

TEST BANK

A graphic of a spiral-bound notebook. The cover is black with the text 'IMAGE COMING SOON' in white, bold, sans-serif font. The spiral binding is on the left side.

**IMAGE
COMING
SOON**

Chapter 2—The Accounting Information System

TRUE/FALSE

1. The time-period assumption assumes that a company prepares its financial statements every month.

ANS: F PTS: 1 DIF: Medium OBJ: 2-1
 NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

2. Because it tends to provide the most reliable measure of the activity, many assets are carried on the balance sheet at their historical cost.

ANS: T PTS: 1 DIF: Medium OBJ: 2-1
 NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

3. The term used to refer to an asset's original cost is "historical cost."

ANS: T PTS: 1 DIF: Easy OBJ: 2-1
 NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

4. The going concern assumption infers that a company will continue to operate into the near future.

ANS: T PTS: 1 DIF: Easy OBJ: 2-1
 NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

5. A company in the process of liquidation is considered to be under the going concern assumption.

ANS: F PTS: 1 DIF: Medium OBJ: 2-1
 NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

6. The International Accounting Standards Board (IASB) was created in order to develop worldwide accounting standards that are required for all financial statements, regardless of the country where the financial statements were prepared.

ANS: F PTS: 1 DIF: Medium OBJ: 2-1
 NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

7. The initial step in the recording process is posting.

ANS: F PTS: 1 DIF: Medium OBJ: 2-6
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

8. The issuance of common stock decreases a company's assets and increases its contributed capital.

ANS: F PTS: 1 DIF: Medium REF: CS2-1
 OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

9. The payment of a dividend increases both cash and stockholders' equity of the distributing entity.

ANS: F PTS: 1 DIF: Medium REF: CS2-1
 OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

10. According to the historical cost principle, assets are always carried at their current market value.

ANS: F PTS: 1 DIF: Easy OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

11. Every accounting transaction affects both the balance sheet and the income statement.

ANS: F PTS: 1 DIF: Medium OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

12. The accounting equation must balance before and after every accounting transaction.

ANS: T PTS: 1 DIF: Easy OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

13. A company's chart of accounts will reflect the nature of its business.

ANS: T PTS: 1 DIF: Easy OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

14. GAAP has established a universal chart of accounts that is applicable to all businesses in the United States.

ANS: F PTS: 1 DIF: Easy OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

15. A T-account for Cash cannot contain any credits.

ANS: F PTS: 1 DIF: Easy REF: CS2-2

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

16. A debit entry increases assets and decreases liability accounts.

ANS: T PTS: 1 DIF: Easy REF: CS2-2

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

17. The normal balance of the dividends account is a credit.

ANS: F PTS: 1 DIF: Easy REF: CS2-3

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

18. Under the double-entry system of accounting, every transaction is entered in at least two accounts on opposite sides of a T-account.

ANS: T PTS: 1 DIF: Easy OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

19. Under the double-entry system of accounting, a debit is always a negative entry.

ANS: F PTS: 1 DIF: Easy OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

20. Normal account balances should be on the side of the T-account that causes the account to increase.

ANS: T PTS: 1 DIF: Medium OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

21. Only events that can be measured with sufficient reliability will be recognized in the accounting system.

ANS: T PTS: 1 DIF: Medium OBJ: 2-2
NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

22. The general ledger is an example of a book of original entry.

ANS: F PTS: 1 DIF: Easy OBJ: 2-5
NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

23. The general ledger is often used for the initial recording of repetitive transactions.

ANS: F PTS: 1 DIF: Easy OBJ: 2-6
NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

24. A trial balance is the listing of each active account and its corresponding debit or credit balance at a particular point in time.

ANS: T PTS: 1 DIF: Easy OBJ: 2-7
NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

25. The equality of debits and credit in a trial balance means that all the entries were correctly posted to the accounts.

ANS: F PTS: 1 DIF: Easy OBJ: 2-7
NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

26. The purchase of office supplies from a supplier is an example of an external event.

ANS: T PTS: 1 DIF: Easy OBJ: 2-2
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

27. The conservatism principle is concerned with the possibility of understating assets or income.

ANS: F PTS: 1 DIF: Easy OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

28. A full disclosure policy stipulates that all information that would make a difference to financial statement users should be revealed.

ANS: T PTS: 1 DIF: Easy OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

29. If a company performed services for credit, then the debit side of the journal entry would be to Accounts Payable and the credit would be to Service Revenue.

ANS: F PTS: 1 DIF: Medium REF: CS2-4

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

30. If a company paid a liability related to items previously purchased, then assets and liabilities would both increase at the time of the payment.

ANS: F PTS: 1 DIF: Medium REF: CS2-1

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

COMPLETION

1. The various rules and conventions that have evolved over time to guide the preparation of financial statements in the U.S. are called _____.

ANS:

Generally accepted accounting principles

GAAP

PTS: 1 DIF: Medium OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

2. The concept that assumes that assets are recorded at the amount to acquire them is called the _____ principle.

ANS: historical cost

PTS: 1 DIF: Easy OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

3. The concept that assumes that an entity is **not** in the process of bankruptcy is called _____.

ANS: going concern

PTS: 1 DIF: Medium OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

4. The _____ is the U.S. federal government agency with the ultimate authority to determine the accounting rules for companies whose stock is sold to the public.

ANS:

Securities Exchange Commission

SEC

PTS: 1 DIF: Easy OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

5. The _____ is the private sector group with authority to set accounting standards in the United States.

ANS:
Financial Accounting Standards Board
FASB

PTS: 1 DIF: Easy OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

6. _____ is the magnitude of an omission or misstatement in accounting information that will influence the decision of someone relying on the information.

ANS: Materiality

PTS: 1 DIF: Medium OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

7. _____ is the capacity of information to make a difference in a decision by helping make timely predictions or provide timely feedback.

ANS: Relevance

PTS: 1 DIF: Medium OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

8. When preparing the financial statements, the accountant for James Brothers Technologies must estimate the balances of certain accounts. When two possible estimates are available and when these estimates are about equally likely, the accountant's prudent reaction is to select the least optimistic estimate in terms of the recorded amounts of assets or income statement accounts. This is referred to as the principle of _____.

ANS: conservatism

PTS: 1 DIF: Medium OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

9. _____ is the quality of accounting information that makes it dependable in representing the events that it purports to represent.

ANS: Reliability

PTS: 1 DIF: Medium OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

10. _____ is the quality of accounting information that allows a user to analyze two or more companies and look for similarities and differences.

ANS: Comparability

PTS: 1 DIF: Medium OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

11. _____ is the quality of accounting information that allows a user to compare two or more accounting periods for a single company.

ANS: Consistency

PTS: 1 DIF: Medium OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

12. In order for an internal or external event to be recognized in an accounting system, the items making up the event must impact the financial statements and they must be sufficiently _____ and _____.

ANS:
reliable, measurable
measurable, reliable

PTS: 1 DIF: Medium OBJ: 2-2
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

13. _____ documents provide the evidence needed in an accounting system to record a transaction.

ANS: Source

PTS: 1 DIF: Medium OBJ: 2-3
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

14. The issuance of common stock increases both _____ and stockholders' equity.

ANS: assets

PTS: 1 DIF: Medium REF: CS2-1 OBJ: 2-3
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

15. Borrowing from the bank in order to acquire computer equipment for \$1,500 has the effect of increasing both assets and _____.

ANS: liabilities

PTS: 1 DIF: Medium REF: CS2-1 OBJ: 2-3
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

16. If a law firm provides services on account for its clients, both _____ and retained earnings will increase.

ANS: assets

PTS: 1 DIF: Medium REF: CS2-1 OBJ: 2-3
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

17. The payment of salaries to employees will debit an expense account and credit _____.

ANS: cash

PTS: 1 DIF: Medium REF: CS2-4 OBJ: 2-5
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

18. The _____ principle says that assets of a company are initially recorded at their original cost.
- ANS: historical cost
- PTS: 1 DIF: Medium OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
19. A(n) _____ is a list of all the accounts used by an entity.
- ANS: chart of accounts
- PTS: 1 DIF: Easy OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
20. The _____ is the file or book that contains all of the company's accounts.
- ANS: general ledger
- PTS: 1 DIF: Easy OBJ: 2-6
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
21. The _____ side, or left-side, of a liability account is used to record decreases in the account balance.
- ANS: debit
- PTS: 1 DIF: Easy REF: CS2-2 OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
22. For assets, expenses, and dividend accounts, credit entries represent _____.
- ANS: decreases
- PTS: 1 DIF: Easy REF: CS2-2 | CS2-3
OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
23. For liabilities, stockholders' equity, and revenue accounts, debit entries represent _____.
- ANS: decreases
- PTS: 1 DIF: Easy REF: CS2-2 | CS2-3
OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
24. Credits are always on the _____ side of a T-account.
- ANS: right
- PTS: 1 DIF: Easy OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

25. The normal balance of a revenue account is a(n) _____.

ANS: credit

PTS: 1 DIF: Easy REF: CS2-3 OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

26. A(n) _____ is a chronological record of all transactions entered into by a business.

ANS: journal

PTS: 1 DIF: Easy OBJ: 2-5
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

27. A(n) _____ is a list of each active account and its debit or credit balance at a specific point in time.

ANS: trial balance

PTS: 1 DIF: Easy OBJ: 2-7
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

MATCHING

For each transaction provided, choose the appropriate account from the list that would receive a debit entry as a result of the transaction. (*Choices may be used more than once.*)

- a. Cash
 - b. Accounts receivable
 - c. Supplies
 - d. Prepaid insurance
 - e. Supplies
 - f. Equipment
 - g. Accounts payable
 - h. Unearned revenues
 - i. Notes payable
 - j. Common stock
 - k. Retained earnings
 - l. Service revenue
 - m. Salary expense
 - n. Insurance expense
 - o. Utilities expense
 - p. Dividends
1. Issuing common stock
 2. Borrowing cash
 3. Purchasing equipment for cash
 4. Purchasing a 6-month insurance policy
 5. Purchasing supplies on credit
 6. Providing services to customers for cash
 7. Providing services to customers for credit
 8. Receiving cash from a customer in advance of providing any services
 9. Paying for items previously purchased on credit

10. Paying salaries to employees
11. Collecting from customers for services sold previously on credit
12. Paying utilities
13. Paying dividends

1. ANS: A PTS: 1 DIF: Easy REF: CS2-4
OBJ: 2-5
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
2. ANS: A PTS: 1 DIF: Easy REF: CS2-4
OBJ: 2-5
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
3. ANS: F PTS: 1 DIF: Easy REF: CS2-4
OBJ: 2-5
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
4. ANS: D PTS: 1 DIF: Easy REF: CS2-4
OBJ: 2-5
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
5. ANS: C PTS: 1 DIF: Easy REF: CS2-4
OBJ: 2-5
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
6. ANS: A PTS: 1 DIF: Easy REF: CS2-4
OBJ: 2-5
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
7. ANS: B PTS: 1 DIF: Easy REF: CS2-4
OBJ: 2-5
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
8. ANS: A PTS: 1 DIF: Easy REF: CS2-4
OBJ: 2-5
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
9. ANS: G PTS: 1 DIF: Easy REF: CS2-4
OBJ: 2-5
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
10. ANS: M PTS: 1 DIF: Easy REF: CS2-4
OBJ: 2-5
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
11. ANS: A PTS: 1 DIF: Easy REF: CS2-4
OBJ: 2-5
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
12. ANS: O PTS: 1 DIF: Easy REF: CS2-4
OBJ: 2-5
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
13. ANS: P PTS: 1 DIF: Easy REF: CS2-4
OBJ: 2-5
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

Several transactions of Loggins Inc. are listed. Use the choices to identify the effect on the accounting equation for each transaction listed. (*Choices may be used more than once.*)

- a. Assets and liabilities increase
- b. Assets and contributed capital increase
- c. Assets and retained earnings increase
- d. Two asset accounts are impacted, but there is no net effect on Loggins' total assets
- e. Assets and liabilities decrease

- f. Assets and retained earnings decrease
 g. Liabilities increase and retained earnings decrease
 h. Liabilities decrease and retained earnings increase
14. Issuing common stock to investors
 15. Borrowing cash from a bank
 16. Purchasing a building for cash
 17. Purchasing insurance
 18. Purchasing supplies on credit
 19. Providing services for customers for cash
 20. Providing services for customers for credit
 21. Receiving cash from customers in advance for services to be provided next month
 22. Paying for a previous purchase on credit
 23. Paying salaries to employees
 24. Collecting cash from customers on credit
 25. Paying utilities
 26. Paying dividends to investors
-
14. ANS: B PTS: 1 DIF: Medium REF: CS2-1
 OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
 15. ANS: A PTS: 1 DIF: Medium REF: CS2-1
 OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
 16. ANS: D PTS: 1 DIF: Medium REF: CS2-1
 OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
 17. ANS: D PTS: 1 DIF: Medium REF: CS2-1
 OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
 18. ANS: A PTS: 1 DIF: Medium REF: CS2-1
 OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
 19. ANS: C PTS: 1 DIF: Medium REF: CS2-1
 OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
 20. ANS: C PTS: 1 DIF: Medium REF: CS2-1
 OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
 21. ANS: A PTS: 1 DIF: Medium REF: CS2-1
 OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
 22. ANS: E PTS: 1 DIF: Medium REF: CS2-1
 OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
 23. ANS: F PTS: 1 DIF: Medium REF: CS2-1
 OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
 24. ANS: D PTS: 1 DIF: Medium REF: CS2-1
 OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
 25. ANS: F PTS: 1 DIF: Medium REF: CS2-1

- OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
26. ANS: F PTS: 1 DIF: Medium REF: CS2-1
 OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

Organizations important to accounting are listed. Select the organization that most closely achieves the role described. (*Choices may be used more than once.*)

- a. Financial Accounting Standards Board (FASB)
 - b. International Accounting Standards Board (IASB)
 - c. Securities and Exchange Commission (SEC)
27. Works to reduce differences in accounting standards throughout the world.
28. Issues financial accounting concepts that are used as a guide to accounting standard-setting in the U.S.
29. Has the ultimate authority to set accounting standards, but has allowed the profession to do so.
30. Requires that publicly traded companies file financial information on a timely basis.

27. ANS: B PTS: 1 DIF: Easy OBJ: 2-1
 NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP
28. ANS: A PTS: 1 DIF: Easy OBJ: 2-1
 NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP
29. ANS: C PTS: 1 DIF: Easy OBJ: 2-1
 NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP
30. ANS: C PTS: 1 DIF: Easy OBJ: 2-1
 NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

Select the choice that describes the type of transaction and whether it should be recorded in the accounting system. (*Choices may be used more than once.*)

- a. External event to be recorded as a transaction
 - b. Internal event to be recorded as a transaction
 - c. Event which should not be recognized in the accounting system
31. An order is placed with a supplier for merchandise.
32. Common stock is issued to investors.
33. Cash sales are made.
34. Materials are entered onto the assembly line.
35. Tax returns are prepared by the company's accountant.
36. A bill is received for the current month's utilities.
37. Payments are received from customers to whom merchandise was sold on credit.
38. Amounts collected from cash and credit customers is deposited in the company's bank account.

31. ANS: C PTS: 1 DIF: Medium OBJ: 2-2
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
32. ANS: A PTS: 1 DIF: Medium OBJ: 2-2
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
33. ANS: A PTS: 1 DIF: Medium OBJ: 2-2
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
34. ANS: B PTS: 1 DIF: Medium OBJ: 2-2
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
35. ANS: C PTS: 1 DIF: Medium OBJ: 2-2
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
36. ANS: A PTS: 1 DIF: Medium OBJ: 2-2
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

37. ANS: A PTS: 1 DIF: Medium OBJ: 2-2
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
38. ANS: A PTS: 1 DIF: Medium OBJ: 2-2
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

Several accounts from the financial records of Wynn Linders, Inc. are listed. Indicate its normal balance and the debit/credit rules for increasing the account. (*Choices may be used more than once.*)

- a. Debit
- b. Credit

39. Income Tax Expense
40. Accounts Payable
41. Retained Earnings
42. Prepaid Insurance
43. Service Revenues
44. Notes Payable
45. Intangibles
46. Common Stock
47. Dividends
48. Unearned Revenues

39. ANS: A PTS: 1 DIF: Easy REF: CS2-3
 OBJ: 2-4
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
40. ANS: B PTS: 1 DIF: Easy REF: CS2-2
 OBJ: 2-4
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
41. ANS: B PTS: 1 DIF: Easy REF: CS2-2
 OBJ: 2-4
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
42. ANS: A PTS: 1 DIF: Easy REF: CS2-2
 OBJ: 2-4
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
43. ANS: B PTS: 1 DIF: Easy REF: CS2-3
 OBJ: 2-4
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
44. ANS: B PTS: 1 DIF: Easy REF: CS2-2
 OBJ: 2-4
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
45. ANS: A PTS: 1 DIF: Easy REF: CS2-2
 OBJ: 2-4
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
46. ANS: B PTS: 1 DIF: Easy REF: CS2-2
 OBJ: 2-4
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
47. ANS: A PTS: 1 DIF: Easy REF: CS2-3
 OBJ: 2-4
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions
48. ANS: B PTS: 1 DIF: Easy REF: CS2-2
 OBJ: 2-4
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

MULTIPLE CHOICE

1. Which of the following statements is true regarding economic events?
 - a. The signing of a service contract is an example of an external event that is recorded in the accounting records.
 - b. Every event which affects an entity can be identified from a source document.
 - c. All internal and external events must be measured with sufficient reliability.
 - d. External events involve exchanges between an entity and another entity outside the company.

ANS: D PTS: 1 DIF: Medium OBJ: 2-2
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

2. Which of the following underlying assumptions for the conceptual framework is the reason the dollar is used in the preparation of financial statements?
 - a. Economic Entity
 - b. Continuity
 - c. Time-Period
 - d. Monetary Unit

ANS: D PTS: 1 DIF: Easy OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

3. Which of the following is an assumption made in the preparation of the financial statements?
 - a. Financial statements are prepared for a specific entity that is distinct from the entity's owners.
 - b. The current market value is assumed to be more relevant than the original cost paid.
 - c. The preparation of financial statements for a specific time period assumes that the balance sheet covers a designated period of time.
 - d. Financial statements are prepared assuming that inflation has a distinct effect on the monetary unit.

ANS: A PTS: 1 DIF: Medium OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

4. The time-period assumption is necessary because
 - a. inflation exists and causes confusing swings in financial statement amounts over time.
 - b. external users of financial statements want accurately-reported net income for a specific period of time.
 - c. financial statements users expect full disclosure of all economic events throughout the entire time period.
 - d. it is required by the federal government.

ANS: B PTS: 1 DIF: Easy OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

5. Which of the following statements is true concerning assets?
 - a. Assets are measured using a time-period approach.
 - b. Assets are initially recorded at market value and then adjusted for inflation.
 - c. Assets are initially recorded using the historical cost principle.
 - d. Assets are initially recorded at market value, since historical cost tends to be too arbitrary.

ANS: C PTS: 1 DIF: Medium OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

6. Starko Enterprises purchased land for \$200,000 in 2001. In 2010, an independent appraiser assessed the value of the land at 450,000. At what amount should the land be recorded on Starko's 2010 financial statements?
- \$200,000
 - \$250,000
 - \$450,000
 - Whichever amount Starko considers to be the best indicator of the land's true value.

ANS: A PTS: 1 DIF: Medium OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

7. Which of the following organizations is primarily responsible for establishing GAAP in the United States?
- Securities Exchange Commission (SEC)
 - Financial Accounting Standards Board (FASB)
 - International Accounting Standards Board (IASB)
 - Internal Revenue Service (IRS)

ANS: B PTS: 1 DIF: Easy OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

8. The Securities Exchange Commission (SEC) is concerned with
- Developing a new conceptual framework in order to reduce differences in financial reports for global companies.
 - Setting accounting rules for all companies that are incorporated in the United States.
 - Setting accounting rules for publicly-traded companies in the United States.
 - Working to reduce differences in accounting reports issued by governmental units.

ANS: C PTS: 1 DIF: Medium OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

9. Which organization has the power to set accounting rules for companies whose stock is publicly-traded in the U.S. stock markets, but has delegated its power to another organization?
- International Accounting Standards Board (IASB)
 - Financial Accounting Standards Board (FASB)
 - General Association of Accounting Practitioners (GAAP)
 - Securities Exchange Commission (SEC)

ANS: D PTS: 1 DIF: Easy OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

10. In order for accounting information to be useful in making informed decisions, it must be
- Internal
 - Relevant
 - Reliable
 - Both relevant and reliable

ANS: D PTS: 1 DIF: Easy OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

11. Which of the following is a constraint to the qualitative characteristics of useful accounting information?
- Conservatism
 - Materiality

- c. Relevance
- d. Comparability

ANS: B PTS: 1 DIF: Medium OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

12. The principle of conservatism is concerned with
- a. the avoidance of overstating assets or income in the preparation of financial statements.
 - b. the minimization of costs associated with providing financial information.
 - c. the company's ability to carry out its existing commitments.
 - d. the company's procedures for recording activities at their initial exchange price.

ANS: A PTS: 1 DIF: Easy OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

13. The going concern assumption is concerned with
- a. The company's ability to continue operations long enough to carry out its existing obligations.
 - b. Any information that is capable of influencing the decisions of anyone using the financial statements.
 - c. Measuring ongoing business activities at their exchange price at the time of the initial external transaction.
 - d. offsetting management's natural optimism by providing a prudent approach to uncertainty in financial statement items.

ANS: A PTS: 1 DIF: Medium OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

14. Which of the following statements is **false** with respect to the qualitative characteristics of useful accounting information?
- a. Comparability is concerned with different companies using the same accounting methods; whereas, consistency is concerned with a single company using the same accounting methods over time.
 - b. Trade-offs are often necessary in evaluating relevant versus reliable information.
 - c. All external and internal events must be fully disclosed in the accounting system.
 - d. The full disclosure policy should be followed in all situations that would make a difference to financial statement users.

ANS: C PTS: 1 DIF: Medium OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

15. Which of the following is an internal event?
- a. Caddie salaries are paid by a country club.
 - b. Dividends are distributed to a company's stockholders.
 - c. Potatoes used to make french fries in a fast-food restaurant are purchased.
 - d. Products are transferred from the assembly area to the painting station.

ANS: D PTS: 1 DIF: Medium OBJ: 2-2
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

16. All of the following are external events **except**:
- a. a grocery store recognizes losses from spoilage.
 - b. a grocery store runs ads in a local newspaper.
 - c. a grocery store purchases produce from a local farmer.
 - d. a grocery store sells groceries to customers on credit.

ANS: A PTS: 1 DIF: Medium OBJ: 2-2
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

17. Which of the following is an internal event for a business entity?
- An attorney provides services for clients.
 - An attorney purchases computer equipment.
 - An attorney uses computer equipment to maintain business records and prepare legal documents.
 - An attorney receives cash payments from clients who were billed for legal services.

ANS: C PTS: 1 DIF: Medium OBJ: 2-2
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

18. Which of the following statements is true?
- Only the effects of internal transactions must be recognized and recorded in the accounting system.
 - An internal transaction represents a business activity between an entity and its environment.
 - Evidence used to record transactions affecting a business entity comes from source documents.
 - Only the effects of external events must be recognized, measured, and recorded in an entity's accounting system.

ANS: C PTS: 1 DIF: Medium OBJ: 2-3
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

19. Which of the following statements is **false** regarding the use of source documents?
- Checks and deposit slips are the main source documents backing up the bank statement.
 - Retailers may use cash register tapes to recognize sales transactions.
 - Stock certificates provide evidence of being a creditor of the company.
 - Time cards may be used as a source of information to record wages.

ANS: C PTS: 1 DIF: Medium OBJ: 2-3
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

20. The purchase of office equipment on credit has what effect on the accounting equation?
- Assets and stockholders' equity decrease
 - Liabilities increase and stockholders' equity decreases
 - Assets and liabilities increase
 - Assets and liabilities decrease

ANS: C PTS: 1 DIF: Medium REF: CS2-1
OBJ: 2-3
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

21. The payment of employee salaries has what effect on the accounting equation?
- Assets and stockholders' equity decrease
 - Liabilities and stockholders' equity decrease
 - Assets decrease and liabilities increase
 - Assets increase and liabilities decrease

ANS: A PTS: 1 DIF: Medium REF: CS2-1
OBJ: 2-3
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

22. During March, Connor Corp. purchased supplies for cash. The supplies will be used in April. What effect does this transaction have on the accounting equation at the time the supplies are purchased?
- Assets increase and stockholders' equity decreases
 - Assets and liabilities increase
 - There is no effect on the accounting equation, as one asset account increases while another asset account decreases.
 - There is no effect on the accounting equation, as the transaction should not be recognized until April.

ANS: C PTS: 1 DIF: Medium REF: CS2-1
 OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

23. Mullins, Inc. manufactures furniture. Mullins has given you its most recent annual report in an effort to obtain a sizeable loan. The company is very profitable and appears to have a strong financial position. However, based on a news report you saw on television last night, you are aware that Mullins is a defendant in a class action lawsuit related to defective products. Serious injuries were allegedly caused by Mullins' infant high chairs overturning. The television news report is an example of financial information that is
- Predictable
 - Conservative
 - Relevant
 - Comparable

ANS: C PTS: 1 DIF: Challenging OBJ: 2-1
 NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

24. If an investor can use accounting information for two different companies to evaluate the types and amounts of expenses, the information is said to have the quality of
- Comparability
 - Consistency
 - Neutrality
 - Materiality

ANS: A PTS: 1 DIF: Medium OBJ: 2-1
 NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

25. PTG Enterprises purchases many small pieces of office furniture, such as trash cans, that cost less than \$100 each. PTG accounts for these items as expenses when acquired rather than reporting them as property, plant, and equipment on its balance sheet. The company's accountant states that no accounting principle has been violated. Justification for PTG's policy of expensing these furniture items is based on cost vs. benefit considerations as well as the accounting constraint of
- Conservatism
 - Materiality
 - Neutrality
 - Verifiability

ANS: B PTS: 1 DIF: Medium OBJ: 2-1
 NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

26. Scott Brothers, Inc. follows the qualitative characteristic of consistency. This means that
- For expenses, Scott uses the same account names as used by its competitors.
 - Scott has elected certain accounting principles that can never be changed.
 - Scott applies the same accounting principles each period.
 - Scott applies the same accounting principles as its competitors.

ANS: C PTS: 1 DIF: Easy OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

27. Information that is material means that an error in recording the dollar amount of a transaction would
- likely affect the judgment of someone relying on the financial statements
 - not affect the decisions of financial statement users
 - not impact a business decision of a creditor
 - result in the overstatement of assets or income

ANS: A PTS: 1 DIF: Medium OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

28. An accountant is uncertain about the best estimate of an amount for a business transaction. If there are two possible amounts that could be recorded, the amount least likely to overstate assets and earnings is selected. Which of the following qualities is characterized by this action?
- Comparability
 - Conservatism
 - Materiality
 - Neutrality

ANS: B PTS: 1 DIF: Medium OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

29. The qualitative characteristics of accounting information include
- reliability
 - cash flow information
 - all accounting information
 - assets reported on the balance sheet

ANS: A PTS: 1 DIF: Easy OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

30. Bellarim Corp. made cash sales to customers. What effect does this transaction have on the accounting equation?
- Liabilities and retained earnings increase.
 - Assets and liabilities increase.
 - Assets and retained earnings increase.
 - There is no effect on the accounting equation, as one asset account increases while another asset account decreases.

ANS: C PTS: 1 DIF: Medium REF: CS2-1
OBJ: 2-3
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

31. Clay and Lora each invest \$15,000 in a Deyer, Inc. and are given shares of stock as evidence of their ownership interest. What effect does this transaction have on the accounting equation of Deyer?
- Assets and liabilities increase.
 - Assets and contributed capital increase.
 - Liabilities increase and retained earnings decrease.
 - Assets and liabilities decrease.

ANS: B PTS: 1 DIF: Medium REF: CS2-1
OBJ: 2-3
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

32. Machinery is purchased on credit. What effect does this transaction have on the accounting equation?
- Assets and liabilities increase.
 - Assets and stockholders' equity increase.
 - Liabilities increase and stockholders' equity decreases.
 - Assets and liabilities decrease.

ANS: A PTS: 1 DIF: Medium REF: CS2-1

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

33. Lang Industries provided services to customers then sent invoices for the amounts the customers owed. What effect does this transaction have on the accounting equation?
- Assets and liabilities increase.
 - Assets and retained earnings increase.
 - Liabilities decrease and contributed capital increases.
 - Assets and liabilities decrease.

ANS: B PTS: 1 DIF: Medium REF: CS2-1

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

34. Lang Industries received payments from customers who had been billed earlier for services provided. What effect does this transaction have on Lang's accounting equation?
- Assets and liabilities increase.
 - Assets and stockholders' equity increase.
 - Assets and liabilities decrease.
 - There is no effect on the accounting equation, as one asset account increases while another asset account decreases.

ANS: D PTS: 1 DIF: Medium REF: CS2-1

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

35. Payment is made for machinery purchases previously on credit. What effect does this transaction have on the accounting equation?
- Assets and liabilities increase.
 - Assets and contributed capital increase.
 - Liabilities decrease and retained earnings increase.
 - Assets and liabilities decrease.

ANS: D PTS: 1 DIF: Medium REF: CS2-1

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

36. The telephone bill for the current period is received and recorded, but payment will be made later. What effect does this transaction have on the accounting equation?
- Assets and liabilities increase.
 - Assets and contributed capital increase.
 - Liabilities increase and retained earnings decrease.
 - Assets and liabilities decrease.

ANS: C PTS: 1 DIF: Medium REF: CS2-1

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

37. Payment is made for the telephone bill which was recorded previously. What effect does this transaction have on the accounting equation?
- Assets and liabilities increase.
 - Assets and retained earnings increase.
 - Liabilities increase and contributed decreases.
 - Assets and liabilities decrease.

ANS: D PTS: 1 DIF: Medium REF: CS2-1

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

38. Services are provided for customers who pay for their services immediately. What effect does this transaction have on the accounting equation?
- Assets and liabilities increase.
 - Assets and retained earnings increase.
 - Liabilities increase and retained earnings decreases.
 - Assets and liabilities decrease.

ANS: B PTS: 1 DIF: Medium REF: CS2-1

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

39. Dividends are declared and paid to the company's stockholders. What effect does this transaction have on the company's accounting equation?
- Assets and liabilities decrease.
 - Assets and retained earnings decrease.
 - Liabilities decrease and retained earnings increases.
 - Liabilities increase and contributed capital decreases.

ANS: B PTS: 1 DIF: Medium REF: CS2-1

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

40. When a firm borrows money, one effect on the accounting equation is a(n)
- decrease in contributed capital.
 - increase in assets.
 - decrease in liabilities.
 - decrease in assets.

ANS: B PTS: 1 DIF: Medium REF: CS2-1

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

41. Which of the following statements best describes the effects of recognizing revenue earned by a business entity?
- Assets increase only when cash sales are collected.
 - Stockholders' equity increases only when credit sales are made.
 - Assets and stockholders' equity increase when either cash or credit sales are made.
 - Assets increase and stockholders' equity decreases when either cash or credit sales are made.

ANS: C PTS: 1 DIF: Medium OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

42. Which of the following best describes one effect of recognizing expenses incurred by a business entity?
- Assets will increase.
 - Liabilities will decrease.
 - Contributed capital will increase.
 - Retained earnings will decrease.

ANS: D PTS: 1 DIF: Medium REF: CS2-1

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

43. Which of the following statements regarding a company's operating activities is true?
- Revenues decrease stockholders' equity.
 - Expenses increase stockholders' equity.
 - Expenses decrease stockholders' equity.
 - Dividends decrease assets.

ANS: C PTS: 1 DIF: Medium REF: CS2-1

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

44. Which of the following transactions does **not** affect the total assets of Dusty Knoll Inc.?
- The bills are received for last month's utilities.
 - Dividends are paid to stockholders.
 - Customers are billed for services provided on credit.
 - A new automobile is purchased on credit.

ANS: A PTS: 1 DIF: Medium REF: CS2-1

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

45. Which of the following transactions affects the liabilities for Stallion Corp.?
- Equipment is purchased for cash.
 - Services are provided for a customer for credit.
 - Payment is made on a bank loan.
 - Common stock is issued.

ANS: C PTS: 1 DIF: Medium REF: CS2-1

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

46. The Rebecca Company purchased equipment for \$60,000 cash. What is the effect on assets?
- Increase
 - Decrease
 - No net effect
 - Cannot be determined from this limited information.

ANS: C PTS: 1 DIF: Medium REF: CS2-1

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

47. Shay Consulting provided services last month and billed its customer. This month, Shay received payment from the customer. What impact does this month's transaction have on Shay's working capital?
- Increase

- b. Decrease
- c. No net effect
- d. Unable to determine with this limited information.

ANS: C PTS: 1 DIF: Challenging OBJ: 2-3
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

48. Elliot's current ratio is 1.67. If Elliot pays a supplier within 30 days of a purchase, what is the effect on the current ratio?
- a. Increase
 - b. Decrease
 - c. No change
 - d. Unable to determine

ANS: C PTS: 1 DIF: Challenging OBJ: 2-3
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

49. Given that Worrest, Inc.'s current ratio is 1.5, what is the effect of obtaining land in exchange for shares of Worrest's stock?
- a. Increase
 - b. Decrease
 - c. No change
 - d. Unable to determine

ANS: C PTS: 1 DIF: Challenging OBJ: 2-3
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

50. A list of all asset, liability, stockholders' equity, revenue, expense, and dividend accounts which are used by the company is called a(n)
- a. General Ledger
 - b. General Journal
 - c. Chart of Accounts
 - d. Trial Balance

ANS: C PTS: 1 DIF: Easy OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

51. The two-column record used to accumulate monetary increases and decreases for individual assets, liabilities, stockholders' equity, revenue, expense, and dividends items is a(n)
- a. Chart of accounts
 - b. T-account
 - c. Trial Balance
 - d. Posting

ANS: B PTS: 1 DIF: Easy OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

52. The chronological record in which transactions are initially recorded in the order in which they occur is called a(n)
- a. T-account
 - b. Chart of Accounts
 - c. Trial Balance
 - d. Journal

ANS: D PTS: 1 DIF: Easy OBJ: 2-5
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

53. A list of all active accounts and their balances at a particular date, which is used to prove the equality of debits and credits, is a
- Chart of accounts
 - General ledger
 - Journal
 - Trial Balance

ANS: D PTS: 1 DIF: Easy OBJ: 2-7
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

54. The process of transferring amounts from the book of original entry into specific account records is referred to as
- Journalizing
 - Posting
 - Analyzing
 - Classifying

ANS: B PTS: 1 DIF: Easy OBJ: 2-6
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

55. The correct term for the entry made on the left side of a T-account is
- Debit
 - Credit
 - Posting
 - Journalizing

ANS: A PTS: 1 DIF: Easy OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

56. The term for the process of recording business events in a book of original entry is
- Analyzing
 - Journalizing
 - Posting
 - Classifying

ANS: B PTS: 1 DIF: Easy OBJ: 2-6
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

57. The system of accounting in which there are at least two accounts affected in every transaction so that the accounting equation stays in balance is called
- Debit
 - Credit
 - Double-entry
 - Full disclosure

ANS: C PTS: 1 DIF: Easy OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

58. A credit means
- the event had a favorable impact on the entity's financial statements.
 - the event had an unfavorable impact on the entity's financial statements.
 - the event had an effect on the right side of the T-account.
 - the event had the effect of increasing the account balance.

ANS: C PTS: 1 DIF: Easy OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

59. When the amount for a debit entry in a journal is transferred to a specific account in the general ledger, it must be posted as a
- debit to the account in the general ledger.
 - credit to the account in the general ledger.
 - total amount, without regard to debit or credit, since the general ledger accounts do not have spaces for debit and credit entries.
 - decrease to the account in the general ledger.

ANS: A PTS: 1 DIF: Easy OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

60. An entry made to the right side of an account is always a(n)
- Debit
 - Credit
 - Increase
 - Decrease

ANS: B PTS: 1 DIF: Easy OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

61. An abbreviated version of an account, which is useful for analyzing the effects of business events, is the
- chart of accounts
 - T-account
 - Journal
 - Double-entry system

ANS: B PTS: 1 DIF: Easy OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

62. Debit entries are used to
- increase asset accounts.
 - increase revenue accounts.
 - increase liability accounts.
 - increase stockholders' equity.

ANS: A PTS: 1 DIF: Easy REF: CS2-2

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

63. Credit entries are used to
- increase asset accounts
 - increase liability accounts
 - increase expense accounts
 - increase dividends

ANS: B PTS: 1 DIF: Easy REF: CS2-2

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

64. Which of the following accounts is decreased by a debit entry?
- Unearned Revenue
 - Prepaid Insurance

- c. Cash
- d. Insurance Expense

ANS: A PTS: 1 DIF: Easy REF: CS2-2
OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

65. Which of the following accounts is decreased by a debit entry?
- a. Cash
 - b. Prepaid Insurance
 - c. Accounts Payable
 - d. Insurance Expense

ANS: C PTS: 1 DIF: Easy REF: CS2-2
OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

66. Which of the following accounts is increased by a debit entry?
- a. Common Stock
 - b. Equipment
 - c. Notes Payable
 - d. Service Revenue

ANS: B PTS: 1 DIF: Easy REF: CS2-2
OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

67. Which of the following accounts is increased by a credit entry?
- a. Accounts Receivable
 - b. Dividends
 - c. Service Revenue
 - d. Salary Expense

ANS: C PTS: 1 DIF: Easy REF: CS2-3
OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

68. All of the following accounts have normal debit balances **except**
- a. Accounts Receivable
 - b. Dividends
 - c. Supplies Expense
 - d. Service Revenue

ANS: D PTS: 1 DIF: Easy REF: CS2-2 | CS2-3
OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

69. All of the following accounts have normal credit balances **except**
- a. Accounts Payable
 - b. Unearned Revenue
 - c. Common Stock
 - d. Inventory

ANS: D PTS: 1 DIF: Easy REF: CS2-2
OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

70. Which pair of accounts has the same set of rules for debit and credit entries?
- Common Stock and Accounts Payable
 - Salary Expense and Retained Earnings
 - Cash and Notes Payable
 - Sales Revenue and Accounts Receivable

ANS: A PTS: 1 DIF: Medium REF: CS2-2
 OBJ: 2-4
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

71. Which pair of accounts has the same set of procedures for debit and credit entries?
- Service Revenue and Rent Expense
 - Dividends and Retained Earnings
 - Equipment and Salary Expense
 - Accounts Receivable and Accounts Payable

ANS: C PTS: 1 DIF: Medium REF: CS2-2 | CS2-3
 OBJ: 2-4
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

Fort Marcus County Club

Selected accounts for Fort Marcus Country Club are provided below.

CASH		UNEARNED REVENUE	
8/1 bal.	6,000		8/3 500
8/3	500		
8/5	400		
8/7	900		
ACCOUNTS RECEIVABLE		MEMBERSHIP REVENUE	
8/2	1,800	8/7	900
			8/2 1,800
			8/5 400

72. Refer to the information provided for Fort Marcus Country Club. On which date did the country club make a credit sale of club memberships?
- August 2nd
 - August 3rd
 - August 5th
 - August 7th

ANS: A PTS: 1 DIF: Challenging REF: CS2-2 | CS2-3
 OBJ: 2-4
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

73. Refer to the information provided for Fort Marcus Country Club. On which date did the country club make cash sales for club membership fees?
- August 2nd
 - August 3rd
 - August 5th
 - August 7th

ANS: C PTS: 1 DIF: Challenging REF: CS2-2 | CS2-3

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

74. Refer to the information provided for Fort Marcus Country Club. On which date did the country club collect an advance of membership fees?
- August 2nd
 - August 3rd
 - August 5th
 - August 7th

ANS: B PTS: 1 DIF: Challenging REF: CS2-2 | CS2-3

OBJ: 2-4 | 2-5

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

75. Refer to the information provided for Fort Marcus Country Club. Which of the following describes the transactions which occurred on August 7th?
- Sold club memberships on credit.
 - Collected memberships in advance.
 - Received payments on account.
 - Sold club memberships for cash.

ANS: C PTS: 1 DIF: Challenging REF: CS2-2

OBJ: 2-4 | 2-5

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

76. Refer to the information provided for Fort Marcus Country Club. Assuming that there are no other transactions, how much was owed to the country club by the members on August 7th?
- \$1,800
 - \$1,300
 - \$ 900
 - \$ 500

ANS: C PTS: 1 DIF: Challenging OBJ: 2-6 | 2-7

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

Bravada Enterprises

Transactions for Bravada Enterprises are provided below.

- | | |
|----------|--|
| Sept. 1 | Bills are sent to clients for services provided in August in the amount of \$800. |
| Sept. 9 | Barlue Furnishings delivers \$1,060 of office furniture and \$160 of office supplies to Bravada, leaving an invoice for \$1,220. |
| Sept. 15 | Payment is made to Barlue for the office furniture and supplies delivered on September 9. |
| Sept. 23 | A \$430 bill for advertising for the month of September is received. It will be paid on its due date in October. |
| Sept. 30 | Salaries of \$850 are paid to employees. |

77. Refer to the transactions that occurred at Bravada Enterprises. The journal entry to record the September 1st transaction will include a debit of \$800 to
- Service Revenue
 - Cash

- c. Accounts Receivable
- d. Retained Earnings

ANS: C PTS: 1 DIF: Medium REF: CS2-4

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

78. Refer to the transactions that occurred at Bravada Enterprises. The journal entry to record the September 9th transaction will include a credit of \$1,220 to
- a. Furniture & Supplies
 - b. Cash
 - c. Accounts Payable
 - d. Delivery Expense

ANS: C PTS: 1 DIF: Medium REF: CS2-4

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

79. Refer to the transactions that occurred at Bravada Enterprises. The journal entry to record the September 15th transaction will include a debit of \$1,220 to
- a. Salary Expense
 - b. Salaries Payable
 - c. Prepaid Expenses
 - d. Accounts Payable

ANS: D PTS: 1 DIF: Medium REF: CS2-4

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

80. Refer to the transactions that occurred at Bravada Enterprises. The journal entry to record the September 23rd transaction will include a credit of \$430 to
- a. Accounts Receivable
 - b. Cash
 - c. Advertising Expense
 - d. Accounts Payable

ANS: D PTS: 1 DIF: Medium REF: CS2-4

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

81. Refer to the transactions that occurred at Bravada Enterprises. The journal entry to record the September 30th transaction will include a credit to
- a. Salary Expense
 - b. Salary Payable
 - c. Prepaid Salaries
 - d. Cash

ANS: D PTS: 1 DIF: Medium REF: CS2-4

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

82. Refer to the transactions that occurred at Bravada Enterprises. Based on these transactions, what is the total amount of expenses that should appear on Bravada's income statement for September?
- a. \$ 430
 - b. \$ 850

85. Refer to the transactions that occurred at Hesson Properties. Based on these transactions, what is the journal entry to record the November 15th transaction?

- a. Utilities Expense 150
Cash 150
- b. Accounts Receivable 150
Utilities Expense 150
- c. Utilities Expense 150
Accounts Payable 150
- d. Cash 150
Utilities Expense 150

ANS: C PTS: 1 DIF: Medium REF: CS2-4

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

86. Refer to the transactions that occurred at Hesson Properties. Based on these transactions, what is the journal entry to record the November 20th transaction?

- a. Cash 750
Accounts Receivable 750
- b. Accounts Receivable 750
Service Revenue 750
- c. Service Revenue 750
Cash 750
- d. Service Revenue 750
Accounts Payable 750

ANS: B PTS: 1 DIF: Medium REF: CS2-4

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

87. Refer to the transactions that occurred at Hesson Properties. Based on these transactions, what is the journal entry to record the November 30th transaction?

- a. Cash 500
Accounts Receivable 500
- b. Accounts Receivable 500
Service Revenue 500
- c. Accounts Payable 500
Cash 500
- d. Service Revenue 500
Cash 500

ANS: A PTS: 1 DIF: Medium REF: CS2-4

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

88. Refer to the transactions that occurred at Hesson Properties. Based on these transactions, how much is still owed to Hesson from its customers at the end of November?

- a. -0-
- b. \$250
- c. \$500
- d. \$700

ANS: B

\$750 from November 20 – \$500 from November 30.

PTS: 1 DIF: Medium OBJ: 2-5
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

89. What type of account is increased with a debit but is a **decrease** to retained earnings?
- Liability
 - Asset
 - Revenue
 - Expense

ANS: D PTS: 1 DIF: Medium REF: CS2-2
OBJ: 2-4
NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

90. Which of the following statements is true?
- If a debit entry is made to an account in the general journal, the same account will receive a credit entry when the amount is posted to the general ledger.
 - If all transactions are correctly posted to the general ledger, the sum of the accounts with debit balances should be equal to the sum of the accounts with credit balances.
 - Posting occurs when numbers in the general ledger accounts are transferred to the general journal.
 - If the sum of the debit balances equals the sum of the credit balances, this proves that there were no mistakes made in the posting process.

ANS: B PTS: 1 DIF: Medium OBJ: 2-7
NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

91. Which of the following statements is true?
- An entry in a general ledger account can be traced to the trial balance by referring to the page listed in the posting reference column of that ledger account.
 - The posting of an amount recorded in the general ledger can be verified by referring to the account number listed in the posting reference column on that line in the general journal.
 - Business transactions are recorded first in the general ledger, then that information is transferred to the general journal.
 - No explanation is needed for each entry in the general ledger.

ANS: B PTS: 1 DIF: Medium OBJ: 2-6
NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

92. A trial balance is a(n)
- optional financial statement used only by creditors.
 - tool used to prove the equality of debits and credits in the general ledger.
 - list of accounts and their balances taken from the chart of accounts.
 - financial statement which can be used in place of a balance sheet.

ANS: B PTS: 1 DIF: Easy OBJ: 2-7
NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

93. If the sum of the debits is not equal to the sum of the **credits** in a trial balance, then
- there is no concern because the two amounts are not meant to be equal.
 - the chart of accounts does not balance.
 - it is safe to proceed with the preparation of financial statements.
 - it is likely that an error was made in journalizing or posting transactions or in computing the account balance.

ANS: D PTS: 1 DIF: Easy OBJ: 2-7
 NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

94. Which of the following will **not** cause a trial balance to be out of balance?
- The balance for the account is incorrectly computed.
 - A debit entry is posted as a credit.
 - A credit entry is posted to the wrong account, but still as a credit.
 - An account is accidentally omitted from the trial balance.

ANS: C PTS: 1 DIF: Medium OBJ: 2-7
 NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

PROBLEM

1. Listed below are selected accounts from the financial statements of Ellison Company for the year ended December 31. In the blank spaces provided for each account, indicate what type of account it is, its normal balance, and the debit/credit rules for increasing and decreasing it. Use the following abbreviations for your answer:

<u>Type of Account</u>	<u>Normal Account Balance</u>	<u>Rules to Increase or Decrease the Account</u>
A = Asset	Dr = Debit	Dr = Debit
L = Liability	Cr = Credit	Cr = Credit
SE = Stockholders' Equity		
R = Revenue		
E = Expense		
D = Dividend		

	<u>Type of Account</u>	<u>Normal Balance</u>	<u>Rule to Increase</u>	<u>Rule to Decrease</u>
Example: Cash	A	Dr	Dr	Cr
a. Accounts Payable	_____	_____	_____	_____
b. Retained Earnings	_____	_____	_____	_____
c. Prepaid Insurance	_____	_____	_____	_____
d. Service Revenues	_____	_____	_____	_____
e. Notes Payable	_____	_____	_____	_____
f. Intangibles	_____	_____	_____	_____
g. Common Stock	_____	_____	_____	_____
h. Salary Expense	_____	_____	_____	_____
i. Accounts Receivable	_____	_____	_____	_____
j. Unearned Revenues	_____	_____	_____	_____

ANS:

	<u>Type of Account</u>	<u>Normal Balance</u>	<u>Rule to Increase</u>	<u>Rule to Decrease</u>
Example: Cash	A	Dr	Dr	Cr
a. Accounts Payable	L	Cr	Cr	Dr
b. Retained Earnings	SE	Cr	Cr	Dr
c. Prepaid Insurance	A	Dr	Dr	Cr
d. Service Revenues	R	Cr	Cr	Dr
e. Notes Payable	L	Cr	Cr	Dr
f. Intangibles	A	Dr	Dr	Cr
g. Common Stock	SE	Cr	Cr	Dr

h. Salary Expense	E	Dr	Dr	Cr
i. Accounts Receivable	A	Dr	Dr	Cr
j. Unearned Revenues	L	Cr	Cr	Dr

PTS: 1 DIF: Easy REF: CS2-1 | CS2-2 | CS2-3

OBJ: 2-3 | 2-4

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

2. Presented below are several accounts from the financial statements of Byron, Inc. for the year ended December 31, 2009:

	<u>Account</u>
1.	Cash
2.	Accounts Receivable
3.	Prepaid Insurance
4.	Accounts Payable
5.	Common Stock
6.	Service Revenues
7.	Advertising Expense
8.	Salary Expense
9.	Interest Expense
10.	Income Tax Expense

Each of Byron's accounts has been assigned an identification number which you will use as answers for the transactions described below. Enter the account numbers in the blank spaces under the headings **Debit** and **Credit** to indicate the accounts debited and credited when each transaction is recorded in a general journal.

	<u>Debit</u>	<u>Credit</u>
A) Byron issues common stock for cash.	_____	_____
B) Byron receives a bill for advertisements places by the company's ad agency; payment is due in 30 days	_____	_____
C) Byron pays interest due on the notes payable.	_____	_____
D) Byron sells services to a customer and agrees to accept payment in 30 days.	_____	_____

ANS:

	<u>Debit</u>	<u>Credit</u>
A) Byron issues common stock to for cash.	1	5
B) Byron receives a bill for advertisements places by the company's ad agency; payment is due in 30 days	7	4
C) Byron pays interest due on the notes payable.	9	1
D) Byron sells services to a customer and agrees to accept payment in 30 days.	2	6

PTS: 1 DIF: Easy REF: CS2-4 OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

3. Geen's Alternations Shop began business as a corporation in 2009. Several transactions which occurred early in 2009 are described below. Record each transaction in proper journal form, excluding written explanations.

A) Jan. 23, 2009 Stockholders invested \$70,000 in the business and received shares

of common stock as evidence of ownership.

- B) Feb. 1, 2009 Rent of \$1,600 was paid for the month of February.
- C) Feb. 7, 2009 Equipment with a cost of \$3,000 was purchased on credit; payment is due in 30 days.
- D) Feb. 14, 2009 Bills totaling \$5,400 were presented to customers for alterations projects completed and delivered; \$2,900 was collected immediately and the balance of \$2,500 is due within 30 days.
- E) Feb. 18, 2009 Full payment was made for the equipment purchased on Feb. 7th.
- F) Feb. 22, 2009 \$1,900 was collected from customers with balances due from Feb. 14th.
- G) Feb. 28, 2009 Employee salaries of \$3,300 were paid.

ANS:

	<u>Date</u>	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
A)	Jan. 23, 2009	Cash	70,000	
		Common Stock		70,000
B)	Feb. 1, 2009	Rent Expense	1,600	
		Cash		1,600
C)	Feb. 7, 2009	Equipment	3,000	
		Accounts Payable		3,000
D)	Feb. 14, 2009	Cash	2,900	
		Accounts Receivable	2,500	
		Service Revenue		5,400
E)	Feb. 18, 2009	Accounts Payable	3,000	
		Cash		3,000
F)	Feb. 22, 2009	Cash	1,900	
		Accounts Receivable		1,900
G)	Feb. 28, 2009	Salary Expense	3,300	
		Cash		3,300

PTS: 1 DIF: Easy REF: CS2-4 OBJ: 2-5
 NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

4. Described below are several transactions which might be recorded by a company like Popp Music Supply Co. Several accounts from the company's chart of accounts are also listed below. Using these account titles, record each transaction in proper journal entry format in Popp's journal. A written explanation for each journal entry is not required.

Accounts:

Cash	Common Stock
Accounts Receivable	Retained Earnings

Inventory	Sales Revenue
Accounts Payable	Selling Expenses
Unearned Revenue	Administrative Expenses

- A) Bills are mailed for musical instruments sold to customers, \$225,000
- B) Customers pay for musical instruments in advance, \$130,000
- C) Administrative employees are paid their monthly salaries, \$14,000
- D) An invoice is received for \$15,200 of new musical instruments purchased (which Popp intends to sell to customers); payment is due in 30 days
- E) Payments are received from customers for amounts billed in a previous transaction, \$135,000
- F) Full payment is made for the musical instruments invoice received in a previous transaction

ANS:

	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
A)	Accounts Receivable	225,000	
	Sales Revenue		225,000
B)	Cash	130,000	
	Unearned Revenue		130,000
C)	Administrative Expenses	14,000	
	Cash		14,000
D)	Inventory	15,200	
	Accounts Payable		15,200
E)	Cash	135,000	
	Accounts Receivable		135,000
F)	Accounts Payable	15,200	
	Cash		15,200

PTS: 1 DIF: Easy REF: CS2-4 OBJ: 2-5
 NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

5. Several transactions are listed below, with the accounting equation stated to the right side of each. Use the following identification codes to indicate the effects of each transaction on the accounting equation: I = Increase; D = Decrease; NE = No Effect. Write your answers in the space provided under the accounting equation, being sure to include an identification code for each element of the accounting equation. An example is provided before the first transaction.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
Example: Common stock is issued to investors in the company	I		NE		I

A) Services are sold for cash.	_____	_____	_____
B) Equipment is purchased on credit.	_____	_____	_____
C) Payment is made for equipment purchased on credit.	_____	_____	_____
D) Services are sold for credit.	_____	_____	_____
E) Cash is collected from customers for accounts receivable balances.	_____	_____	_____
F) Dividends are paid to stockholders.	_____	_____	_____
G) Land and building are acquired in exchange for shares of common stock.	_____	_____	_____
H) Utility bill is received and recorded; will pay later.	_____	_____	_____

ANS:

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
Example: Common stock is issued to investors in the company	I		NE		I
A) Services are sold for cash.	I		NE		I
B) Equipment is purchased on credit.	I		I		NE
C) Payment is made for equipment purchased on credit.	D		D		NE
D) Services are sold for credit.	I		NE		I
E) Cash is collected from customers for accounts receivable balances.	NE		NE		NE
F) Dividends are paid to stockholders.	D		NE		D
G) Land and building are acquired in exchange for shares of common stock.	I		NE		I
H) Utility bill is received and recorded; will pay later.	NE		I		D

PTS: 1 DIF: Medium REF: CS2-1 OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

6. Several transactions are listed below, with an expanded accounting equation stated to the right side of each. Use the following identification codes to indicate the effects of each transaction on the accounting equation: I = Increase; D = Decrease; NE = No Effect. Write your answers in the space provided under the accounting equation, being sure to include an identification code for each element of the accounting equation.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Contributed Capital</u>	+	<u>Retained Earnings</u>
A) Issue common stock	_____		_____		_____		_____
B) Borrow money from the bank	_____		_____		_____		_____
C) Purchase land for cash	_____		_____		_____		_____
D) Purchase a 1-year insurance policy	_____		_____		_____		_____
E) Purchase supplies on credit	_____		_____		_____		_____
F) Services are provided for cash.	_____		_____		_____		_____
G) Receive cash in	_____		_____		_____		_____

	advance for services to be provided next week.	_____	_____	_____	_____
H)	Pay utilities	_____	_____	_____	_____
I)	Pay employee salaries	_____	_____	_____	_____

ANS:

		<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Contributed Capital</u>	+	<u>Retained Earnings</u>
A)	Issue common stock	I		NE		I		NE
B)	Borrow money from the bank	I		I		NE		NE
C)	Purchase land for cash	NE		NE		NE		NE
D)	Purchase a 1-year insurance policy	NE		NE		NE		NE
E)	Purchase supplies on credit	I		I		NE		NE
F)	Services are provided for cash.	I		NE		NE		I
G)	Receive cash in advance for services to be provided next week.	I		I		NE		NE
H)	Pay utilities	D		NE		NE		D
I)	Pay employee salaries	D		NE		NE		D

PTS: 1 DIF: Medium REF: CS2-1 OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

7. Several accounts from the financial statements of Carter Promotions, Inc. are listed below. In the two columns provided for answers, indicate the type of account and the normal account balance. Use the following identification codes for your answers:

Type of Account

A = Asset
 L = Liability
 SE = Stockholders' Equity
 R = Revenue
 E = Expense

Normal Balance

Dr = Debit
 Cr = Credit

		<u>Type of Account</u>	<u>Normal Balance</u>
A)	Prepaid Rent	_____	_____
B)	Television Equipment	_____	_____
C)	Unearned Revenue	_____	_____
D)	Service Revenue	_____	_____
E)	Common Stock	_____	_____
F)	Accounts Payable	_____	_____
G)	Income Tax Expense	_____	_____
H)	Interest Income	_____	_____
I)	Salary Expense	_____	_____
J)	Notes Payable	_____	_____

ANS:

	<u>Type of Account</u>	<u>Normal Balance</u>
A) Prepaid Rent	A	Dr
B) Television Equipment	A	Dr
C) Unearned Revenue	L	Cr
D) Service Revenue	R	Cr
E) Common Stock	SE	Cr
F) Accounts Payable	L	Cr
G) Income Tax Expense	E	Dr
H) Interest Income	R	Cr
I) Salary Expense	E	Dr
J) Notes Payable	L	Cr

PTS: 1 DIF: Medium REF: CS2-2 | CS2-3

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

M. Shay & Company, Inc.

The bookkeeper for M. Shay & Company, Inc. prepared the following journal entries and posted them to the general ledger as indicated in the T-accounts presented. Assume that the dollar amounts and descriptions of the entries are correct.

Journal (partial):

<u>Date</u>	<u>Accounts and Descriptions</u>	<u>Debit</u>	<u>Credit</u>
May 5	Accounts Receivable	1,600	
	Service Revenue		1,600
	Billed customers for services completed		
May 11	Cash	500	
	Service Revenue		500
	Collected from a customer billed on May 1 for services rendered		
May 15	Office Supplies	700	
	Accounts Payable		700
	Purchased furniture on credit; payment due in 30 days		
May 25	Office Furniture	700	
	Cash		700
	Paid the furniture bill received on May 15		

General Ledger (partial):

<u>Accounts Receivable</u>		<u>Service Revenue</u>		<u>Office Furniture</u>	
5/5		5/5	5/11	5/25	
1,600		1,600	500	700	
<u>Cash</u>		<u>Accounts Payable</u>		<u>Office Supplies</u>	
5/11		5/15		5/15	
500		700		700	

8. Refer to the information presented for M. Shay & Company, Inc. Identify the transactions that the bookkeeper recorded incorrectly in the journal. Prepare the journal entry that the bookkeeper should have made for each transaction that you identify as being made incorrectly. For this problem, assume that all entries have been posted correctly.

ANS:

The May 11, 15, and 25 entries were recorded incorrectly. The correct entries are:

<u>Date</u>	<u>Accounts and Descriptions</u>	<u>Debit</u>	<u>Credit</u>
May 11	Cash	500	
	Accounts Receivable		500
	Collected from a customer billed on May 1 for services rendered		
May 15	Office Furniture	700	
	Accounts Payable		700
	Purchased furniture on credit; payment due in 30 days		
May 25	Accounts Payable	700	
	Cash		700
	Paid the furniture bill received on May 15		

PTS: 1 DIF: Medium REF: CS2-4 OBJ: 2-5
 NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

9. Refer to the information presented for M. Shay & Company, Inc. Identify the postings to the general ledger that were made incorrectly. Describe how each incorrect posting should have been made. For this problem, assume that the journal entries have been correctly recorded.

ANS:

The bookkeeper incorrectly posted the May 5 and 15 journal entries. For the May 5 journal entry, the \$1,600 credit to Service Revenue should have been posted to the Service Revenue account as a credit, not as a debit. For the May 15 journal entry, the \$700 credit to Accounts Payable should have been posted to the Accounts Payable account as a credit, not as a debit.

PTS: 1 DIF: Medium OBJ: 2-6
 NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

10. Refer to the information presented for M. Shay & Company, Inc. Would the errors in recording journal entries and in posting the journal entries to the general ledger be discovered by preparing a trial balance? Explain why or why not for both the journal entry errors and the posting errors.

ANS:

Because equal dollar amounts were recorded in each journal entry, preparation of a trial balance would not help discover the errors.

The errors made in posting the journal entries would be discovered by preparing a trial balance because credit amounts were posted as debits, which would make the sum of the debit balances exceed the sum of the credit balances.

PTS: 1 DIF: Challenging OBJ: 2-7
 NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

Inferex Corporation

The following transactions were incurred by the Inferex Corporation during June 2010.

- June 1 Inferex purchased a vehicle for \$8,400, paying \$1,000 now and issuing a note payable for the balance; the note is due in monthly installments of \$500 plus 10% interest on the unpaid principal balance.
- June 8 Inferex recorded service revenue earned; \$3,200 cash from customers and \$12,000 for customers billed for completed services.
- June 22 Inferex issued common stock in exchange for land having a fair value of \$35,000.
- June 30 An invoice for \$1,200 was received from the company's advertising agency for radio and television ads which were run during June; the invoice is due in 30 days.

11. Refer to the information presented for Inferex Corporation. Indicate the economic effects of each transaction above on the accounting equation. Use the following format for your answers. Show the dollar amounts in the appropriate columns and use a plus (+) sign to indicate an increase and a minus (-) sign to indicate a decrease.

<u>Transaction Date</u>	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
ANS:					
<u>Transaction Date</u>	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
June 1	+7,400 (8,400 - 1,000)	=	+7,400	+	
June 8	+15,200 (3,200 + 12,000)	=		+	+15,200
June 22	+35,000	=		+	+35,000
June 30		=	+1,200	+	-1,200

PTS: 1 DIF: Medium REF: CS2-1 OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

12. Refer to the information presented for Inferex Corporation. Record each transaction in proper journal entry format in the journal provided. A written explanation for each journal entry is not required.

JOURNAL				
<u>Date</u>	<u>Accounts</u>		<u>Debit</u>	<u>Credit</u>
ANS:				
JOURNAL				
<u>Date</u>	<u>Accounts</u>		<u>Debit</u>	<u>Credit</u>
June 1	Vehicles		8,400	
	Cash			1,000
	Note Payable			7,400

June 8	Cash	3,200	
	Accounts Receivable	12,000	
	Service Revenue		15,200
June 22	Land	35,000	
	Common Stock		35,000
June 30	Advertising Expense	1,200	
	Accounts Payable		1,200

PTS: 1 DIF: Medium REF: CS2-4 OBJ: 2-5
 NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

13. Refer to the information presented for Inferex Corporation. Set up T-accounts and post each transaction to the T-accounts.

ANS:

Vehicles	Cash	Notes Payable
6/1 8,400	6/8 3,200	6/1 7,400
6/8 12,000	6/8 15,200	6/22 35,000
6/22 35,000	6/30 1,200	6/30 1,200

PTS: 1 DIF: Medium OBJ: 2-6
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

14. Refer to the information presented for Inferex Corporation. Prepare a trial balance in proper format. Assume that Inferex had no additional accounts or balances other than those created from the June transactions.

ANS:

Inferex Corporation
 Trial Balance
 June 30, 2010

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash	\$ 2,200	
Accounts Receivable	12,000	
Land	35,000	
Vehicles	8,400	
Accounts Payable		\$ 1,200
Notes Payable		7,400

Common Stock		35,000
Service Revenue		15,200
Advertising Expense	<u>1,200</u>	
	<u>\$58,800</u>	<u>\$58,800</u>

PTS: 1 DIF: Medium OBJ: 2-7
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

15. The T-accounts presented below are taken from the general ledger of Battern Corporation on March 31, 2009. Determine the balance of each account and present them in proper trial balance format.

<table style="width: 100%; border-collapse: collapse;"> <tr><td colspan="2" style="text-align: center; border-top: 1px solid black;">Cash</td></tr> <tr><td style="width: 50%; text-align: right;">5,000</td><td style="width: 50%; text-align: left;">12,000</td></tr> <tr><td style="text-align: right;">9,000</td><td style="text-align: left;">650</td></tr> <tr><td style="text-align: right;">44,000</td><td style="text-align: left;">15,200</td></tr> <tr><td style="text-align: right;">36,000</td><td style="text-align: left;">650</td></tr> <tr><td style="text-align: right;">8,000</td><td style="text-align: left;">16,100</td></tr> <tr><td style="text-align: right;">3,000</td><td style="text-align: left;">650</td></tr> <tr><td style="text-align: right;">24,000</td><td style="text-align: left;">16,400</td></tr> <tr><td style="text-align: right;">10,000</td><td style="text-align: left;">3,200</td></tr> <tr><td></td><td style="text-align: left;">750</td></tr> </table>	Cash		5,000	12,000	9,000	650	44,000	15,200	36,000	650	8,000	16,100	3,000	650	24,000	16,400	10,000	3,200		750	<table style="width: 100%; border-collapse: collapse;"> <tr><td colspan="2" style="text-align: center; border-top: 1px solid black;">Accounts Payable</td></tr> <tr><td style="width: 50%; text-align: right;">3,200</td><td style="width: 50%; text-align: left;">4,200</td></tr> </table> <table style="width: 100%; border-collapse: collapse;"> <tr><td colspan="2" style="text-align: center; border-top: 1px solid black;">Salaries Payable</td></tr> <tr><td style="width: 50%;"></td><td style="width: 50%; text-align: left;">5,000</td></tr> </table>	Accounts Payable		3,200	4,200	Salaries Payable			5,000	<table style="width: 100%; border-collapse: collapse;"> <tr><td colspan="2" style="text-align: center; border-top: 1px solid black;">Common Stock</td></tr> <tr><td style="width: 50%;"></td><td style="width: 50%; text-align: left;">30,000</td></tr> <tr><td></td><td style="text-align: left;">24,000</td></tr> </table> <table style="width: 100%; border-collapse: collapse;"> <tr><td colspan="2" style="text-align: center; border-top: 1px solid black;">Service Revenue</td></tr> <tr><td style="width: 50%;"></td><td style="width: 50%; text-align: left;">21,000</td></tr> <tr><td></td><td style="text-align: left;">9,000</td></tr> <tr><td></td><td style="text-align: left;">22,000</td></tr> <tr><td></td><td style="text-align: left;">36,000</td></tr> </table>	Common Stock			30,000		24,000	Service Revenue			21,000		9,000		22,000		36,000
Cash																																														
5,000	12,000																																													
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<table style="width: 100%; border-collapse: collapse;"> <tr><td colspan="2" style="text-align: center; border-top: 1px solid black;">Accounts Receivable</td></tr> <tr><td style="width: 50%; text-align: right;">21,000</td><td style="width: 50%; text-align: left;">8,000</td></tr> <tr><td></td><td style="text-align: left;">3,000</td></tr> </table>	Accounts Receivable		21,000	8,000		3,000	<table style="width: 100%; border-collapse: collapse;"> <tr><td colspan="2" style="text-align: center; border-top: 1px solid black;">Unearned Revenue</td></tr> <tr><td style="width: 50%; text-align: right;">22,000</td><td style="width: 50%; text-align: left;">44,000</td></tr> </table>	Unearned Revenue		22,000	44,000	<table style="width: 100%; border-collapse: collapse;"> <tr><td colspan="2" style="text-align: center; border-top: 1px solid black;">Advertising Expense</td></tr> <tr><td style="width: 50%; text-align: right;">4,200</td><td style="width: 50%;"></td></tr> </table>	Advertising Expense		4,200																															
Accounts Receivable																																														
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<table style="width: 100%; border-collapse: collapse;"> <tr><td colspan="2" style="text-align: center; border-top: 1px solid black;">Prepaid Insurance</td></tr> <tr><td style="width: 50%; text-align: right;">1,200</td><td style="width: 50%; text-align: left;">100</td></tr> <tr><td></td><td style="text-align: left;">100</td></tr> <tr><td></td><td style="text-align: left;">100</td></tr> </table>	Prepaid Insurance		1,200	100		100		100	<table style="width: 100%; border-collapse: collapse;"> <tr><td colspan="2" style="text-align: center; border-top: 1px solid black;">Notes Payable</td></tr> <tr><td style="width: 50%;"></td><td style="width: 50%; text-align: left;">16,500</td></tr> </table>	Notes Payable			16,500	<table style="width: 100%; border-collapse: collapse;"> <tr><td colspan="2" style="text-align: center; border-top: 1px solid black;">Salaries Expense</td></tr> <tr><td style="width: 50%; text-align: right;">15,200</td><td style="width: 50%;"></td></tr> <tr><td></td><td style="text-align: left;">16,100</td></tr> <tr><td></td><td style="text-align: left;">16,400</td></tr> <tr><td></td><td style="text-align: left;">5,000</td></tr> </table>	Salaries Expense		15,200			16,100		16,400		5,000																						
Prepaid Insurance																																														
1,200	100																																													
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<table style="width: 100%; border-collapse: collapse;"> <tr><td colspan="2" style="text-align: center; border-top: 1px solid black;">Equipment</td></tr> <tr><td style="width: 50%; text-align: right;">35,300</td><td style="width: 50%;"></td></tr> </table>	Equipment		35,300			<table style="width: 100%; border-collapse: collapse;"> <tr><td colspan="2" style="text-align: center; border-top: 1px solid black;">Rent Expense</td></tr> <tr><td style="width: 50%; text-align: right;">650</td><td style="width: 50%;"></td></tr> <tr><td></td><td style="text-align: left;">650</td></tr> <tr><td></td><td style="text-align: left;">650</td></tr> </table> <table style="width: 100%; border-collapse: collapse;"> <tr><td colspan="2" style="text-align: center; border-top: 1px solid black;">Insurance Expense</td></tr> <tr><td style="width: 50%; text-align: right;">100</td><td style="width: 50%;"></td></tr> <tr><td></td><td style="text-align: left;">100</td></tr> <tr><td></td><td style="text-align: left;">100</td></tr> </table> <table style="width: 100%; border-collapse: collapse;"> <tr><td colspan="2" style="text-align: center; border-top: 1px solid black;">Dividends</td></tr> <tr><td style="width: 50%; text-align: right;">7,750</td><td style="width: 50%;"></td></tr> </table>	Rent Expense		650			650		650	Insurance Expense		100			100		100	Dividends		7,750																					
Equipment																																														
35,300																																														
Rent Expense																																														
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100																																														
	100																																													
	100																																													
Dividends																																														
7,750																																														

ANS:

Battern Corporation
 Trial Balance
 March 31, 2009

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash	\$ 73,400	
Accounts Receivable	10,000	
Prepaid Insurance	900	
Equipment	35,300	
Accounts Payable		\$ 1,000
Salaries Payable		5,000
Unearned Revenue		22,000
Notes Payable		16,500
Common Stock		54,000
Service Revenue		88,000
Advertising Expense	4,200	
Salaries Expense	52,700	
Rent Expense	1,950	
Insurance Expense	300	
Dividends	7,750	
	<u>\$186,500</u>	<u>\$186,500</u>

PTS: 1 DIF: Medium OBJ: 2-7

NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

16. The list of accounts presented below are from the accounting records of Grammerle, Inc. on September 30, 2009. Assume that each account balance is normal, and present them in proper trial balance format.

Cash	\$ 4,200
Short-term Investments	13,000
Accounts Receivable	4,500
Inventory	23,000
Land	90,000
Building	700,000
Furniture	450,000
Equipment	281,700
Accounts Payable	7,200
Salaries Payable	4,100
Unearned Revenue	17,000
Interest Payable	2,000
Notes Payable	70,000
Common Stock	460,000
Retained Earnings	977,000
Sales	158,000
Cost of Goods Sold	78,000
Salaries Expense	24,000
Rent Expense	6,000
Insurance Expense	1,000
Depreciation Expense	11,000
Utility Expense	900
Dividends	8,000

ANS:

Grammerle, Inc.
 Trial Balance
 September 30, 2009

<u>Account</u>		<u>Debit</u>	<u>Credit</u>
Cash	\$	4,200	
Short-term investments		13,000	
Accounts Receivable		4,500	
Inventory		23,000	
Land		90,000	
Building		700,000	
Furniture		450,000	
Equipment		281,700	
Accounts Payable			\$ 7,200
Salaries Payable			4,100
Unearned Revenue			17,000
Interest Payable			2,000
Notes Payable			70,000
Common Stock			460,000
Retained Earnings			977,000
Sales			158,000
Cost of Goods Sold		78,000	
Salaries Expense		24,000	
Rent Expense		6,000	
Insurance Expense		1,000	
Depreciation Expense		11,000	
Utility Expense		900	
Dividends			
		<u>8,000</u>	
		<u>\$1,695,300</u>	<u>\$1,695,300</u>

PTS: 1 DIF: Medium OBJ: 2-7
 NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

Meyerich-Sanders & Company

The following transactions were incurred by the Meyerich-Sanders & Company during July 2011.

- July 1 Raised \$30,000 by issuing a note to the bank for \$15,000 and issuing \$15,000 of common stock.
- July 5 Purchased \$5,100 of office supplies on credit; payment is due in 30 days.
- July 12 Performed \$18,000 of services for customers on credit; collection is due in 30 days.
- July 13 Performed services for customers and collected \$8,800.
- July 20 Paid for the supplies purchased on July 5.
- July 22 Collected \$15,000 of the amounts due from customers.
- July 30 Received and paid the utility bill for the month of July, \$640.
- July 31 Paid employee salaries of \$3,800.

17. Refer to the information presented for Meyerich-Sanders & Company. Use the following format to indicate the economic effects of each transaction above on the expanded accounting equation. Show the dollar amounts in the appropriate columns and use a plus (+) sign to indicate an increase and a minus (-) sign to indicate a decrease.

<u>Transaction Date</u>	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Contributed Capital</u>	+	<u>Retained Earnings</u>
ANS:							
<u>Transaction Date</u>	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Contributed Capital</u>	+	<u>Retained Earnings</u>
July 1	+30,000	=	+15,000	+	+15,000	+	
July 5	+5,100	=	+5,100				
July 12	+18,000	=					+18,000
July 13	+8,800	=					+8,800
July 20	-5,100	=	-5,100				
July 22	-0-	=					
	(+15,000 - 15,000)	=					
July 30	-640	=					-640
July 31	-3,800	=					-3,800

PTS: 1 DIF: Medium REF: CS2-1 OBJ: 2-3
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

18. Refer to the information presented for Meyerich-Sanders & Company. Record each transaction in proper journal entry format in the journal provided. A written explanation for each journal entry is not required.

JOURNAL				
<u>Date</u>	<u>Accounts</u>		<u>Debit</u>	<u>Credit</u>
ANS:				
JOURNAL				
<u>Date</u>	<u>Accounts</u>		<u>Debit</u>	<u>Credit</u>
July 1	Cash		30,000	
	Note Payable			15,000
	Common Stock			15,000
July 5	Office Supplies		5,100	
	Accounts Payable			5,100
July 12	Accounts Receivable		18,000	
	Service Revenue			18,000

July 13	Cash	8,800	
	Service Revenue		8,800
July 20	Accounts Payable	5,100	
	Cash		5,100
July 22	Cash	15,000	
	Accounts Receivable		15,000
July 30	Utilities Expense	640	
	Cash		640
July 31	Salaries Expense	3,800	
	Cash		3,800

PTS: 1 DIF: Medium REF: CS2-4 OBJ: 2-5
 NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

19. Refer to the information presented for Meyerich-Sanders & Company. Set up T-accounts and post each transaction to the T-accounts.

ANS:

Cash		Note Payable		Common Stock	
7/1 30,000	7/20 5,100		7/1 15,000		7/1 15,000
7/13 8,800	7/30 640				
7/22 15,000	7/31 3,800				
Office Supplies		Accounts Payable		Accounts Receivable	
7/5 5,100		7/20 5,100	7/5 5,100	7/12 18,000	7/22 15,000
Service Revenue		Utility Expense		Salaries Expense	
	7/12 18,000	7/30 640		7/31 3,800	
	7/13 8,800				

PTS: 1 DIF: Medium OBJ: 2-6
 NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

20. Refer to the information presented for Meyerich-Sanders & Company. Prepare a trial balance in proper format. Assume that the company had no additional accounts or balances other than those created from the July transactions.

ANS:

Meyerich-Sanders & Company

Trial Balance

July 31, 2011

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash	\$44,260	
Accounts Receivable	3,000	
Office Supplies	5,100	
Accounts Payable		\$ -0-
Notes Payable		15,000
Common Stock		15,000
Service Revenue		26,800
Utilities Expense	640	
Salaries Expense	<u>3,800</u>	
	<u>\$56,800</u>	<u>\$56,800</u>

PTS: 1 DIF: Medium OBJ: 2-7

NAT: AICPA FN-Reporting | AACSB Communication | APO-06-Recording Transactions

ESSAY

1. What is meant by "generally accepted accounting principles"?

ANS:

Generally accepted accounting principles (GAAP) are a set of guidelines that are based on a conceptual framework. They represent the various rules, practices, and other procedures used as a basis for accounting principles. GAAP was created in response to the need to make it easier to use financial statements over time and across companies.

PTS: 1 DIF: Easy OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

2. Each of the situations in A through C below applies to one of the assumptions or principles included in the conceptual framework of accounting. Identify which assumption or principles applies and explain why that assumption or principle applies.
 - A) Globall Inc. is a U.S. company that has divisions in several countries around the world. Each country has a currency different than the U.S. dollar. Globall must include the financial data of its worldwide divisions in its financial statements.
 - B) Cheetum & Howell operate a security business as a partnership. The partners are considering a change to the corporate form of business organization.
 - C) Yum Shops, Inc. is a locally owned and operated confectionary. The owners have decided to expand into nearby cities. Expansion will require more capital, but management does not expect it will stay in business for more than one year or so regardless of its expansion plans.

ANS:

- A) The Monetary Unit Assumption. Financial statements must be reported in monetary terms, and the standard monetary unit should be denominated in one currency.

- B) Economic Entity Assumption. A business can take three forms. Regardless of the form, however, the unit itself is distinct from its owners.
- C) Continuity (Going Concern) Assumption. A business is assumed to continue to operate long enough to carry out its obligations, to more accurately reflect the valuation of assets and appropriately allocate costs to accounting periods.

PTS: 1 DIF: Medium OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

3. Paige Company claims that its financial information is useful. What four qualities must be present in order to have "useful" accounting information? Explain these four qualities.

ANS:

The four qualitative characteristics of useful accounting information are relevance, reliability, comparability, and consistency.

Relevant information has the capacity to make a difference in a decision. It helps users predict future events or provides feedback.

Reliable information is dependable, verifiable, and free from bias.

Comparability allows comparisons to be made between or among companies.

Consistency refers to the application of the same accounting principles over time.

PTS: 1 DIF: Easy OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

4. What is the difference between comparability and consistency?

ANS:

Comparability allows comparisons to be made between or among companies. Even though a certain amount of freedom exists in selecting accounting principles, when this information is disclosed in the financial statements, users can still compare the information when they know what principle is used.

Consistency refers to the application of the same accounting principles over time. It involves the relationships between a set of numbers over several periods, but within one company only, unlike comparability that can be between or among companies.

PTS: 1 DIF: Easy OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

5. What is conservatism and why is it important in accounting?

ANS:

Conservatism is choosing the path that will be least likely to overstate assets or income. It is used in situations in which there is uncertainty about how to account for a particular item. In accounting, it is used in the balance sheet and income statement in an effort to provide the least optimistic amount. Conservatism is a prudent reaction to uncertainty that offsets management's natural optimism.

PTS: 1 DIF: Easy OBJ: 2-1
NAT: AICPA FN-Reporting | AACSB Communication | APO-02-GAAP

6. Several terms which represent components of an accounting system are listed below. For each term, write a brief explanation of how that component is used in the accounting cycle.
- A) Accounts
 - B) Chart of Accounts
 - C) Double-entry system with debits and credits
 - D) Journal
 - E) General Ledger
 - F) Trial Balance

ANS:

- A) An account is a record used to accumulate monetary amounts of increases and decreases for each basic element reported in an entity's financial statements. A separate record is prepared for each asset, liability, stockholders' equity, revenue, expense, and dividend element.
- B) A chart of accounts is a list of all accounts (financial statement elements) used by a company, including numbers assigned to the accounts by the entity to facilitate bookkeeping activities. The chart of accounts is used to locate accounts in a general ledger.
- C) In a double-entry system with debits and credits, equal debit and credit amounts are recorded for the effects of each transaction on an entity's accounts. Increases and decreases are recorded as debits (left-side entries) or credits (right-side entries) in the accounts. To maintain the equality of the accounting equation, $\text{assets} = \text{liabilities} + \text{stockholders' equity}$, the rules of debit and credit require that some accounts increase by debits and decrease by credits and that other accounts increase by credits and decrease by debits.
- D) The journal is an accounting record in which all business transactions are recorded in chronological order as they occur. The transaction date, accounts affected, amounts to be debited and credited to the affected accounts, and a brief description of the transaction are recorded. As the amounts are transferred to the accounts in the general ledger, the account numbers are entered in the posting reference column of the journal.
- E) The general ledger is a book or file which contains a record for each account used by an entity. The individual account records contain the monetary amounts transferred from the general journal entries. The difference between the debit and credit entries is the account balance. Periodically, the account balances are listed in a trial balance and used in the preparation of financial statements.
- F) The trial balance is a schedule or list of all accounts and their balances from the general ledger. Amounts for accounts with debit balances are listed in one column, and amounts for accounts with credit balances are listed in a second column. The sum of the debit and credit balances should be equal in the double-entry system. If the sums of the debit and credit balances are not equal, procedures for locating the error(s) must be applied. The trial balance provides information that is needed to prepare financial

statements.

PTS: 1 DIF: Medium OBJ: 2-4 | 2-5 | 2-6 | 2-7
 NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

7. Four journal entries are presented below. Write an explanation for each entry.

A)	Cash	12,200	
	Service Revenue		12,200
B)	Accounts Receivable	17,500	
	Service Revenue		17,500
C)	Cash	16,900	
	Accounts Receivable		16,900
D)	Cash	1,830	
	Unearned Revenue		1,830

ANS:

- A) Cash was received for services provided to customers.
- B) Customers were billed for services provided.
- C) Cash was collected from customers who had been billed previously.
- D) Cash was collected from customers for services to be provided later.

PTS: 1 DIF: Medium REF: CS2-4 OBJ: 2-5
 NAT: AICPA FN-Reporting | AACSB Communication | APO-05-Accounting Cycle

8. The accountant for Brumley Solutions, Inc. made the following errors while recording transactions for the period:

- A) A purchase of equipment for \$450 cash was recorded as a debit to Equipment for \$540 and a credit to Cash for \$540.
- B) The sale of services for cash in the amount of \$4,134 was recorded as a debit to Cash for \$4,134 and a credit to Service Revenue for \$4,314.
- C) A purchase of supplies for \$200 cash was recorded correctly in the journal but was omitted from the general ledger.
- D) The sale of services for credit in the amount of \$3,800 was recorded correctly in the journal but was posted twice to the general ledger.
- E) \$5,500 cash paid for salaries was recorded in the journal as a \$5,500 debit to Cash and a \$5,500 credit to Salaries Expense.

Indicate whether or not the debit and credit columns of Brumley's trial balance will be equal after recording each of these erroneous entries. Then identify the account(s) that will be misstated as a result of these errors and the direction of the misstatement (i.e., understatement or overstatement).

ANS:

- A) The trial balance will still balance, but both of the accounts will be overstated by \$90.
- B) The trial balance will be out of balance, as Service Revenues will be overstated by \$180.
- C) The trial balance will still balance, but the Supplies account will be understated by \$200 and the Cash account will be overstated by \$200.
- D) The trial balance will still balance, but the Accounts Receivable and Service Revenue accounts will both be overstated by \$3,800.
- E) The trial balance will still balance, but the Cash account will be overstated by \$11,000 and the Salaries Expense account will be understated by \$11,000.

PTS: 1

DIF: Medium

OBJ: 2-3 | 2-4 | 2-7

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