company in exchange for common stock.

The company purchases \$12,500 of new equipment in exchange for its promise to pay \$12,500 at the end of next month.

The company pays \$7,500 to suppliers on account.

Required:

Part a. Show the effect of these transactions on the basic accounting equation.

Part b. Prepare the journal entries that would be used to record the transactions.

184) The following is a list of account balances for Pick-A-Pet, Inc., as of June 30, Year 3:

Accounts Payable	\$ 349,200
Accounts Receivable	419,200
Cash	732,600
Common Stock	662,100
Equipment	58,400
Logo and Trademarks	421,600
Notes Payable	268,900
Retained Earnings	470,100
Software	118,500

The company entered into the following transactions during July, Year 3. Stockholders contribute \$300,000 cash for additional ownership shares and the company borrows \$150,000 in cash from a bank to buy new equipment at a later date. No other transactions took place during July, Year 3.

Required:

Part a. Prepare a classified balance sheet for the company at June 30, Year 3.

Part b. Show the effects of the July transactions on the basic accounting equation.

Part c. Prepare the journal entries that would be used to record the transactions.

185) During the month, a company enters into the following transactions:

- Borrows \$3,200 of cash from the bank by signing a formal agreement to repay the loan in 2 years.

- Buys \$4,000 of new equipment on account.

- Pays off \$2,400 of accounts payable.

- Pays off \$1,200 of notes payable

Required:

Part a. Show the effect of these transactions on the basic accounting equation.

Part b. Prepare the journal entries that would be used to record the transactions.

186) O'Brien Construction had the following business activities:

1. Stockholders invest \$50,000 cash in the corporation.
2. CBI purchased \$800 of office supplies on credit.
3. CBI purchased office equipment for \$14,000, paying \$5,000 in cash and signing a 30-day note payable for the remainder.
4. CBI paid \$400 cash on account for office supplies purchased in transaction 2.
5. CBI purchased two acres of land for \$20,000, signing a 2-year note payable.
6. CBI sold one acre of land at one-half of the total cost of the two acres, receiving the full amount or \$10,000 in cash.
7. CBI made a payment of \$10,000 on its 2-year note.

Required:

Prepare the journal entries that would be used to record the transactions. (*Reference each journal entry to the transaction number, shown above.*)

187) The company's total assets are \$36,000. The following is a listing of the company's accounts and account balances as of December 31, Year 3. This company doesn't have any other accounts.

Accounts Payable	\$	7,000
Accounts Receivable		8,000
Supplies		1,000
Equipment		22,000
Common Stock		10,000
Cash		Unknown
Retained Earnings		Unknown

Required:

Part a. Determine the balance of the Cash account.

Part b. Determine the balance of the Retained Earnings account.

Listed below are components of several transactions. Indicate whether a debit (dr) or credit (cr) would be required to record the component of the transaction.

- A) cr
- B) dr

188) Increase in Cash.

189) Increase in Accounts Payable.

190) Decrease in Notes Payable.

191) Increase in Inventory.

192) Increase in Common Stock.

193) Decrease in Equipment.

Match each account name with the category that it would be included under in a classified balance sheet.

- A) NCA — Noncurrent Asset
- B) CL — Current Liability
- C) SE — Stockholders' Equity
- D) CA — Current Asset

194) Equipment

195) Common Stock

196) Supplies

197) Retained Earnings

198) Accounts Receivable

199) Accounts Payable

For each of the following, indicate how the event would most likely be categorized.

- A) NT — No Transaction
- B) EE — External Exchange
- C) IE — Internal Event

200) A company sells \$2 million in goods for immediate payment.

201) The company uses up office supplies.

202) The stock market rises 10% and the value of a company's stock increases.

203) A company pays cash to an inventor for the legal rights to produce a new product.

204) Management promises to pay workers an overtime bonus as required by their union contract.

205) A company uses up supplies to manufacture a product.

206) A company receives \$1 million in orders but no down payments.

Match the term with its definition. (There are more definitions than terms.)

- A) The abbreviation for an item posted on the left side of a T-account.
- B) A balance sheet that has not yet been publicly released.
- C) A transaction that is triggered automatically merely by the passage of time.
- D) When a company becomes included in the Fortune 500.
- E) The account credited when cash is received in exchange for stock issued.
- F) The value of a company's public relations campaign.
- G) An event that has no effect on the balance sheet and is not recorded in the financial statements.
- H) A balance sheet that has assets and liabilities categorized as current vs. noncurrent.
- I) Amounts owed to suppliers for goods or services bought on credit.
- J) The abbreviation for an item posted on the right side of a T-account.
- K) An exchange or event that has a direct impact on a company's financial statements.
- L) Liabilities divided by assets.
- M) Another name for stockholders' equity or shareholders' equity.
- N) A method of recording a transaction in debit/credit format.
- O) The expression that assets must equal liabilities plus stockholders' equity.

207) dr

208) cr

209) Classified Balance Sheet

210) Common Stock

211) Accounting Equation

212) Transaction

213) Accounts Payable

214) Journal Entry

Match the term with its definition. (There are more definitions than terms.)

- A) A summary of account names and numbers.
- B) A simplified version of an account in the General Ledger.
- C) Compares balance sheet items from two different time periods.
- D) When a dollar value is assigned to an item recorded in the accounting system.
- E) A journal entry that lowers the balance of the account.
- F) An amount that is posted on the left side of a T-account or ledger.
- G) The concept that a company must keep separate accounts by time period.
- H) An amount that is posted on the right side of a T-account or ledger.
- I) Assets are initially recorded at the amount paid to acquire them.
- J) When journal entries are recorded in the appropriate T-account or ledger.
- K) When a company's balance sheet has been verified by an outside auditor.
- L) The principle that a company should use the least optimistic measure, when uncertainty exists.
- M) The concept that any transaction must have at least two effects on the accounting equation.
- N) The mechanism used to record each transaction in the General Journal.

215) Duality Of Effects

216) Journal Entry

217) Posting

218) Debit

219) Chart Of Accounts

220) T-Account

221) Credit

222) Cost Principle

223) On January 1, Year 3, Wayfarer Co.'s assets were \$240,000 and its stockholders' equity was \$112,000. During the year, assets increased \$12,000 and liabilities decreased \$8,000.

Required:

Determine the amount of stockholders' equity at December 31, Year 3.