

Chapter 02 - Analyzing Transactions

True / False

1. Accounts are records of increases and decreases in individual accounting equation elements.

- a. True
- b. False

ANSWER: True

2. A chart of accounts is a listing of accounts that make up the journal.

- a. True
- b. False

ANSWER: False

3. The chart of accounts should be the same for each business.

- a. True
- b. False

ANSWER: False

4. Accounts payable are accounts that you expect will be paid to you.

- a. True
- b. False

ANSWER: False

5. Consuming goods and services in the process of generating revenues results in expenses.

- a. True
- b. False

ANSWER: True

6. Prepaid expenses are an example of an expense.

- a. True
- b. False

ANSWER: False

7. The Unearned Revenues account is an example of a liability.

- a. True
- b. False

ANSWER: True

8. The Dividends account is an expense.

- a. True
- b. False

ANSWER: False

9. Accounts in the ledger are usually maintained in alphabetical order.

- a. True
- b. False

Chapter 02 - Analyzing Transactions

ANSWER: False

10. Depending on the account title, the right side of the account is referred to as the credit side.

- a. True
- b. False

ANSWER: False

11. To determine the balance in an account, always subtract credits from debits.

- a. True
- b. False

ANSWER: False

12. An account in its simplest form has three parts to it: a title, an increase side, and a decrease side.

- a. True
- b. False

ANSWER: True

13. The T account got its name because it resembles the letter "T."

- a. True
- b. False

ANSWER: True

14. The right hand side of a T account is known as a debit and the left hand side is known as a credit.

- a. True
- b. False

ANSWER: False

15. Debiting the cash account will increase the account.

- a. True
- b. False

ANSWER: True

16. A credit to the cash account will increase the account.

- a. True
- b. False

ANSWER: False

17. The cash account will always be debited.

- a. True
- b. False

ANSWER: False

18. The recording of cash receipts to the cash account will be done by debiting the account.

- a. True
- b. False

Chapter 02 - Analyzing Transactions

ANSWER: True

19. The recording of cash payments from the cash account is done by entering the amount as a credit.

- a. True
- b. False

ANSWER: True

20. The balance of the account can be determined by adding all of the debits, adding all of the credits, and adding the amounts together.

- a. True
- b. False

ANSWER: False

21. Liabilities are debts owed by the business entity.

- a. True
- b. False

ANSWER: True

22. The accounts payable account is listed in the chart of accounts as an asset.

- a. True
- b. False

ANSWER: False

23. A dividends account represents the amount of earnings paid to the stockholders.

- a. True
- b. False

ANSWER: True

24. Revenues are equal to the difference between cash receipts and cash payments.

- a. True
- b. False

ANSWER: False

25. Expenses result from selling services or products to customers.

- a. True
- b. False

ANSWER: False

26. Stockholders' equity is reduced by the amount in the dividends account.

- a. True
- b. False

ANSWER: True

27. When an owner invests assets in the business, the retained earnings account increases due to revenue being earned.

- a. True

Chapter 02 - Analyzing Transactions

b. False

ANSWER: False

28. When an account receivable is collected in cash, the total assets of the business increase.

a. True

b. False

ANSWER: False

29. When an account payable is paid with cash, the stockholders' equity in the business decreases.

a. True

b. False

ANSWER: False

30. For a month's transactions for a typical medium-sized business, the salary expense account is likely to have only credit entries.

a. True

b. False

ANSWER: False

31. When a business receives a bill from the utility company, no entry should be made until the invoice is paid.

a. True

b. False

ANSWER: False

32. A debit is abbreviated as *Db.* and a credit is abbreviated as *Cr.*

a. True

b. False

ANSWER: False

33. For a month's transactions for a typical medium-sized business, the accounts payable account is likely to have only credit entries.

a. True

b. False

ANSWER: False

34. Dividends decrease stockholders' equity and are listed on the income statement as a deduction from revenue.

a. True

b. False

ANSWER: False

35. The normal balance of revenue accounts is a credit.

a. True

b. False

ANSWER: True

Chapter 02 - Analyzing Transactions

36. The normal balance of the dividends account is a debit.

- a. True
- b. False

ANSWER: True

37. The normal balance of an expense account is a credit.

- a. True
- b. False

ANSWER: False

38. Expense accounts are increased by credits.

- a. True
- b. False

ANSWER: False

39. Revenue accounts are increased by credits.

- a. True
- b. False

ANSWER: True

40. Liability accounts are increased by debits.

- a. True
- b. False

ANSWER: False

41. Journalizing transactions using the double-entry bookkeeping system will eliminate fraud.

- a. True
- b. False

ANSWER: False

42. Transactions are listed in the journal chronologically.

- a. True
- b. False

ANSWER: True

43. Journalizing is the process of entering amounts in the ledger.

- a. True
- b. False

ANSWER: False

44. The process of recording a transaction in the journal is called journalizing.

- a. True
- b. False

ANSWER: True

Chapter 02 - Analyzing Transactions

45. Transactions are initially entered into a record called a journal.

- a. True
- b. False

ANSWER: True

46. The double-entry accounting system records each transaction twice.

- a. True
- b. False

ANSWER: False

47. The increase side of an account is also the side of the normal balance.

- a. True
- b. False

ANSWER: True

48. Journal entries include both debit and credit accounts for each transaction.

- a. True
- b. False

ANSWER: True

49. A transaction that is recorded in the journal is called a journal entry.

- a. True
- b. False

ANSWER: True

50. Assets are increased with debits and decreased with credits.

- a. True
- b. False

ANSWER: True

51. Liabilities are increased with debits and decreased with credits.

- a. True
- b. False

ANSWER: False

52. Debits will increase unearned revenues and revenues.

- a. True
- b. False

ANSWER: False

53. All stockholders' equity accounts record increases to the accounts with credits.

- a. True
- b. False

ANSWER: False

Chapter 02 - Analyzing Transactions

54. Journalizing always eliminates fraudulent activity.

- a. True
- b. False

ANSWER: False

55. Journal entries can have more than two accounts as long as the debits equal the credits.

- a. True
- b. False

ANSWER: True

56. Normal account balances are on the increase side of the accounts.

- a. True
- b. False

ANSWER: True

57. The process of transferring the data from the journal to the ledger accounts is called posting.

- a. True
- b. False

ANSWER: True

58. The post reference notation used in the ledger is the account number.

- a. True
- b. False

ANSWER: False

59. The post reference notation used in the journal is the page number.

- a. True
- b. False

ANSWER: False

60. A notation in the post reference column of the general journal indicates that the amount has been posted to the ledger.

- a. True
- b. False

ANSWER: True

61. The order of the flow of accounting data is (1) record in the ledger, (2) record in the journal, (3) prepare the financial statements.

- a. True
- b. False

ANSWER: False

62. The process of transferring the debits and credits from the journal entries to the accounts is known as posting.

- a. True
- b. False

ANSWER: True

Chapter 02 - Analyzing Transactions

63. Postings made to standard account forms show a new balance after each entry.

- a. True
- b. False

ANSWER: True

64. A trial balance determines the complete accuracy of the numbers.

- a. True
- b. False

ANSWER: False

65. Even when a trial balance is in balance, there may be errors in the individual accounts.

- a. True
- b. False

ANSWER: True

66. The totals at the bottom of the trial balance and the totals at the bottom of the balance sheet both show equality and balancing, and therefore should be equal.

- a. True
- b. False

ANSWER: False

67. A proof of the equality of debits and credits in the ledger at the end of an accounting period is called a balance sheet.

- a. True
- b. False

ANSWER: False

68. If the trial balance is in balance, it can be assumed that all journal entries were posted correctly and no errors were made.

- a. True
- b. False

ANSWER: False

69. Posting a part of a transaction to the wrong account will cause the trial balance totals to be unequal.

- a. True
- b. False

ANSWER: False

70. The erroneous arrangement of digits, such as writing \$45 as \$54, is called a slide.

- a. True
- b. False

ANSWER: False

71. Journalizing a transaction with both the debit and the credit for \$69 instead of \$96 will cause the trial balance to be out of balance.

Chapter 02 - Analyzing Transactions

- a. True
- b. False

ANSWER: False

72. The erroneous moving of an entire number one or more spaces to the right or left, such as writing \$85 as \$850, is called a transposition.

- a. True
- b. False

ANSWER: False

Multiple Choice

73. Accounts

- a. do not reflect money amounts
- b. are not used by entities that manufacture products
- c. are records of increases and decreases in individual accounting equation elements
- d. are only used by large entities with many transactions

ANSWER: c

74. Accounts are classified in the ledger

- a. chronologically
- b. alphabetically
- c. in accordance with their appearance in the financial statements
- d. with the accounts used most often listed first

ANSWER: c

75. Which of the following accounts is a stockholders' equity account?

- a. Cash
- b. Accounts Payable
- c. Prepaid Insurance
- d. Common Stock

ANSWER: d

76. The increases in stockholders' equity attributable to selling services or products to customers are called

- a. assets
- b. liabilities
- c. revenues
- d. expenses

ANSWER: c

77. A chart of accounts is

- a. the same as a balance sheet
- b. usually a listing of accounts in alphabetical order
- c. usually a listing of accounts in financial statement order

Chapter 02 - Analyzing Transactions

d. used in place of a ledger

ANSWER: c

78. The debit side of an account

- a. depends on whether the account is an asset, liability, or stockholders' equity
- b. can be either side of the account depending on how the accountant set up the system
- c. is the right side of the account
- d. is the left side of the account

ANSWER: d

79. An account is said to have a debit balance if

- a. the amount of the debits exceeds the amount of the credits
- b. there are more entries on the debit side than on the credit side
- c. there are more entries on the credit side than on the debit side
- d. the first entry of the accounting period was posted on the debit side

ANSWER: a

80. Which side of the account increases the cash account?

- a. credit
- b. neither a debit nor a credit
- c. debit
- d. either a debit or a credit

ANSWER: c

81. Which statement(s) concerning cash is (are) true?

- a. cash will always have more debits than credits
- b. cash will never have a credit balance
- c. cash is increased by debiting
- d. all are true

ANSWER: c

82. Which of the following is true about T accounts?

- a. The left side of a T account is called the debit side.
- b. The left side of a T account is called the credit side.
- c. The right side of a T account is called the debit side.
- d. Transactions are first recorded in T accounts and then posted to the journal.

ANSWER: a

83. A cash payment is recorded in the cash account as

- a. neither a debit nor a credit
- b. a credit
- c. a debit
- d. either a debit or a credit

ANSWER: b

Chapter 02 - Analyzing Transactions

84. The balance of an account is determined by
- adding all of the debits to all of the credits
 - always subtracting the debits from the credits
 - always subtracting the credits from the debits
 - adding all of the debits, adding all of the credits, and then subtracting the smaller sum from the larger sum

ANSWER: d

85. A list of the accounts used by a business is called the
- journal
 - chart of accounts
 - T chart
 - debit listing

ANSWER: b

86. In the chart of accounts, the balance sheet accounts are normally listed in which order?
- liabilities, assets, stockholders' equity
 - assets, liabilities, stockholders' equity
 - stockholders' equity, assets, liabilities
 - assets, stockholders' equity, liabilities

ANSWER: b

87. In which order are the accounts listed in the chart of accounts?
- assets, expenses, liabilities, stockholders' equity, revenues
 - stockholders' equity, assets, liabilities, revenues, expenses
 - assets, liabilities, stockholders' equity, revenues, expenses
 - assets, liabilities, revenues, expenses, stockholders' equity

ANSWER: c

88. Which are the parts of the T account?
- title, date, total
 - date, debit side, credit side
 - title, debit side, credit side
 - title, debit side, total

ANSWER: c

89. The chart of accounts is designed to
- alphabetize the accounts to make reading easier for financial statement users
 - organize accounts in order of dollar amount to simplify the accounting information for users
 - summarize the transactions and determine ending account balances
 - meet the information needs of a company's managers and other users of its financial statements

ANSWER: d

90. Which group of accounts is composed of only assets?

Chapter 02 - Analyzing Transactions

- a. Cash, Accounts Payable, Buildings
- b. Accounts Receivable, Revenue, Cash
- c. Prepaid Expenses, Buildings, Patents
- d. Unearned Revenues, Prepaid Expenses, Cash

ANSWER: c

91. Of the following, which is **true** about assets?
- a. Assets include both physical and intangible items.
 - b. Assets include only physical items.
 - c. Assets are the personal property of the stockholders of the company.
 - d. Assets are the result of selling products or services to customers.

ANSWER: a

92. Which of the following is **not** considered to be a liability?
- a. Wages Payable
 - b. Accounts Receivable
 - c. Unearned Revenues
 - d. Accounts Payable

ANSWER: b

93. Which of the following statements is **not** true about liabilities?
- a. Liabilities are debts owed to outsiders.
 - b. Account titles of liabilities often include the term “payable.”
 - c. Cash received before a service is performed creates a liability.
 - d. Liabilities include accumulated depreciation.

ANSWER: d

94. The stockholders' equity will be reduced by all of the following **except**
- a. revenues
 - b. expenses
 - c. dividends
 - d. all of these

ANSWER: a

95. The accounts in the ledger of Monroe Entertainment Co. are listed below. All accounts have normal balances.

| | | | |
|---------------------|---------|-------------------|---------|
| Accounts payable | \$1,500 | Fees earned | \$3,600 |
| Accounts receivable | 1,800 | Insurance expense | 1,300 |
| Prepaid insurance | 2,000 | Land | 3,000 |
| Cash | 3,200 | Wages expense | 1,400 |
| Dividends | 1,200 | Common stock | 8,800 |

Total assets are

- a. \$10,000
- b. \$8,000

Chapter 02 - Analyzing Transactions

- c. \$9,700
- d. \$9,800

ANSWER: a

96. Expenses can result from
- a. selling stock
 - b. consuming services
 - c. using up liabilities
 - d. paying creditors on account

ANSWER: b

97. In the chart of accounts, each account number has two digits. The first digit indicates the major account group to which the account belongs. Which of the following correctly identifies the major account groups typically represented by the numbers 1 through 5?
- a. 1-Assets, 2-Liabilities, 3-Stockholders' Equity, 4-Expenses, 5-Revenues
 - b. 1-Assets, 2-Liabilities, 3-Stockholders' Equity, 4-Revenues, 5-Expenses
 - c. 1-Assets, 2-Stockholders' Equity, 3-Revenues, 4-Expenses, 5-Dividends
 - d. 1-Stockholders' Equity, 2-Dividends, 3-Revenues, 4-Expenses, 5-Common Stock

ANSWER: b

98. Which of the following entries records the purchase of common stock by stockholders?
- a. debit Common Stock; credit Accounts Receivable
 - b. debit Cash; credit Common Stock
 - c. debit Dividends; credit Cash
 - d. debit Fees Earned; credit Common Stock

ANSWER: b

99. A debit may signify a(n)
- a. decrease in asset accounts
 - b. decrease in liability accounts
 - c. increase in the common stock account
 - d. decrease in the dividends account

ANSWER: b

100. Which of the following types of accounts have a normal credit balance?
- a. assets and liabilities
 - b. liabilities and expenses
 - c. revenues and common stock
 - d. common stock and dividends

ANSWER: c

101. Which of the following groups of accounts have a normal debit balance?
- a. revenues, liabilities, and stockholders' equity
 - b. stockholders' equity and assets

Chapter 02 - Analyzing Transactions

- c. liabilities and stockholders' equity
- d. assets and expenses

ANSWER: d

102. Which one of the statements below is **not** a purpose for the journal?

- a. to show increases and decreases in accounts
- b. to show chronological order of transactions
- c. to show a complete transaction in one place
- d. to help locate errors

ANSWER: a

103. A credit may signify a

- a. decrease in assets
- b. decrease in liabilities
- c. decrease in common stock
- d. decrease in revenue

ANSWER: a

104. A debit signifies a decrease in

- a. assets
- b. expenses
- c. dividends
- d. revenues

ANSWER: d

105. Which of the following applications of the rules of debit and credit is true?

- a. decrease Prepaid Insurance with a credit and the normal balance is a credit
- b. increase Accounts Payable with a credit and the normal balance is a debit
- c. increase Equipment with a debit and the normal balance is a debit
- d. decrease Cash with a debit and the normal balance is a credit

ANSWER: c

106. Which of the following describes the classification and normal balance of the fees earned account?

- a. asset, credit
- b. liability, credit
- c. stockholders' equity, debit
- d. revenue, credit

ANSWER: d

107. The classification and normal balance of the accounts payable account is

- a. an asset with a credit balance
- b. a liability with a credit balance
- c. stockholders' equity with a credit balance
- d. revenue with a credit balance

Chapter 02 - Analyzing Transactions

ANSWER: b

108. The classification and normal balance of the dividends account is

- a. an expense with a credit balance
- b. an expense with a debit balance
- c. a liability with a credit balance
- d. stockholders' equity with a debit balance

ANSWER: d

109. Which of the following accounts are debited to record increases?

- a. assets and liabilities
- b. dividends and liabilities
- c. expenses and liabilities
- d. assets and expenses

ANSWER: d

110. In which of the following types of accounts are increases recorded by credits?

- a. revenues and liabilities
- b. dividends and assets
- c. liabilities and dividends
- d. expenses and liabilities

ANSWER: a

111. In which of the following types of accounts are decreases recorded by debits?

- a. assets
- b. liabilities
- c. expenses
- d. dividends

ANSWER: b

112. In which of the following types of accounts are decreases recorded by credits?

- a. liabilities
- b. stockholders' equity
- c. assets
- d. revenues

ANSWER: c

113. A credit balance in which of the following accounts would indicate a likely error?

- a. Fees Earned
- b. Salary Expense
- c. Common Stock
- d. Accounts Payable

ANSWER: b

Chapter 02 - Analyzing Transactions

114. A debit balance in which of the following accounts would indicate a likely error?

- a. Salaries Expense
- b. Notes Payable
- c. Accounts Receivable
- d. Supplies

ANSWER: b

115. Which of the following entries records the payment of an account payable?

- a. debit Cash; credit Accounts Payable
- b. debit Accounts Receivable; credit Cash
- c. debit Cash; credit Supplies Expense
- d. debit Accounts Payable; credit Cash

ANSWER: d

116. Which of the following entries records the payment of dividends?

- a. debit Common Stock; credit Cash
- b. debit Dividends; credit Cash
- c. debit Salaries Expense; credit Cash
- d. debit Salaries Expense; credit Salaries Payable

ANSWER: b

117. Office supplies were sold by Janer's Cleaning Service at cost to another repair shop, with cash received. Which of the following entries for Janer's Cleaning Service records this transaction?

- a. Office Supplies, debit; Cash, credit
- b. Office Supplies, debit; Accounts Payable, credit
- c. Cash, debit; Office Supplies, credit
- d. Accounts Payable, debit; Office Supplies, credit

ANSWER: c

118. Office supplies purchased by Janer's Cleaning Service on account were returned. The office supplies had not yet been paid for. Which of the following entries for Janer's Cleaning Service records this transaction?

- a. Cash, debit; Office Supplies, credit
- b. Office Supplies, debit; Accounts Receivable, credit
- c. Accounts Payable, debit; Office Supplies, credit
- d. Office Supplies, debit; Accounts Payable, credit

ANSWER: c

119. Cash was paid by Janer's Cleaning Service to creditors on account. Which of the following entries for Janer's Cleaning Service records this transaction?

- a. Cash, debit; Common Stock, credit
- b. Accounts Payable, debit; Cash, credit
- c. Accounts Receivable, debit; Cash, credit
- d. Accounts Payable, debit; Accounts Receivable, credit

ANSWER: b

Chapter 02 - Analyzing Transactions

120. The process of initially recording a business transaction is called

- a. correcting
- b. posting
- c. journalizing
- d. balancing

ANSWER: c

121. Which of the following entries records the acquisition of office supplies on account?

- a. Office Supplies, debit; Cash, credit
- b. Cash, debit; Office Supplies, credit
- c. Office Supplies, debit; Accounts Payable, credit
- d. Accounts Receivable, debit; Office Supplies, credit

ANSWER: c

122. Which of the following entries records the payment of insurance for the current month?

- a. Cash, debit; Insurance Expense, credit
- b. Insurance Expense, debit; Cash, credit
- c. Insurance Expense, debit; Accounts Receivable, credit
- d. Prepaid Insurance, debit; Cash, credit

ANSWER: b

123. Which of the following entries records the receipt of cash from clients on account?

- a. Accounts Payable, debit; Fees Earned, credit
- b. Accounts Receivable, debit; Fees Earned, credit
- c. Accounts Receivable, debit; Cash, credit
- d. Cash, debit; Accounts Receivable, credit

ANSWER: d

124. Which of the following entries records the collection of cash from cash customers?

- a. Fees Earned, debit; Cash, credit
- b. Fees Earned, debit; Accounts Receivable, credit
- c. Cash, debit; Fees Earned, credit
- d. Accounts Receivable, debit; Fees Earned, credit

ANSWER: c

125. Which of the following entries records the receipt of cash for two months' rent? The cash was received in advance of providing the service.

- a. Prepaid Rent, debit; Rent Revenue, credit.
- b. Cash, debit; Unearned Rent, credit.
- c. Cash, debit; Prepaid Rent, credit.
- d. Cash, debit; Rent Expense, credit.

ANSWER: b

126. A client has a massage and asks the company bookkeeper to mail her the bill. The bookkeeper should make which

Chapter 02 - Analyzing Transactions

entry to record the invoice?

- a. No entry until the cash is received
- b. Fees Earned, debit; Accounts Receivable, credit
- c. Cash, debit; Fees Earned, credit
- d. Accounts Receivable, debit; Fees Earned, credit

ANSWER: d

127. Which of the following abbreviations is correct?

- a. Debit, "Dr"; Credit, "Cd"
- b. Debit, "Db"; Credit, "Cr"
- c. Debit, "Db"; Credit, "Cd"
- d. Debit, "Dr"; Credit, "Cr"

ANSWER: d

128. Which of the following is **not** a correct rule of debits and credits?

- a. Assets, expenses, and dividends are increased by debits.
- b. Assets are decreased by credits and have a normal debit balance.
- c. Liabilities, revenues, and stockholders' equity are increased by credits.
- d. The normal balance for revenues and expenses is a credit.

ANSWER: d

129. Gently Laser Clinic purchased laser equipment for \$8,500 and paid \$2,250 down, with the remainder to be paid later. The correct entry would be

- a. Equipment 2,250
Cash 2,250
- b. Cash 2,250
Accounts Payable 6,250
Equipment 8,500
- c. Equipment Expense 8,500
Accounts Payable 2,250
Cash 6,250
- d. Equipment 8,500
Accounts Payable 6,250
Cash 2,250

ANSWER: d

130. The ____ is where a transaction can first be found in the accounting records.

- a. chart of accounts
- b. income statement
- c. balance sheet
- d. journal

ANSWER: d

131. The process of recording a transaction in the journal is called

- a. ledgerizing

Chapter 02 - Analyzing Transactions

- b. journalizing
- c. posting
- d. summarizing

ANSWER: b

132. Joshua Scott invests \$40,000 into his new business. How would this transaction be entered in the journal in good form?

- a. Cash 40,000
 Common Stock 40,000
 Issued common stock for cash.
- b. Accounts Receivable 40,000
 Common Stock 40,000
 Issued common stock for cash.
- c. Common Stock 40,000
 Cash 40,000
 Issued common stock for cash.
- d. Loans Payable 40,000
 Cash 40,000
 Issued common stock for cash.

ANSWER: a

133.

| | | | | | |
|-----|----|-------------------------------|--|--------|--------|
| May | 23 | Cash | | 22,000 | |
| | | Common Stock | | | 22,000 |
| | | Issued common stock for cash. | | | |

This journal entry will

- a. increase Common Stock and decrease Cash
- b. increase Cash and decrease Common Stock
- c. increase Cash and increase Common Stock
- d. decrease Cash and decrease Common Stock

ANSWER: c

134.

| | | | | | |
|-----|----|------------------------------|--|---------|---------|
| May | 24 | Land | | 105,000 | |
| | | Cash | | | 105,000 |
| | | Purchased land for business. | | | |

What effects does this journal entry have on the accounts?

- a. increase Cash and increase Land
- b. decrease Cash and increase Land
- c. decrease Cash and decrease Land
- d. increase Cash and decrease Land

ANSWER: b

135.

| | | | | | |
|-------|----|------------------|--|-----|--|
| March | 10 | Accounts Payable | | 800 | |
|-------|----|------------------|--|-----|--|

Chapter 02 - Analyzing Transactions

| | | | | |
|--|----------------------------|--|--|-----|
| | Cash | | | 800 |
| | Paid creditors on account. | | | |

What effects does this journal entry have on the accounts?

- a. decrease Accounts Payable, increase Cash
- b. increase Accounts Payable, decrease Cash
- c. increase Accounts Payable, increase Cash
- d. decrease Accounts Payable, decrease Cash

ANSWER: d

136. Which of the following accounts would be increased with a credit?

- a. Land; Accounts Payable; Dividends
- b. Accounts Payable; Unearned Revenue; Common Stock
- c. Dividends; Accounts Receivable; Unearned Revenue
- d. Cash; Accounts Receivable; Common Stock

ANSWER: b

137. In accordance with the debit and credit rules, which of the following is true?

- a. Debits increase assets.
- b. Credits increase assets.
- c. Debits increase both assets and common stock.
- d. Credits increase both assets and liabilities.

ANSWER: a

138. All of the following accounts are increased with a debit **except**

- a. Unearned Revenues
- b. Land
- c. Accounts Receivable
- d. Cash

ANSWER: a

139. Which of the following stockholders' equity accounts follows the same debit and credit rules as liabilities?

- a. expense accounts only
- b. dividends accounts only
- c. revenue, common stock, and retained earnings accounts
- d. expense and dividends accounts

ANSWER: c

140. The payment for the monthly rent will require which of the following entries?

- a. debit Cash and debit Rent Expense
- b. credit Cash and credit Rent Expense
- c. debit Rent Expense and credit Cash
- d. credit Rent Expense and debit Cash

ANSWER: c

Chapter 02 - Analyzing Transactions

141. Expenses follow the same debit and credit rules as

- a. revenues
- b. assets
- c. the Common Stock account
- d. liabilities

ANSWER: b

142. Net income will result when

- a. revenues (credits) > expenses (debits)
- b. revenues (debits) > expenses (credits)
- c. expenses (credits) = revenues (debits)
- d. revenues (credits) = expenses (debits)

ANSWER: a

143. Which of the following will increase stockholders' equity?

- a. expenses > revenues
- b. the company pays dividends
- c. revenues > expenses
- d. cash is received from customers on account

ANSWER: c

144. Which of the following situations increase stockholders' equity?

- a. Supplies are purchased on account.
- b. Services are provided on account.
- c. Cash is received from customers on account.
- d. Utility bill will be paid next month.

ANSWER: b

145. Which of the following groups of accounts are increased with a debit?

- a. assets, liabilities, stockholders' equity
- b. assets, dividends, expenses
- c. assets, revenues, expenses
- d. assets, liabilities, revenues

ANSWER: b

146. Which of the following groups of accounts increase with a credit?

- a. common stock, revenues, expenses
- b. assets, common stock, revenues
- c. liabilities, common stock, revenues
- d. none of these

ANSWER: c

147. Which of the following is true regarding normal balances of accounts?

- a. All accounts have a normal debit balance.

Chapter 02 - Analyzing Transactions

- b. The normal balance of all accounts will have either a positive or negative balance.
- c. Accounts that have a normal debit balance will only have debit entries, never credit entries.
- d. The normal balance is on the increase side of the account.

ANSWER: d

148. Which of the following is **not** true with a double-entry accounting system?

- a. The accounting equation remains in balance.
- b. The sum of all debits is always equal to the sum of all credits in each journal entry.
- c. Each business transaction will have two debits.
- d. Every transaction affects at least two accounts.

ANSWER: c

149.

| | | | | | |
|-------|---|---------------|--|-------|-------|
| March | 6 | Cash | | 2,500 | |
| | | Unearned Fees | | | 2,500 |
| | | ??????????? | | | |

What is the best explanation for this journal entry?

- a. Received cash for services performed.
- b. Received cash for services to be performed in the future.
- c. Paid cash in advance for services to be performed.
- d. Performed services for which cash is owed.

ANSWER: b

150.

| | | | | | |
|-------|----|--------------|--|--------|--------|
| April | 14 | Equipment | | 15,000 | |
| | | Cash | | | 5,000 |
| | | Note Payable | | | 10,000 |
| | | ??????????? | | | |

Which is the best explanation for this journal entry?

- a. Purchased equipment; paid cash of \$5,000, with the remainder to be paid in the future.
- b. Purchased equipment; paid cash of \$10,000, with the remainder to be received in the future.
- c. Purchased equipment with cash.
- d. Purchased equipment on account.

ANSWER: a

151. The process of transferring the debits and credits from the journal entries to the accounts is called

- a. sliding
- b. transposing
- c. journalizing
- d. posting

ANSWER: d

152. The posting process will include the transfer of which of the following data from the journal to the account?

- a. date, amount (debit or credit)
- b. date, amount (debit or credit), journal page number

Chapter 02 - Analyzing Transactions

- c. amount (debit or credit), account number
- d. date, amount (debit or credit), account number

ANSWER: b

153. The Posting Reference columns are used to trace transactions from the accounts to the journal. What will be entered in the Posting Reference column of (1) the journal and (2) the account?

- a. (1) the amount of the debit or credit and (2) the journal page number
- b. (1) the journal page number and (2) the date of the transaction
- c. (1) the journal page number and (2) the account number
- d. (1) the account number and (2) the journal page number

ANSWER: d

The chart of accounts for the Corning Company includes the following:

| Account Name | Account Number |
|---------------------|----------------|
| Cash | 11 |
| Accounts Receivable | 13 |
| Prepaid Insurance | 15 |
| Accounts Payable | 21 |
| Unearned Revenue | 24 |
| Common Stock | 31 |
| Dividends | 32 |
| Fees Earned | 41 |
| Salaries Expense | 54 |
| Rent Expense | 56 |

Page 3 of the journal contains the following entry:

| | | |
|-------------------|-------|-------|
| Prepaid Insurance | 1,530 | |
| Cash | | 1,530 |

Use the above information to answer the questions that follow.

154. What is the posting reference that will be found in the cash account?

- a. 11
- b. 15
- c. 3
- d. 13

ANSWER: c

155. What is the posting reference that will be found in the prepaid insurance account?

- a. 11
- b. 15
- c. 3
- d. 13

ANSWER: c

156. What posting references will be found in the journal entry?

Chapter 02 - Analyzing Transactions

- a. 15, 11
- b. 15, 3
- c. 11, 3
- d. 3, 15

ANSWER: a

157. The chart of accounts for the Miguel Company includes the following:

| Account Name | Account Number |
|---------------------|----------------|
| Cash | 11 |
| Accounts Receivable | 13 |
| Prepaid Insurance | 15 |
| Accounts Payable | 21 |
| Unearned Revenue | 24 |
| Common Stock | 31 |
| Dividends | 32 |
| Fees Earned | 41 |
| Salaries Expense | 54 |
| Rent Expense | 56 |

Page 3 of the journal contains the following transaction:

| | | |
|-------------|-----|-----|
| Cash | 640 | |
| Fees Earned | | 640 |

What posting references will be found in the journal entry?

- a. 41, 3
- b. 3, 11
- c. 11, 41
- d. 11, 3

ANSWER: c

158. The chart of accounts for the Miguel Company includes the following:

| Account Name | Account Number |
|---------------------|----------------|
| Cash | 11 |
| Accounts Receivable | 13 |
| Prepaid Insurance | 15 |
| Accounts Payable | 21 |
| Unearned Revenue | 24 |
| Common Stock | 31 |
| Dividends | 32 |
| Fees Earned | 41 |
| Salaries Expense | 54 |
| Rent Expense | 56 |

Page 5 of the journal contains the following transaction:

| | | |
|------------------|-----|--|
| Salaries Expense | 525 | |
|------------------|-----|--|

Chapter 02 - Analyzing Transactions

| | | |
|------|--|-----|
| Cash | | 525 |
|------|--|-----|

What is the posting reference that will be found in the salaries expense account?

- a. 5
- b. 11
- c. 54
- d. 21

ANSWER: a

159. Which of the following balances is always due to an error?

- a. Office Equipment - credit balance of \$500
- b. Retained Earnings - debit balance of \$1,000
- c. Dividends - debit balance of \$2,500
- d. Accounts Payable - debit balance of \$600

ANSWER: a

160. Which of the following errors, each considered individually, would cause the trial balance totals to be unequal?

- a. A transaction was not posted.
- b. A payment of \$67 for insurance was posted as a debit of \$76 to Prepaid Insurance and a credit of \$76 to Cash.
- c. A payment of \$4,450 to a creditor was posted as a debit of \$4,500 to Accounts Payable and a credit of \$450 to Cash.
- d. Cash received from customers on account was posted as a debit of \$720 to Cash and a credit of \$720 to Accounts Payable.

ANSWER: c

161. Proof that the dollar amount of the debits equals the dollar amount of the credits in the ledger means

- a. all of the information from the journal was correctly transferred to the ledger
- b. all accounts have their correct balances in the ledger
- c. only the journal is accurate; the ledger may be incorrect
- d. only that the debit dollar amounts equal the credit dollar amounts

ANSWER: d

162. That the total dollar amount of the debits equals the total dollar amount of the credits in the ledger accounts can be verified through a(n):

- a. chart of accounts
- b. trial balance
- c. income statement
- d. balance sheet

ANSWER: b

163. Randomly listed below are the steps for preparing a trial balance:

- (1) Verify that the total of the Debit column equals the total of the Credit column.
- (2) List the accounts from the ledger and enter their debit or credit balance in the Debit or Credit column of the trial balance.
- (3) List the name of the company, the title of the trial balance, and the date the trial balance is prepared.

Chapter 02 - Analyzing Transactions

(4) Total the Debit and Credit columns of the trial balance.

What is the proper order of these steps?

- a. (3), (2), (4), (1)
- b. (2), (3), (4), (1)
- c. (3), (2), (1), (4)
- d. (4), (3), (2), (1)

ANSWER: a

164. A trial balance is prepared to

- a. prove that there were no errors made in recording transactions into the journal
- b. prove that no errors were made in posting to the ledger
- c. prove that each account balance is correct
- d. discover errors that affect the equality of debits and credits

ANSWER: d

165. The accounts in the ledger of Monroe Entertainment Co. are listed below. All accounts have normal balances.

| | | | |
|---------------------|---------|-------------------|---------|
| Accounts Payable | \$1,500 | Fees Earned | \$3,600 |
| Accounts Receivable | 1,800 | Insurance Expense | 1,300 |
| Prepaid Insurance | 2,000 | Land | 3,000 |
| Cash | 3,200 | Wages Expense | 1,400 |
| Dividends | 1,200 | Common Stock | 8,800 |

Prepare a trial balance. The total of the debits is

- a. \$13,900
- b. \$11,200
- c. \$12,700
- d. \$9,700

ANSWER: a

166. Of the following, which is an internal report that will determine if the total of the debit balances equal the total of the credit balances in the ledger?

- a. chart of accounts
- b. income statement
- c. trial balance
- d. horizontal analysis

ANSWER: c

167. An overpayment error was discovered in computing and paying the wages of a Jamison Tree Trimming employee. When Jamison receives cash from the employee for the amount of the overpayment, which of the following entries will Jamison make?

- a. Cash, debit; Wages Expense, credit
- b. Wages Payable, debit; Wages Expense, credit
- c. Wages Expense, debit; Cash, credit
- d. Cash, debit; Wages Payable, credit

Chapter 02 - Analyzing Transactions

ANSWER: a

168. If the two totals of a trial balance are not equal, it could be due to

- a. failure to record a transaction
- b. recording the same erroneous amount for both the debit and the credit parts of a transaction
- c. an error in determining the account balances, such as a balance being incorrectly computed
- d. recording the same transaction more than once

ANSWER: c

169. When a transposition error is made on the trial balance, the difference between the debit and credit totals on the trial balance will be

- a. zero
- b. twice the amount of the transposition
- c. one-half the amount of the transposition
- d. divisible by 9

ANSWER: d

170. Which of the following errors could cause the trial balance totals to be unequal?

- a. posting the debit portion of a journal entry incorrectly when the credit portion of the entry is correctly posted
- b. failure to record a transaction or to post a transaction
- c. recording the same transaction more than once
- d. recording the same erroneous amount for both the debit and the credit parts of a transaction

ANSWER: a

171. The trial balance is out of balance and the accountant suspects that a transposition or slide error has occurred. What will the accountant do to confirm this suspicion?

- a. Determine the amount of the error and look for that amount on the trial balance.
- b. Determine the amount of the error and divide by two, then look for that amount on the trial balance.
- c. Determine the amount of the error and refer to the journal entries for that amount.
- d. Determine the amount of the error and divide by nine. If the result is evenly divided, then this type of error is likely.

ANSWER: d

172. The purchase of supplies on account was recorded and posted as a debit to Supplies for \$500 and a credit to Accounts Receivable for \$500. The correcting entry would include a:

- a. credit to Accounts Receivable for \$500
- b. credit to Accounts Receivable for \$1,000
- c. credit to Accounts Payable for \$500
- d. credit to Accounts Payable for \$1,000

ANSWER: c

173. Which of the following is **not** a useful step in finding errors on the trial balance?

- a. Determine the difference between debits and credits and look for the amount.
- b. Determine the difference between debits and credits and change any account to make the trial balance correct.

Chapter 02 - Analyzing Transactions

- c. Determine the difference between debits and credits, divide the amount by 2, and look for the amount.
- d. Determine the difference between debits and credits, divide the amount by 9, and if it divides evenly, look for a transposition or slide error.

ANSWER: b

174. McNally Industries has a condensed income statement as shown.

| | Year 2 | Year 1 |
|--------------------------|-----------|-----------|
| Sales | \$198,000 | \$165,500 |
| Total operating expenses | 163,000 | 147,500 |
| Net income | 35,000 | 18,000 |

Using horizontal analysis, calculate the amount and percent change for sales. Round percentages to one decimal place.

- a. \$32,500, 19.6%
- b. \$(32,500), (19.6)%
- c. \$32,500, 16.4%
- d. \$(32,500), (16.4)%

ANSWER: a

175. Richardson Company has a condensed income statement as shown.

| | Year 2 | Year 1 |
|--------------------------|-----------|-----------|
| Sales | \$150,000 | \$165,500 |
| Total operating expenses | 133,000 | 147,500 |
| Net income | 17,000 | 18,000 |

Using horizontal analysis, calculate the amount and percent change for sales. Round percentages to one decimal place.

- a. \$15,500, 19.6%
- b. \$(15,500), (10.3)%
- c. \$15,500, 10.3%
- d. \$(15,500), (9.4)%

ANSWER: d

176. All of the following statements regarding a horizontal analysis are true **except**:

- a. A horizontal analysis is used to compare an item in a current statement with the same item in prior statements.
- b. A horizontal analysis can be performed on a balance sheet and income statement, but not on a statement of cash flows.
- c. If Fees Earned in Year 1 is \$125,000 and Fees Earned in Year 2 is \$143,750, a horizontal analysis will indicate a 15% increase over this period.
- d. When two statements are compared in horizontal analysis, the earlier statement is used as the base for computing the amount and the percent of change.

ANSWER: b

Matching

Match each of the following accounts with its proper account group from groups listed below.

- a. Assets

Chapter 02 - Analyzing Transactions

- b. Liabilities
- c. Stockholders' Equity
- d. Revenue
- e. Expenses

177. Unearned Rent

ANSWER: b

178. Prepaid Insurance

ANSWER: a

179. Fees Earned

ANSWER: d

180. Patents

ANSWER: a

181. Dividends

ANSWER: c

For each of the following accounts, indicate whether its normal balance is on the credit side or the debit side of the T account.

- a. Credit side
- b. Debit side

182. Common Stock

ANSWER: a

183. Accounts Receivable

ANSWER: b

184. Accounts Payable

ANSWER: a

185. Interest Revenue

ANSWER: a

186. Copyrights

ANSWER: b

Several types of errors can be made during the journalizing and posting process. Match the following with their best description.

- a. Trial balance preparation errors
- b. Account balance errors
- c. Posting errors

187. Balance incorrectly computed.

Chapter 02 - Analyzing Transactions

ANSWER: b

188. Debit or credit posting omitted.

ANSWER: c

189. Wrong amount posted to an account.

ANSWER: c

190. Trial balance column incorrectly added.

ANSWER: a

191. Balance entered on wrong side of account.

ANSWER: b

192. Amount incorrectly entered on trial balance.

ANSWER: a

193. Balance entered in wrong trial balance column or omitted.

ANSWER: a

194. Debit posted as credit, or vice versa.

ANSWER: c

Subjective Short Answer

195. The chart of accounts classifies the accounts to make identification of the accounts easier. Describe the numbering system businesses use in setting up the chart of accounts.

ANSWER: A chart of accounts is set up by assigning 2-digit numbers to each of the accounts for use as references. The first digit indicates the major account group of the ledger in which the account is located. Accounts beginning with 1 represent assets; 2, liabilities; 3, stockholders' equity; 4, revenue; 5, expenses. The second digit indicates the location of the account within its group. Large companies may have additional digits to accommodate a large number of accounts.

196. On January 31, the cash account balance was \$96,750. During January, cash receipts totaled \$305,000 and cash payments totaled \$375,880. Determine the cash balance on January 1.

ANSWER: $??? + \$305,000 - \$375,880 = \$96,750$

Cash balance at January 1 is \$167,630

197. Organize the following accounts into the usual sequence of a chart of accounts.

Miscellaneous Expense
Accounts Payable
Accounts Receivable
Cash
Common Stock
Fees Earned
Prepaid Rent
Salaries Expense

Chapter 02 - Analyzing Transactions

Unearned Revenue

Dividends

ANSWER: Cash

Accounts Receivable

Prepaid Rent

Accounts Payable

Unearned Revenue

Common Stock

Dividends

Fees Earned

Salaries Expense

Miscellaneous Expense

198. Calculate the following:

(a) Determine the cash receipts for April based on the following data:

| | |
|--------------------------------|----------|
| Cash payments during April | \$63,000 |
| Cash account balance, April 1 | 25,500 |
| Cash account balance, April 30 | 31,750 |

(b) Determine the cash received from customers on account during April based on the following data:

| | |
|---|----------|
| Accounts receivable account balance, April 1 | \$22,500 |
| Accounts receivable account balance, April 30 | 15,250 |
| Fees billed to customers during April | 45,000 |

ANSWER: (a) \$69,250 (\$31,750 + \$63,000 – \$25,500)

(b) \$52,250 (\$22,500 + \$45,000 – \$15,250)

199. Selected accounts from the ledger of Garrison Company appear below. For each account, indicate the following:

(a) In the first column at the right, indicate the nature of each account, using the following abbreviations:

- | | |
|-----------------------|-------------|
| Asset - A | Revenue - R |
| Liability - L | Expense - E |
| None of the above - N | |

(b) In the second column, indicate the increase side of each account by inserting Dr. or Cr.

| <u>Account</u> | <u>Type of Account</u> | <u>Increase Side</u> |
|-------------------------|------------------------|----------------------|
| (1) Supplies | _____ | _____ |
| (2) Fees Earned | _____ | _____ |
| (3) Retained Earnings | _____ | _____ |
| (4) Accounts Payable | _____ | _____ |
| (5) Salaries Expense | _____ | _____ |
| (6) Common Stock | _____ | _____ |
| (7) Accounts Receivable | _____ | _____ |
| (8) Equipment | _____ | _____ |

Chapter 02 - Analyzing Transactions

(9) Notes Payable

| <u>ANSWER:</u> | <u>Type of Account</u> | <u>Increase Side</u> |
|----------------|------------------------|----------------------|
| (1) | A | Dr. |
| (2) | R | Cr. |
| (3) | N | Cr. |
| (4) | L | Cr. |
| (5) | E | Dr. |
| (6) | N | Cr. |
| (7) | A | Dr. |
| (8) | A | Dr. |
| (9) | L | Cr. |

200. All nine transactions for Dalton Survey Company for September, the first month of operations, are recorded in the following T accounts:

| <table border="0" style="width: 100%;"> <thead> <tr> <th colspan="2" style="text-align: center;"><u>Cash</u></th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">(1) 20,000</td> <td style="width: 50%;">(3) 7,500</td> </tr> <tr> <td>(7) 6,900</td> <td>(5) 2,600</td> </tr> <tr> <td>(9) 4,700</td> <td>(6) 5,500</td> </tr> <tr> <td></td> <td>(8) 2,000</td> </tr> </tbody> </table> | <u>Cash</u> | | (1) 20,000 | (3) 7,500 | (7) 6,900 | (5) 2,600 | (9) 4,700 | (6) 5,500 | | (8) 2,000 | <table border="0" style="width: 100%;"> <thead> <tr> <th colspan="2" style="text-align: center;"><u>Common Stock</u></th> </tr> </thead> <tbody> <tr> <td style="width: 50%;"></td> <td style="width: 50%;">(1) 20,000</td> </tr> </tbody> </table> | <u>Common Stock</u> | | | (1) 20,000 |
|--|----------------------------|-------------------------|------------|-----------|---|---------------------------|-----------|-----------|-----------|-----------|---|---------------------|--|--|------------|
| <u>Cash</u> | | | | | | | | | | | | | | | |
| (1) 20,000 | (3) 7,500 | | | | | | | | | | | | | | |
| (7) 6,900 | (5) 2,600 | | | | | | | | | | | | | | |
| (9) 4,700 | (6) 5,500 | | | | | | | | | | | | | | |
| | (8) 2,000 | | | | | | | | | | | | | | |
| <u>Common Stock</u> | | | | | | | | | | | | | | | |
| | (1) 20,000 | | | | | | | | | | | | | | |
| <table border="0" style="width: 100%;"> <thead> <tr> <th colspan="2" style="text-align: center;"><u>Accounts Receivable</u></th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">(4) 4,900</td> <td style="width: 50%;">(9) 4,700</td> </tr> </tbody> </table> | <u>Accounts Receivable</u> | | (4) 4,900 | (9) 4,700 | <table border="0" style="width: 100%;"> <thead> <tr> <th colspan="2" style="text-align: center;"><u>Dividends</u></th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">(8) 2,000</td> <td style="width: 50%;"></td> </tr> </tbody> </table> | <u>Dividends</u> | | (8) 2,000 | | | | | | | |
| <u>Accounts Receivable</u> | | | | | | | | | | | | | | | |
| (4) 4,900 | (9) 4,700 | | | | | | | | | | | | | | |
| <u>Dividends</u> | | | | | | | | | | | | | | | |
| (8) 2,000 | | | | | | | | | | | | | | | |
| <table border="0" style="width: 100%;"> <thead> <tr> <th colspan="2" style="text-align: center;"><u>Supplies</u></th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">(3) 7,500</td> <td style="width: 50%;"></td> </tr> </tbody> </table> | <u>Supplies</u> | | (3) 7,500 | | <table border="0" style="width: 100%;"> <thead> <tr> <th colspan="2" style="text-align: center;"><u>Fees Earned</u></th> </tr> </thead> <tbody> <tr> <td style="width: 50%;"></td> <td style="width: 50%;">(4) 4,900</td> </tr> <tr> <td></td> <td>(7) 6,900</td> </tr> </tbody> </table> | <u>Fees Earned</u> | | | (4) 4,900 | | (7) 6,900 | | | | |
| <u>Supplies</u> | | | | | | | | | | | | | | | |
| (3) 7,500 | | | | | | | | | | | | | | | |
| <u>Fees Earned</u> | | | | | | | | | | | | | | | |
| | (4) 4,900 | | | | | | | | | | | | | | |
| | (7) 6,900 | | | | | | | | | | | | | | |
| <table border="0" style="width: 100%;"> <thead> <tr> <th colspan="2" style="text-align: center;"><u>Equipment</u></th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">(2) 4,500</td> <td style="width: 50%;"></td> </tr> </tbody> </table> | <u>Equipment</u> | | (2) 4,500 | | <table border="0" style="width: 100%;"> <thead> <tr> <th colspan="2" style="text-align: center;"><u>Operating Expenses</u></th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">(6) 5,500</td> <td style="width: 50%;"></td> </tr> </tbody> </table> | <u>Operating Expenses</u> | | (6) 5,500 | | | | | | | |
| <u>Equipment</u> | | | | | | | | | | | | | | | |
| (2) 4,500 | | | | | | | | | | | | | | | |
| <u>Operating Expenses</u> | | | | | | | | | | | | | | | |
| (6) 5,500 | | | | | | | | | | | | | | | |
| <table border="0" style="width: 100%;"> <thead> <tr> <th colspan="2" style="text-align: center;"><u>Accounts Payable</u></th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">(5) 2,600</td> <td style="width: 50%;">(2) 4,500</td> </tr> </tbody> </table> | | <u>Accounts Payable</u> | | (5) 2,600 | (2) 4,500 | | | | | | | | | | |
| <u>Accounts Payable</u> | | | | | | | | | | | | | | | |
| (5) 2,600 | (2) 4,500 | | | | | | | | | | | | | | |

Indicate the following for each debit and each credit:

- (a) The type of account affected (asset, liability, equity, dividends, revenue, or expense).
- (b) The effect on the account, using "+" for increase and "-" for decrease.

Present your answers in the following form:

| <u>Transaction</u> | <u>Account Debited</u> | | <u>Account Credited</u> | |
|--------------------|------------------------|---------------|-------------------------|---------------|
| | <u>Type</u> | <u>Effect</u> | <u>Type</u> | <u>Effect</u> |
| <u>ANSWER:</u> | | | | |
| <u>Transaction</u> | <u>Account Debited</u> | | <u>Account Credited</u> | |
| (1) | asset | + | equity | + |
| (2) | asset | + | liability | + |
| (3) | asset | + | asset | - |
| (4) | asset | + | revenue | + |
| (5) | liability | - | asset | - |

Chapter 02 - Analyzing Transactions

| | | | | |
|-----|---------|---|---------|---|
| (6) | expense | + | asset | - |
| (7) | asset | + | revenue | + |
| (8) | equity | + | asset | - |
| (9) | asset | + | asset | - |

201. On June 1, the cash account balance was \$96,750. During June, cash receipts totaled \$305,000 and the June 30 balance was \$75,880. Determine the cash payments made during June.

ANSWER: $\$75,880 = \$96,750 + \$305,000 - ?$
 Cash payments = \$325,870

202. On January 1, Merry Walker and other stockholders established a catering service. Listed below are accounts to use for transactions (a) through (d), each identified by a number. Following this list are the transactions that occurred during the first month of operations. You are to indicate for each transaction the accounts that should be debited and credited by placing the account number(s) in the appropriate box.

1. Cash
2. Accounts Receivable
3. Supplies
4. Prepaid Insurance
5. Equipment
6. Truck
7. Notes Payable
8. Accounts Payable
9. Common Stock
10. Dividends
11. Fees Earned
12. Wages Expense
13. Rent Expense
14. Utilities Expense
15. Truck Expense
16. Miscellaneous Expense

| Transactions | Account(s) Debited | Account(s) Credited |
|--|--------------------|---------------------|
| a. Stockholders purchased shares of common stock. | | |
| b. Paid rent for the period of January 3 to the end of the month. | | |
| c. Purchased truck for \$30,000 with a cash down payment of \$5,000 and the remainder on a note. | | |
| d. Purchased equipment on account. | | |

ANSWER:

| Transactions | Account(s) Debited | Account(s) Credited |
|--------------|--------------------|---------------------|
| a. | 1 | 9 |
| b. | 13 | 1 |
| c. | 6 | 1,7 |
| d. | 5 | 8 |

203. On January 1, Merry Walker and other stockholders established a catering service. Listed below are accounts to use for transactions (a) through (e), each identified by a number. Following this list are the transactions that occurred in Walker's first month of operation. You are to indicate for each transaction the accounts that should be debited and credited by placing the account number(s) in the appropriate box.

Chapter 02 - Analyzing Transactions

1. Cash
2. Accounts Receivable
3. Supplies
4. Prepaid Insurance
5. Equipment
6. Truck
7. Notes Payable
8. Accounts Payable
9. Common Stock
10. Dividends
11. Fees Earned
12. Wages Expense
13. Rent Expense
14. Utilities Expense
15. Truck Expense
16. Miscellaneous Expense
17. Insurance Expense

| Transactions | Account(s) Debited | Account(s) Credited |
|--|--------------------|---------------------|
| a. Purchased supplies for cash. | | |
| b. Paid the annual premiums on property and casualty insurance. | | |
| c. Received cash for a job previously recorded on account. | | |
| d. Paid a creditor a portion of the amount owed for equipment previously purchased on account. | | |
| e. Received cash for a completed job. | | |

ANSWER:

| Transactions | Account(s) Debited | Account(s) Credited |
|--------------|--------------------|---------------------|
| a. | 3 | 1 |
| b. | 4 | 1 |
| c. | 1 | 2 |
| d. | 8 | 1 |
| e. | 1 | 11 |

204. On January 1, Merry Walker and other stockholders established a catering service. Listed below are accounts to use for transactions (a) through (f), each identified by a number. Following this list are the transactions that occurred in Walker's first month of operations. You are to indicate for each transaction the accounts that should be debited and credited by placing the account number(s) in the appropriate box.

1. Cash
2. Accounts Receivable
3. Supplies
4. Prepaid Insurance
5. Equipment
6. Truck
7. Notes Payable
8. Accounts Payable
9. Common Stock

Chapter 02 - Analyzing Transactions

- 10. Dividends
- 11. Fees Earned
- 12. Wages Expense
- 13. Rent Expense
- 14. Utilities Expense
- 15. Truck Expense
- 16. Miscellaneous Expense
- 17. Insurance Expense

| Transactions | Account(s) Debited | Account(s) Credited |
|---|--------------------|---------------------|
| a. Recorded jobs completed on account and sent invoices to customers. | | |
| b. Received an invoice for truck expenses to be paid in February. | | |
| c. Paid utilities expense | | |
| d. Received cash from customers on account. | | |
| e. Paid employee wages. | | |
| f. Paid dividends to stockholders. | | |

ANSWER:

| Transactions | Account(s) Debited | Account(s) Credited |
|--------------|--------------------|---------------------|
| a. | 2 | 11 |
| b. | 15 | 8 |
| c. | 14 | 1 |
| d. | 1 | 2 |
| e. | 12 | 1 |
| f. | 10 | 1 |

205. Listed below are accounts to use for transactions (a) through (d), each identified by a number. Following this list are the transactions. You are to indicate for each transaction the accounts that should be debited and credited by placing the account number(s) in the appropriate box.

- 1. Cash
- 2. Accounts Receivable
- 3. Office Supplies
- 4. Land
- 5. Interest Receivable
- 6. Building
- 7. Truck
- 8. Equipment
- 9. Accounts Payable
- 10. Interest Payable
- 11. Insurance Payable
- 12. Utilities Expense
- 13. Notes Payable
- 14. Prepaid Insurance
- 15. Service Revenue
- 16. Common Stock
- 17. Insurance Expense
- 18. Interest Expense
- 19. Office Supplies Expense

Chapter 02 - Analyzing Transactions

- 20. Unearned Service Revenue
- 21. Dividends

| Transactions | Account(s) Debited | Account(s) Credited |
|---|--------------------|---------------------|
| a. Utility bill is received; payment will be made in 10 days. | | |
| b. Paid the utility bill previously recorded in transaction (a). | | |
| c. Bought a three-year insurance policy and paid in full. | | |
| d. Received \$7,000 from a contract to perform accounting services over the next two years. | | |

ANSWER:

| | Debit | Credit |
|----|-------|--------|
| a. | 12 | 9 |
| b. | 9 | 1 |
| c. | 14 | 1 |
| d. | 1 | 20 |

206. The following two situations are independent of each other.

- 1. On June 1, the cash account balance was \$45,750. During June, cash payments totaled \$243,910, and the June 30 balance was \$53,200. Determine the cash receipts during June and show your calculation.
- 2. On March 1, the supplies account balance was \$1,800. During March, supplies of \$2,450 were purchased, and \$630 of supplies were on hand as of March 31. Determine the supplies expense for March and show your calculation.

ANSWER: 1. $\$53,200 = \$45,750 + \text{Cash receipts} - \$243,910$
 Cash receipts = \$251,360

2. $\$630 = \$1,800 + \$2,450 - \text{Supplies expense}$
 Supplies expense = \$3,620

207. Set up T accounts for Cash; Accounts Receivable; Supplies; Accounts Payable; Common Stock; Dividends; Professional Fees; and Operating Expenses.

- (a) In the T accounts, record the following transactions of Potter Pool Services for June, identifying each entry by number:
 - (1) Shareholders invested \$12,500 cash in the business by purchasing common stock.
 - (2) Purchased supplies on account, \$6,250.
 - (3) Paid operating expenses, \$5,500.
 - (4) Billed clients for fees, \$7,440.
 - (5) Received cash from cash clients, \$4,700.
 - (6) Paid creditors on account, \$1,400.
 - (7) Received \$3,100 from clients on account.
 - (8) Paid \$1,500 cash dividends.
- (b) Prepare a trial balance as of June 30 for Potter Pool Services.
- (c) Assuming that supplies expense (which has not been recorded) amounts to \$1,500 for June, determine the following:

Chapter 02 - Analyzing Transactions

provided under the accounting equation. You need an identification code for **each** element of the accounting equation. An example is given before the first transaction.

I-Increase

D-Decrease

NE-No Effect

| | | <u>Assets</u> | = | <u>Liabilities</u> | + | <u>Stockholders' Equity</u> |
|---------|--|---------------|---|--------------------|---|---------------------------------|
| Example | A stockholder invests in his new business by giving equipment valued at \$3,500. | <u>I</u> | | <u>NE</u> | | <u>I</u> |
| (a) | Cash sales are made. | _____ | | _____ | | _____ |
| (b) | Equipment is purchased on credit. | _____ | | _____ | | _____ |
| (c) | Payment is made for the equipment purchased on credit in (b). | _____ | | _____ | | _____ |
| (d) | The company sold excess supplies to another company on credit. | _____ | | _____ | | _____ |
| (e) | Cash is collected from customers for accounts receivable balances. | _____ | | _____ | | _____ |

ANSWER:

| | | <u>Assets</u> | = | <u>Liabilities</u> | + | <u>Stockholders' Equity</u> |
|-----|--|---------------|---|--------------------|---|---------------------------------|
| (a) | Cash sales are made. | <u>I</u> | | <u>NE</u> | | <u>I</u> |
| (b) | Equipment is purchased on credit. | <u>I</u> | | <u>I</u> | | <u>NE</u> |
| (c) | Payment is made for the equipment purchased on credit in (b). | <u>D</u> | | <u>D</u> | | <u>NE</u> |
| (d) | The company sold excess supplies to another company on credit. | <u>NE</u> | | <u>NE</u> | | <u>NE</u> |
| (e) | Cash is collected from customers for accounts receivable balances. | <u>NE</u> | | <u>NE</u> | | <u>NE</u> |

216. *Journalize the following five transactions for Newman & Associates, Inc. Omit explanations.*

March 1 Bills are sent to clients for services provided in February in the amount of \$800.

9 Corner Office, Inc. delivers office furniture (\$1,060) and office supplies (\$160) to Newman, leaving an invoice for \$1,220.

Chapter 02 - Analyzing Transactions

- 15 Payment is made to Corner Office, Inc. for the furniture and office supplies delivered on March 9.
- 23 A bill for \$430 for electricity for the month of March is received and will be paid on its due date in April.
- 31 Salaries of \$850 are paid to employees.

ANSWER:

| | | | |
|---------|---------------------|-------|-------|
| March 1 | Accounts Receivable | 800 | |
| | Fees Earned | | 800 |
| 9 | Office Furniture | 1,060 | |
| | Office Supplies | 160 | |
| | Accounts Payable | | 1,220 |
| 15 | Accounts Payable | 1,220 | |
| | Cash | | 1,220 |
| 23 | Electricity Expense | 430 | |
| | Accounts Payable | | 430 |
| 31 | Salaries Expense | 850 | |
| | Cash | | 850 |

217. For the following, mark a “D” if the following account normally has a debit balance and mark a “C” if the following account normally has a credit balance.

- ____ 1. Notes Payable
- ____ 2. Mortgage Payable
- ____ 3. Dividends
- ____ 4. Accounts Receivable
- ____ 5. Common Stock
- ____ 6. Rent Revenue
- ____ 7. Unearned Revenue
- ____ 8. Utility Expense
- ____ 9. Automobiles

ANSWER: 1.C 2.C 3.D 4.D 5.C 6.C 7.C 8.D 9.D

218. Increases and decreases in various types of accounts are listed below. In each case, indicate by "Dr." or "Cr." (a) whether the change in the account would be recorded as a debit or a credit and (b) whether the normal balance of the account is a debit or a credit.

| | (a) Recorded <u>As</u> | (b) Normal <u>Balance</u> |
|-------------------------------------|------------------------------|---------------------------------|
| (1) Increase in Common Stock | _____ | _____ |
| (2) Increase in Dividends | _____ | _____ |
| (3) Decrease in Accounts Receivable | _____ | _____ |
| (4) Increase in Note Payable | _____ | _____ |
| (5) Increase in Accounts Payable | _____ | _____ |
| (6) Decrease in Supplies | _____ | _____ |

Chapter 02 - Analyzing Transactions

- | | | |
|-------------------------------------|-------|-------|
| (7) Decrease in Salaries Expense | _____ | _____ |
| (8) Increase in Accounts Receivable | _____ | _____ |
| (9) Increase in Cash | _____ | _____ |
| (10) Decrease in Land | _____ | _____ |

ANSWER:

| | <u>(a)</u> | <u>(b)</u> |
|------|------------|------------|
| (1) | Cr. | Cr. |
| (2) | Dr. | Dr. |
| (3) | Cr. | Dr. |
| (4) | Cr. | Cr. |
| (5) | Cr. | Cr. |
| (6) | Cr. | Dr. |
| (7) | Cr. | Dr. |
| (8) | Dr. | Dr. |
| (9) | Dr. | Dr. |
| (10) | Cr. | Dr. |

219. Record the following selected transactions for April in a two-column journal, identifying each entry by letter:

- (a) Received \$18,000 from sale of common stock.
- (b) Purchased equipment for \$27,000, paying \$10,000 in cash and giving a note payable for the remainder.
- (c) Paid \$2,300 for rent for April.
- (d) Purchased \$1,500 of supplies on account.
- (e) Recorded \$9,800 of fees earned on account.
- (f) Received \$7,500 in cash for fees earned.
- (g) Paid \$1,200 to creditors on account.
- (h) Paid wages of \$3,425.
- (i) Received \$7,900 from customers on account.
- (j) Recorded dividends of \$1,875.

ANSWER:

| | | |
|-------------------------|--------|--------|
| (a) Cash | 18,000 | |
| Common Stock | | 18,000 |
| (b) Equipment | 27,000 | |
| Cash | | 10,000 |
| Notes Payable | | 17,000 |
| (c) Rent Expense | 2,300 | |
| Cash | | 2,300 |
| (d) Supplies | 1,500 | |
| Accounts Payable | | 1,500 |
| (e) Accounts Receivable | 9,800 | |
| Fees Earned | | 9,800 |
| (f) Cash | 7,500 | |
| Fees Earned | | 7,500 |
| (g) Accounts Payable | 1,200 | |
| Cash | | 1,200 |

Chapter 02 - Analyzing Transactions

| | | |
|---------------------|-------|-------|
| (h) Wages Expense | 3,425 | |
| Cash | | 3,425 |
| (i) Cash | 7,900 | |
| Accounts Receivable | | 7,900 |
| (j) Dividends | 1,875 | |
| Cash | | 1,875 |

220. On January 12, JumpStart Co. purchased \$870 in office supplies.

(a) Journalize this transaction as if JumpStart paid cash.

(b) (1) Journalize this transaction as if JumpStart purchased the supplies on account.

(b) (2) On January 18, JumpStart pays the amount due. Journalize this event.

ANSWER: (a)

| | | | |
|---------|-----------------|-----|-----|
| Jan. 12 | Office Supplies | 870 | |
| | Cash | | 870 |

| | | | |
|---------|------------------|-----|-----|
| (b)(1) | | | |
| Jan. 12 | Office Supplies | 870 | |
| | Accounts Payable | | 870 |

| | | | |
|---------|------------------|-----|-----|
| (b)(2) | | | |
| Jan. 18 | Accounts Payable | 870 | |
| | Cash | | 870 |

221. On November 10, JumpStart Co. provides \$2,900 in services to clients. At the time of service, the clients paid \$600 in cash and put the balance on account.

(a) Journalize this event.

(b) On November 20, JumpStart Co. clients paid an additional \$900 on their accounts due. Journalize this event.

(c) Calculate the accounts receivable balance on November 30.

| | | | |
|----------------------------|---------------------|-------|-------|
| ANSWER: (a) Nov. 10 | Cash | 600 | |
| | Accounts Receivable | 2,300 | |
| | Fees Earned | | 2,900 |

| | | | |
|-------------|---------------------|-----|-----|
| (b) Nov. 20 | Cash | 900 | |
| | Accounts Receivable | | 900 |

| | | | |
|-----|--|----------------|--|
| (c) | | | |
| | Original invoice | \$2,900 | |
| | Less cash paid upon completion | <u>600</u> | |
| | Original amount on accounts receivable | \$2,300 | |
| | Less Nov. 20 payment | <u>900</u> | |
| | Accounts receivable balance | <u>\$1,400</u> | |

222. Prepare a journal entry for the purchase of a truck on April 4 for \$85,700, paying \$15,000 cash and the remainder on account. Omit explanation.

| | | | |
|------------------------|-------|--------|--------|
| ANSWER: April 4 | Truck | 85,700 | |
| | Cash | | 15,000 |

Chapter 02 - Analyzing Transactions

| | | | | |
|---|---------------------|--|-------|-------|
| 4 | Advertising Expense | | 700 | |
| | Cash | | | 700 |
| 5 | Cash | | 2,500 | |
| | Accounts Receivable | | | 2,500 |
| 6 | Dividends | | 1,010 | |
| | Cash | | | 1,010 |
| 7 | Telephone Expense | | 900 | |
| | Accounts Payable | | | 900 |
| 8 | Accounts Payable | | 900 | |
| | Cash | | | 900 |

224. On December 1, JumpStart Company provides \$2,800 in services to clients.

(a) Journalize this event as if the clients had paid cash at the time the services were rendered.

(b)(1) Journalize this event as if the clients had been rendered the services on account.

(b)(2) Assume that the clients paid \$1,200 of the amount on account on December 30. Journalize this transaction.

ANSWER:

| | | | | |
|--------|---------|---------------------|-------|-------|
| (a) | Dec. 1 | Cash | 2,800 | |
| | | Fees Earned | | 2,800 |
| (b)(1) | Dec. 1 | Accounts Receivable | 2,800 | |
| | | Fees Earned | | 2,800 |
| (b)(2) | Dec. 30 | Cash | 1,200 | |
| | | Accounts Receivable | | 1,200 |

225. Analyze the effect of the following transactions on the accounting equation.

- The company paid \$725 to a vendor for supplies purchased previously on account.
- The company performed \$850 of services and billed the customer.
- The company received a utility bill for \$395 and will pay it next month.
- The company paid dividends of \$145.
- The company paid \$315 in salaries to its employees.
- The company collected \$730 of cash from its customers on account.

Some of the possible effects of a transaction on the accounting equation are listed below:

- Assets, Dr.; Assets, Cr.
- Assets, Dr.; Stockholders' Equity, Cr.
- Assets, Dr.; Liabilities, Cr.
- Assets, Dr.; Revenues, Cr.
- Liabilities, Dr.; Assets, Cr.
- Dividends, Dr.; Assets, Cr.
- Expenses, Dr.; Assets, Cr.
- Expenses, Dr.; Liabilities, Cr.

Put the appropriate letter next to each transaction.

ANSWER:

| Transaction | Effect on the accounting equation |
|-------------|-----------------------------------|
| (a) | 5 |

Chapter 02 - Analyzing Transactions

- A. Payment of a cash dividend \$6,800 was journalized and posted as a debit of \$8,600 to Salaries Expense and a credit of \$8,600 to Cash.
- B. A fee of \$9,780 earned was debited to Accounts Receivable for \$7,980 and credited to Fees Earned for \$9,780.
- C. A payment of \$3,000 to a creditor was posted as a credit of \$3,000 to Accounts Payable and a credit of \$3,000 to Cash.

- ANSWER:**
- a. The totals are equal.
 - b. The totals are unequal. The credit total is higher by \$1,800.
 - c. The totals are unequal. The credit total is higher by \$6,000.

233. Below is the unadjusted trial balance for Dawson Designs.

REQUIRED:

- (1) Identify the errors in the trial balance. All accounts have normal balances.
- (2) Prepare a corrected trial balance.

| Dawson Designs Co. Unadjusted Trial Balance For the Month of January | | |
|--|----------------|----------------|
| | Debits | Credits |
| Cash | 23,000 | |
| Accounts Receivable | | 49,700 |
| Prepaid Insurance | 11,300 | |
| Equipment | 150,500 | |
| Accounts Payable | 6,050 | |
| Salaries Payable | | 4,250 |
| Common Stock | | 110,000 |
| Dividends | | 18,500 |
| Service Revenue | | 236,600 |
| Salary Expense | 98,930 | |
| Miscellaneous Expense | | 4,970 |
| | <u>424,020</u> | <u>424,020</u> |

- ANSWER:** (1)
- a. The debit column is added incorrectly; the sum is actually \$289,780.
 - b. The trial balance should be dated January 31, rather than “For the Month of January”
 - c. The Accounts Receivable balance should be in the debit column.
 - d. The Accounts Payable balance should be in the credit column.
 - e. The Dividends balance should be in the debit column.
 - f. The Miscellaneous Expense balance should be in the debit column.

(2)

| Dawson Designs Co. Unadjusted Trial Balance January 31 | | |
|--|--------|---------|
| | Debits | Credits |
| Cash | 23,000 | |
| Accounts Receivable | 49,700 | |

Chapter 02 - Analyzing Transactions

| | | |
|-----------------------|----------------|----------------|
| Prepaid Insurance | 11,300 | |
| Equipment | 150,500 | |
| Accounts Payable | | 6,050 |
| Salaries Payable | | 4,250 |
| Common Stock | | 110,000 |
| Dividends | 18,500 | |
| Service Revenue | | 236,600 |
| Salary Expense | 98,930 | |
| Miscellaneous Expense | 4,970 | |
| | <u>356,900</u> | <u>356,900</u> |

234. Prepare a trial balance, listing the following accounts in proper sequence. The accounts (all normal balances) were taken from the ledger of Sophie Designs Co. on April 30.

| | | | |
|-----------------------|----------|-------------------|----------|
| Accounts Payable | \$ 4,100 | Rent Expense | \$11,500 |
| Accounts Receivable | 3,450 | Salary Expense | 14,000 |
| Cash | 6,700 | Fees Earned | 45,425 |
| Common Stock | 17,800 | Supplies | 3,125 |
| Dividends | 7,500 | Supplies Expense | 1,700 |
| Equipment | 14,500 | Utilities Expense | 4,000 |
| Miscellaneous Expense | 850 | | |

ANSWER:

Sophie Designs
Trial Balance
April 30

| | | |
|-----------------------|---------------|---------------|
| Cash | 6,700 | |
| Accounts Receivable | 3,450 | |
| Supplies | 3,125 | |
| Equipment | 14,500 | |
| Accounts Payable | | 4,100 |
| Common Stock | | 17,800 |
| Dividends | 7,500 | |
| Fees Earned | | 45,425 |
| Salary Expense | 14,000 | |
| Rent Expense | 11,500 | |
| Utilities Expense | 4,000 | |
| Supplies Expense | 1,700 | |
| Miscellaneous Expense | 850 | |
| | <u>67,325</u> | <u>67,325</u> |

235.

- (a) List the errors in the following trial balance. All accounts have normal balances.
- (b) What would be the new totals of the trial balance after errors are corrected? What would be the balance of Accounts Receivable?

Winslow's Auto Body
Trial Balance
For Month Ending April 30

| | | |
|---------------------|---|--------|
| Cash | | 19,475 |
| Accounts Receivable | ? | |

Chapter 02 - Analyzing Transactions

| | | |
|-----------------------|---------------|---------------|
| Supplies | | 1,000 |
| Equipment | 15,000 | |
| Prepaid Insurance | | 500 |
| Accounts Payable | | 2,500 |
| Common Stock | 17,000 | |
| Dividends | | 1,000 |
| Fees Earned | | 49,600 |
| Salary Expense | 14,500 | |
| Rent Expense | | 9,000 |
| Utilities Expense | 1,400 | |
| Supplies Expense | 3,900 | |
| Miscellaneous Expense | <u>250</u> | |
| | <u>55,000</u> | <u>81,575</u> |

- ANSWER:**
- (a)
 - (1) In the heading, the date should be April 30, not for a period of time.
 - (2) The Cash balance should be a debit.
 - (3) The Accounts Receivable balance is missing.
 - (4) The Supplies balance should be a debit.
 - (5) The Prepaid Insurance balance should be a debit and this account should follow Supplies.
 - (6) The Common Stock balance should be a credit.
 - (7) The Dividends balance should be a debit.
 - (8) Rent Expense should be a debit.
 - (9) Utilities Expense should appear after Supplies Expense.
 - (10) The trial balance does not balance.
 - (b) The new total for credits would be \$69,100 (\$2,500 accounts payable + \$49,600 fees earned + \$17,000 common stock). Accounts receivable would be \$3,075 (\$69,100 total credits – \$66,025 corrected debits).

236. Answer the following questions for each of the errors listed below, considered individually:

- (a) Did the error cause the trial balance totals to be unequal?
- (b) What is the amount of the difference between the trial balance totals (where applicable)?
- (c) Which of the trial balance totals, debit or credit, is the larger (where applicable)?

Present your answers in columnar form, using the following headings:

| Error (<u>identifying number</u>) | Totals (<u>equal or unequal</u>) | Difference in Totals (<u>amount</u>) | Larger of Totals (<u>debit or credit</u>) |
|--|--|---|--|
| Errors: | | | |
| (1) | A dividend of \$3,000 cash to shareholders was recorded by a debit of \$3,000 to Salary Expense and a credit of \$3,000 to Cash. | | |
| (2) | A \$650 purchase of supplies on account was recorded as a debit of \$1,650 to Equipment and a credit of \$1,650 to Accounts Payable. | | |
| (3) | A purchase of equipment for \$3,450 on account was not recorded. | | |
| (4) | A \$870 receipt on account was recorded as a \$870 debit to Cash and a \$780 credit to Accounts Receivable. | | |
| (5) | A payment of \$1,530 cash on account was recorded only as a credit to Cash. | | |
| (6) | Cash sales of \$8,500 were recorded as a credit of \$8,500 to Cash and a credit of \$8,500 to Fees Earned. | | |

Chapter 02 - Analyzing Transactions

- (7) The debit to record a \$4,000 cash receipt on account was posted twice; the credit was posted once.
- (8) The credit to record a \$300 cash payment on account was posted twice; the debit was posted once.
- (9) The debit balance of \$7,400 in Accounts Receivable was recorded in the trial balance as a debit of \$7,200.

| ANSWER: | Error | Totals | Difference in Totals | Larger of Totals |
|---------|-------|---------|----------------------|------------------|
| (1) | | equal | — | — |
| (2) | | equal | — | — |
| (3) | | equal | — | — |
| (4) | | unequal | \$ 90 | debit |
| (5) | | unequal | 1,530 | credit |
| (6) | | unequal | 17,000 | credit |
| (7) | | unequal | 4,000 | debit |
| (8) | | unequal | 300 | credit |
| (9) | | unequal | 200 | credit |

Use the information below to answer the question that follows.

All nine transactions for Ralston Sports Co. for September, the first month of operations, are recorded in the following T accounts:

| <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Cash</th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">(1) 25,000</td> <td style="width: 50%;">(3) 12,500</td> </tr> <tr> <td>(7) 11,900</td> <td>(5) 7,600</td> </tr> <tr> <td>(9) 9,700</td> <td>(6) 10,500</td> </tr> <tr> <td></td> <td>(8) 7,000</td> </tr> </tbody> </table> | Cash | | (1) 25,000 | (3) 12,500 | (7) 11,900 | (5) 7,600 | (9) 9,700 | (6) 10,500 | | (8) 7,000 | <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Common Stock</th> </tr> </thead> <tbody> <tr> <td style="width: 50%;"></td> <td style="width: 50%;">(1) 25,000</td> </tr> </tbody> </table> | Common Stock | | | (1) 25,000 |
|---|---------------------|--|------------|------------|--|-------------------|-----------|------------|------------|-----------|---|--------------|--|--|------------|
| Cash | | | | | | | | | | | | | | | |
| (1) 25,000 | (3) 12,500 | | | | | | | | | | | | | | |
| (7) 11,900 | (5) 7,600 | | | | | | | | | | | | | | |
| (9) 9,700 | (6) 10,500 | | | | | | | | | | | | | | |
| | (8) 7,000 | | | | | | | | | | | | | | |
| Common Stock | | | | | | | | | | | | | | | |
| | (1) 25,000 | | | | | | | | | | | | | | |
| <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Accounts Receivable</th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">(4) 9,900</td> <td style="width: 50%;">(9) 9,700</td> </tr> </tbody> </table> | Accounts Receivable | | (4) 9,900 | (9) 9,700 | <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Dividends</th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">(8) 7,000</td> <td style="width: 50%;"></td> </tr> </tbody> </table> | Dividends | | (8) 7,000 | | | | | | | |
| Accounts Receivable | | | | | | | | | | | | | | | |
| (4) 9,900 | (9) 9,700 | | | | | | | | | | | | | | |
| Dividends | | | | | | | | | | | | | | | |
| (8) 7,000 | | | | | | | | | | | | | | | |
| <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Supplies</th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">(3) 12,500</td> <td style="width: 50%;"></td> </tr> </tbody> </table> | Supplies | | (3) 12,500 | | <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Fees Earned</th> </tr> </thead> <tbody> <tr> <td style="width: 50%;"></td> <td style="width: 50%;">(4) 9,900</td> </tr> <tr> <td></td> <td>(7) 11,900</td> </tr> </tbody> </table> | Fees Earned | | | (4) 9,900 | | (7) 11,900 | | | | |
| Supplies | | | | | | | | | | | | | | | |
| (3) 12,500 | | | | | | | | | | | | | | | |
| Fees Earned | | | | | | | | | | | | | | | |
| | (4) 9,900 | | | | | | | | | | | | | | |
| | (7) 11,900 | | | | | | | | | | | | | | |
| <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Equipment</th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">(2) 9,500</td> <td style="width: 50%;"></td> </tr> </tbody> </table> | Equipment | | (2) 9,500 | | <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Operating Expense</th> </tr> </thead> <tbody> <tr> <td style="width: 50%;"></td> <td style="width: 50%;">(6) 10,500</td> </tr> </tbody> </table> | Operating Expense | | | (6) 10,500 | | | | | | |
| Equipment | | | | | | | | | | | | | | | |
| (2) 9,500 | | | | | | | | | | | | | | | |
| Operating Expense | | | | | | | | | | | | | | | |
| | (6) 10,500 | | | | | | | | | | | | | | |
| <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Accounts Payable</th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">(5) 7,600</td> <td style="width: 50%;">(2) 9,500</td> </tr> </tbody> </table> | Accounts Payable | | (5) 7,600 | (2) 9,500 | | | | | | | | | | | |
| Accounts Payable | | | | | | | | | | | | | | | |
| (5) 7,600 | (2) 9,500 | | | | | | | | | | | | | | |

237. Prepare a trial balance, listing the accounts in their proper order.

ANSWER:

| | |
|------------------------|--------|
| Ralston Sports Company | |
| Trial Balance | |
| September 30 | |
| | |
| Cash | 9,000 |
| Accounts Receivable | 200 |
| Supplies | 12,500 |
| Equipment | 9,500 |
| Accounts Payable | 1,900 |
| Common Stock | 25,000 |

Chapter 02 - Analyzing Transactions

| | | |
|-------------------|---------------|-----------------|
| Dividends | 7,000 | |
| Fees Earned | | 21,800 |
| Operating Expense | <u>10,500</u> | <u> </u> |
| | <u>48,700</u> | <u>48,700</u> |

238. Lewis Company has a condensed income statement as shown:

| | Year 2 | Year 1 |
|--------------------------|------------------|------------------|
| Sales | \$178,400 | \$162,500 |
| Wage expenses | \$100,000 | \$ 92,500 |
| Rent expenses | 33,000 | 30,000 |
| Utilities expenses | <u>30,000</u> | <u>25,000</u> |
| Total operating expenses | <u>\$163,000</u> | <u>\$147,500</u> |
| Net income | <u>\$ 15,400</u> | <u>\$ 15,000</u> |

REQUIRED:

Prepare a horizontal analysis of Lewis Company’s income statements. Comment on the trends, both favorable and unfavorable.

ANSWER:

| | Year 2 | Year 1 | Increase/ (Decrease) | Percent |
|--------------------------|------------------|------------------|-------------------------|---------|
| Sales | \$178,400 | \$162,500 | \$15,900 | 9.8% |
| Wage expenses | \$100,000 | \$ 92,500 | \$ 7,500 | 8.1% |
| Rent expenses | 33,000 | 30,000 | 3,000 | 10.0% |
| Utilities expenses | <u>30,000</u> | <u>25,000</u> | <u>5,000</u> | 20.0% |
| Total operating expenses | <u>\$163,000</u> | <u>\$147,500</u> | <u>\$15,500</u> | 10.5% |
| Net income | <u>\$ 15,400</u> | <u>\$ 15,000</u> | <u>\$ 400</u> | 2.7% |

While the trend in sales revenue is favorable, it is not sufficient to offset the rising expenses, resulting in a small increase in net income.

239. Nebraska Technologies has a condensed income statement as shown:

| | Year 2 | Year 1 |
|--------------------------|------------------|------------------|
| Sales | \$158,400 | \$162,500 |
| Wage expenses | \$ 80,000 | \$ 92,500 |
| Rent expenses | 28,000 | 30,000 |
| Utilities expenses | <u>30,000</u> | <u>25,000</u> |
| Total operating expenses | <u>\$138,000</u> | <u>\$147,500</u> |
| Net income | <u>\$ 20,400</u> | <u>\$ 15,000</u> |

REQUIRED:

Prepare a horizontal analysis of Nebraska Technologies’ income statements. Comment on the trends, both favorable and unfavorable.

ANSWER:

| | Year 2 | Year 1 | Increase/(Decrease) | Percent |
|--------------|---------------|---------------|---------------------|---------|
| Sales | \$158,400 | \$162,500 | \$ (4,100) | (2.5)% |
| Wage expense | \$ 80,000 | \$ 92,500 | \$(12,500) | (13.5)% |
| Rent expense | 28,000 | 30,000 | (2,000) | (6.7)% |
| Utilities | <u>30,000</u> | <u>25,000</u> | <u>5,000</u> | 20.0% |

Chapter 02 - Analyzing Transactions

| | | | | |
|--------------------------|------------------|------------------|-------------------|--------|
| expense | | | | |
| Total operating expenses | <u>\$138,000</u> | <u>\$147,500</u> | <u>\$ (9,500)</u> | (6.4)% |
| Net income | <u>\$ 20,400</u> | <u>\$ 15,000</u> | <u>\$ 5,400</u> | 36.0% |

The trend in sales revenue is unfavorable, but that is more than offset by the declines in operating expenses, with the exception of utilities, which increased over the period. Despite the 2.5% drop in sales, the net effect was a favorable increase in net income of 36%, which was in large part spurred by the drop in wages expense.