

## **Chapter 2: Haddock, College Accounting: A Contemporary Approach, 5e**

### **Questions and Answers to Section Reviews**

#### **Chapter 2: Section 1 Review**

#### **QUESTIONS**

1. A business transaction is:
  - a.** any financial event that changes the resources of the firm.
  - b.** any financial event that changes the ownership of the firm.
  - c.** any non-financial event that changes the resources of the firm.
  - d.** any non-financial event that changes the ownership of the firm.

Answer: A

Difficulty: 1 Easy

Learning Objective: 02-01

Topic: Property and Financial Interest

Blooms: Remember

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

2. Which transaction below increases an asset and the owner's equity?
  - a.** a purchase of equipment on credit.
  - b.** a purchase of equipment with cash.
  - c.** payment of rent with cash.
  - d.** a sale of merchandise on credit.

Answer: D

Difficulty: 2 Medium

Learning Objective: 02-02

Topic: Property and Financial Interest

Blooms: Understand

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

3. Amounts that a business must pay in the future are known as:
  - a.** accounts receivable.

- b. revenue.
- c. expense.
- d. accounts payable.

Answer: D

Difficulty: 1 Easy

Learning Objective: 02-01

Topic: Property and Financial Interest

Blooms: Remember

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

4. Elizabeth Tolliver purchased a computer for \$6,700 on account for her business. What is the effect of this transaction?
- a. **Equipment** decrease of \$6,700 and **Accounts Payable** increase of \$6,700.
  - b. **Equipment** increase of \$6,700 and **Accounts Payable** increase of \$6,700.
  - c. **Equipment** increase of \$6,700 and **Cash** increase of \$6,700.
  - d. **Cash** decrease of \$6,700 and **Owner's Equity** increase of \$6,700

Answer: B

Difficulty: 1 Easy

Learning Objective: 02-01

Topic: Property and Financial Interest

Blooms: Remember

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

5. Pauline Palmer began a new business by depositing \$100,000 in the business bank account. She wrote two checks from the business account: \$20,000 for office furniture and \$5,000 for office supplies. What is her financial interest in the company?
- a. \$75,000
  - b. \$100,000
  - c. \$80,000
  - d. \$125,000

Answer: B  
Difficulty: 2 Medium  
Learning Objective: 02-01  
Topic: Property and Financial Interest  
Blooms: Understand  
AACSB: Analytical Thinking  
AICPA: BB Industry  
AICPA: FN Measurement

6. Oriental Rugs has no liabilities. The assets and owner's equity balances are as follows. What is the balance of *Supplies*?

Cash	\$150,000
Office Equipment	\$ 50,000
Supplies	????
Johnny Johnson, Capital	\$230,000

- a. \$15,000
- b. \$20,000
- c. \$30,000
- d. \$40,000

Answer: C  
Difficulty: 2 Medium  
Learning Objective: 02-01  
Topic: Property and Financial Interest  
Blooms: Understand  
AACSB: Analytical Thinking  
AICPA: BB Industry  
AICPA: FN Measurement

7. Precision Drilling has the following balances in its assets and liability accounts. What is the balance of *Avion Canada, Capital*?

Cash	\$175,000
Office Equipment	\$ 53,500
Accounts Payable	\$ 27,900
Avion Canada, Capital	????

- a. \$206,200
- b. \$200,600

- c. \$212,400
- d. \$216,200

Answer: B

Difficulty: 2 Medium

Learning Objective: 02-01

Topic: Property and Financial Interest

Blooms: Understand

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

8. Zena Brown has the following balances in its assets, liability, and owner's equity accounts. What is the balance of **Cash**?

Cash	???
Office Equipment	\$ 26,500
Accounts Payable	\$ 30,300
Zena Brown, Capital	\$115,700

- a. \$119,500
- b. \$146,000
- c. \$121,500
- d. \$156,000

Answer: A

Difficulty: 2 Medium

Learning Objective: 02-01

Topic: Property and Financial Interest

Blooms: Understand

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

## Chapter 2: Section 2 Review

### QUESTIONS

1. What affect do withdrawals have on the basic accounting equation?
  - a. increase the owner's equity in the business.
  - b. decrease the owner's equity in the business.
  - c. increase the liabilities of the business
  - d. have no effect on the basic accounting equation.

Answer: B

Difficulty: 1 Easy

Learning Objective: 02-03

Topic: The Accounting Equation and Financial Statements

Blooms: Remember

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

2. If an owner gives personal tools to the business, how is the transaction recorded?
  - a. This is not a transaction and is not recorded.
  - b. This is a decrease in the owner's equity in the business.
  - c. This is an additional investment by the owner recorded at the cost of the tools to the owner.
  - d. This is an additional investment by the owner recorded at the fair market value of the tools.

Answer: D

Difficulty: 1 Easy

Learning Objective: 02-05

Topic: The Accounting Equation and Financial Statements

Blooms: Remember

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

3. What information is included in the financial statement headings?
  - a. the owner's name (who); title of the statement (what); time period covered (when).
  - b. the firm's name (who); type of business (what); time period covered (when).
  - c. the firm's name (who); title of the statement (what); time period covered (when).

- d.** the firm's name (who); the industry of the business (what); time period covered (when).

Answer: C

Difficulty: 1 Easy

Learning Objective: 02-04

Topic: The Accounting Equation and Financial Statements

Blooms: Remember

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

4. Home Interiors has assets of \$120,000 and liabilities of \$45,000. What is the owner's equity?
- a.** \$25,000
  - b.** \$15,000
  - c.** \$75,000
  - d.** \$55,000

Answer: C

Difficulty: 2 Medium

Learning Objective: 02-03

Topic: The Accounting Equation and Financial Statements

Blooms: Understand

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

5. U Fix It Hardware had revenues of \$105,000 and expenses of \$60,000. How does this affect owner's equity?
- a.** \$90,000 increase
  - b.** \$45,000 increase
  - c.** \$165,000 decrease
  - d.** \$40,000 decrease

Answer: B

Difficulty: 2 Medium

Learning Objective: 02-03

Topic: The Accounting Equation and Financial Statements

Blooms: Understand

AACSB: Analytical Thinking  
AICPA: BB Industry  
AICPA: FN Measurement

6. What information is contained in the income statement?
- a.** revenues and expenses for a period.
  - b.** assets, liabilities, and owner's equity for a period.
  - c.** revenue and expenses on a specific date.
  - d.** assets, liabilities, and owner's equity on a specific date.

Answer: A  
Difficulty: 1 Easy  
Learning Objective: 02-04  
Topic: The Accounting Equation and Financial Statements  
Blooms: Remember  
AACSB: Analytical Thinking  
AICPA: BB Industry  
AICPA: FN Reporting

7. What information is contained on the balance sheet?
- a.** revenues and expenses for a period.
  - b.** assets, liabilities, and owner' equity for a period.
  - c.** revenue and expenses on a specific date.
  - d.** assets, liabilities, and owner's equity on a specific date

Answer: D  
Difficulty: 1 Easy  
Learning Objective: 02-05  
Topic: The Accounting Equation and Financial Statements  
Blooms: Remember  
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8. All the following information is contained on the statement of owner's equity except?
- a.** net income or net loss for the period.
  - b.** owner's equity at the beginning and end of the period.
  - c.** withdrawals and additional investments for the period.
  - d.** liabilities at the beginning and end of the period.

Answer: D  
Difficulty: 1 Easy  
Learning Objective: 02-05  
Topic: The Accounting Equation and Financial Statements  
Blooms: Remember  
AACSB: Analytical Thinking  
AICPA: BB Industry  
AICPA: FN Reporting