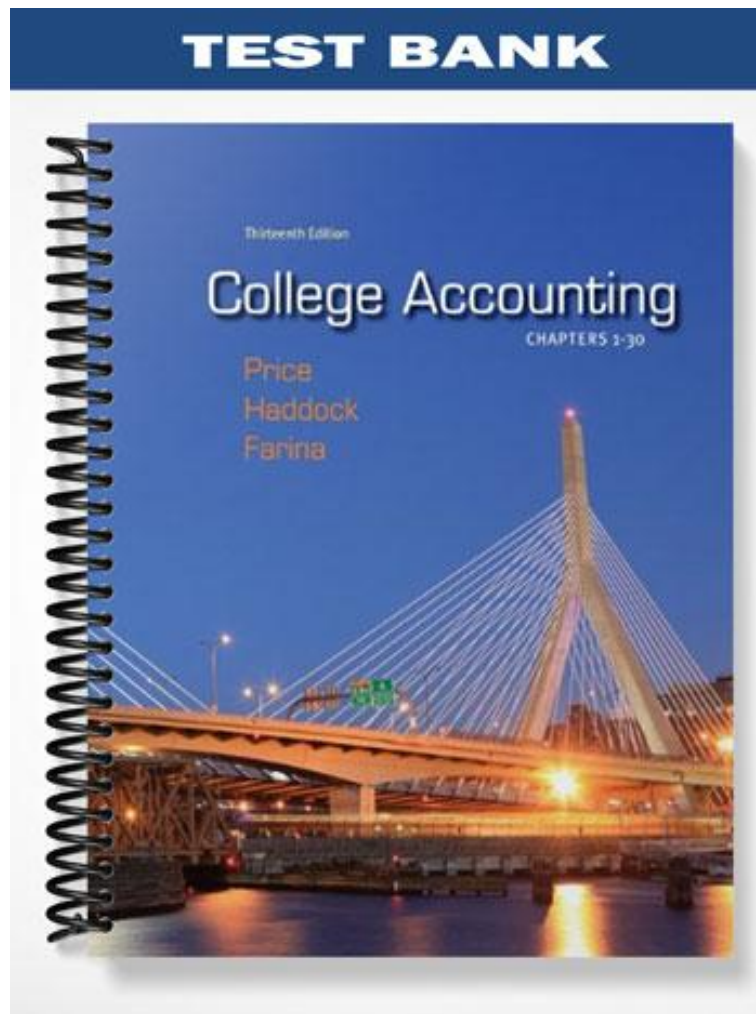


**TEST BANK**



Thirteenth Edition

**College Accounting**

CHAPTERS 1-30

Price  
Haddock  
Farina

## Chapter 02 Analyzing Business Transactions

### True / False Questions

1. A business transaction is a financial event that affects the resources of a business.

True False

2. A creditor's claim against the firm's property lasts until the debt is paid.

True False

3. Assets always equal debts of the business plus the financial interest of the owner.

True False

4. When cash is paid to a creditor, the firm's liabilities decrease.

True False

5. The entire process of analyzing, recording, and reporting business transactions is based on the fundamental accounting equation.

True False

6. When using the fundamental accounting equation, an accountant must make sure that total assets are always equal to total liabilities and owner's equity.

True False

7. Al Dunn Bakery bought a new oven for \$1,380. Al paid \$300 as a cash down payment and will pay the balance in 30 days. Total assets increased by \$1,080.

True False

8. If the owner takes cash out of the business for personal use, the withdrawal should be recorded as an expense of the business.

True False

9. When cash is collected from accounts receivable, the total amount of assets increases.

True False

10. A company has assets of \$56,320 and liabilities of \$29,500. The owner's equity is \$85,820.

True False

11. Revenue is recorded when cash is collected from charge-account clients.

True False

12. A withdrawal of funds by the owner for personal use is considered a business expense.

True False

13. If assets are \$8,000 and liabilities are \$2,000, owner's equity is \$10,000.

True False

14. For statements prepared on plain paper, dollar signs are placed with the first amount in each column and with each total.

True False

15. The expenses for a period are reported on the balance sheet.

True False

16. A double line drawn under the figures in a money column shows that the computation is complete.

True False

17. If there is an excess of expenses over revenues, the excess represents a profit.

True False

18. The income statement is also known as the profit and loss statement.

True False

19. The net income or net loss for the period is shown on both the income statement and the balance sheet.

True False

20. The statement of owner's equity is prepared before the balance sheet so that the ending capital balance is available.

True False

21. The amount of net income or net loss is needed to complete the statement of owner's equity.

True False

22. Withdrawals by the owner are reported on the income statement.

True False

**Fill in the Blank Questions**

23. The account used to record amounts that are owed for goods or services purchased on credit are known as \_\_\_\_\_.

\_\_\_\_\_

24. The property that a business owns is referred to as its \_\_\_\_\_.

\_\_\_\_\_

25. The debts or obligations of a business are known as its \_\_\_\_\_.

\_\_\_\_\_

26. The financial interest of the owner in a business is called owner's equity, or \_\_\_\_\_.

\_\_\_\_\_

27. The \_\_\_\_\_ is the financial report that shows the assets, liabilities, and owner's equity of a business on a specific date.

\_\_\_\_\_

28. When a business sells services for cash, assets increase and revenue \_\_\_\_\_.

\_\_\_\_\_

29. The account used to record amounts that will be collected from charge account customers in the future are referred to as \_\_\_\_\_.

\_\_\_\_\_

30. If assets are \$17,000 and owner's equity is \$10,000, liabilities are

\_\_\_\_\_  
\_\_\_\_\_

31. When a business pays cash for salaries, assets decrease and expenses

\_\_\_\_\_  
\_\_\_\_\_

32. Funds taken from the business by the owner for personal use are called

\_\_\_\_\_  
\_\_\_\_\_

33. The income statement shows revenue, \_\_\_\_\_, and net income or net loss for a period of time.

\_\_\_\_\_

34. When revenue is greater than expenses, the result is a net \_\_\_\_\_.

\_\_\_\_\_

35. When revenue and expenses are equal, the firm is said to \_\_\_\_\_.

\_\_\_\_\_

36. The three-line heading of a financial statement shows who, what, and

\_\_\_\_\_  
\_\_\_\_\_

37. The statement of \_\_\_\_\_ reports the changes that have occurred in the owner's financial interest during the reporting period.

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**Multiple Choice Questions**

38. Amounts that a business must pay in the future are known as

- A. accounts receivable.
- B. accounts payable.
- C. capital.
- D. expenses.

39. Ginger Yale Ice Company receives money from a customer on account. Recording this transaction will

- A. increase Accounts Receivable
- B. increase G. Yale, Capital
- C. decrease Accounts Payable
- D. increase Cash

40. The owner's investment or equity in a business is called

- A. cash
- B. drawing
- C. capital
- D. accounts payable

41. When equipment is purchased on credit,

- A. assets and liabilities increase.
- B. assets increase and liabilities decrease.
- C. assets and owner's equity increase.
- D. assets and expenses increase.

42. When equipment is purchased for cash,
- A. assets decrease and expenses increase.
  - B. one asset increases and another asset decreases.
  - C. assets and owner's equity increase.
  - D. assets increase and liabilities decrease.
43. The rent paid for future months is a(n)
- A. asset.
  - B. liability.
  - C. expense.
  - D. revenue.
44. In order to analyze the effect of a business transaction one must do all of the following except
- A. identify the property.
  - B. identify who owns the property.
  - C. determine which asset, liability, or equity accounts will change.
  - D. determine the amount of increase or decrease.
45. The balance sheet shows each of the following except the
- A. owner's investment.
  - B. amount and types of property the business owns.
  - C. owner's interest.
  - D. amount owed creditors.
46. The statement of financial position is another term for which financial statement?
- A. Income Statement
  - B. Statement of Owner's Equity
  - C. Balance Sheet
  - D. Trial Balance



47. The balance sheet shows

- A. the results of business operations.
- B. all revenues and expenses.
- C. the amount of net income or loss.
- D. the financial position of a business at a given time.

48. Assets and liabilities are reported on

- A. the balance sheet.
- B. the income statement.
- C. the statement of owner's equity.
- D. both the balance sheet and the income statement.

49. Examples of assets are

- A. cash and accounts receivable.
- B. cash and revenue.
- C. cash and rent expense.
- D. investments by the owner and revenue.

50. Total assets of Douglas Fuhr Furniture Co. are \$36,000 and the total liabilities are \$12,000. What is the amount of the owner's equity?

- A. \$36,000
- B. \$24,000
- C. \$48,000
- D. \$6,000

51. If during the year total assets increase by \$75,000 and total liabilities decrease by \$16,000, by how much did owner's equity increase/decrease?

- A. \$91,000 increase
- B. \$59,000 decrease
- C. \$91,000 decrease
- D. \$75,000 increase

52. When the owner invests cash in a business,
- A. assets and revenue increase.
  - B. assets increase and owner's equity decreases.
  - C. liabilities decrease and owner's equity increases.
  - D. assets and owner's equity increase.
53. When the owner withdraws cash for personal use,
- A. assets decrease and expenses increase.
  - B. assets decrease and owner's equity increases.
  - C. assets decrease and owner's equity decreases.
  - D. owner's equity decreases and revenue decreases.
54. When the owner writes a company check to pay the firm's electric bill,
- A. assets and owner's equity increase.
  - B. assets decrease and expenses increase.
  - C. assets and liabilities decrease.
  - D. expenses increase and owner's equity increases.
55. If liabilities are \$4,000 and owner's equity is \$15,000, assets are
- A. \$9,000.
  - B. \$15,000.
  - C. \$19,000.
  - D. \$4,000.
56. Which financial statement is a representation of the accounting equation?
- A. Income Statement
  - B. Statement of Owner's Equity
  - C. Balance Sheet
  - D. Profit and Loss Statement

57. A net loss results

- A. when expenses are greater than revenue.
- B. when assets are greater than liabilities.
- C. when revenue is greater than expenses.
- D. when expenses are greater than assets.

58. The income statement shows

- A. the financial position of a business on a specific date.
- B. revenue and owner's equity.
- C. the results of operations for a period of time.
- D. the total value of the business.

59. If the income statement covered a six-month period ending on November 30, 2010, the third line of the income statement heading would read

- A. Month Ended November 30, 2010.
- B. November 30, 2010.
- C. Six-month Period Ended November 30, 2010.
- D. Month of November, 2010.

60. The financial statement that is prepared first is

- A. up to the accountant.
- B. the income statement.
- C. the balance sheet.
- D. the statement of owner's equity.

61. An Income Statement is all of the following except

- A. a formal report of business operations.
- B. a profit and loss statement.
- C. a statement of revenues less withdrawals and expenses.
- D. a statement of income and expenses.

At the end of the first month of operations for SloMo Delivery Service, the business had the following accounts: Accounts Receivable, \$1,200; Prepaid Insurance, \$500; Equipment, \$36,200 and Cash, \$40,650. On the same date, SloMo owed the following creditors: Simpson Supply Company, \$12,000; Allen Office Equipment, \$9,500.

62. The total assets for the SloMo Delivery Service are

- A. \$42,350
- B. \$78,550
- C. \$76,850
- D. \$41,850

63. The total amount of Liabilities is

- A. \$36,200
- B. \$9,500
- C. \$21,500
- D. \$40,650

64. Which financial statement is reported as of a specific date?

- A. Balance Sheet
- B. Statement of Owner's Equity
- C. Income Statement
- D. Statement of Changes in Financial Position

65. The Statement of Owner's Equity is calculated as follows:

- A. beginning capital + net income - withdrawals + additional investments = ending capital
- B. beginning capital + net loss + withdrawals + additional investments = ending capital
- C. beginning capital + net loss - withdrawals + additional investments = ending capital
- D. beginning capital + net income + withdrawals + additional investments = ending capital

66. The Balance Sheet heading includes each of the following except

- A. firm's name.
- B. firm's address.
- C. title of the report.
- D. date of the report.

67. The current worth of an asset is its

- A. original cost.
- B. cost less accumulated depreciation.
- C. asking price when put up for sale.
- D. fair market value.

68. Owner's equity is

- A. the amount taken out of a business by the owner for personal use.
- B. the financial interest of the owner of a business.
- C. the amount the owner invested in the business.
- D. the revenues less the expenses.

69. An expense by definition is not

- A. an amount a business must pay in the future.
- B. an outflow of cash.
- C. the use of other assets.
- D. the incurring of a liability.

**Short Answer Questions**

The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

Cash	K. Mitchell, Capital
Accounts Receivable	Revenue
Equipment	Expenses
Accounts Payable	

70. Sent a check to a creditor

71. Purchased a computer for cash

72. The owner made an additional investment of cash

73. Purchased furniture on credit

74. Had a computer repaired; payment is due in 30 days

On September 1, Shawn Dahl established Whitewater Rentals, a canoe and kayak rental business. The following transactions occurred in the month of September and affected the following accounts:

Cash	Accounts Payable
Accounts Receivable	Shawn Dahl, Capital
Office Equipment	Revenue
Canoe and Kayak Equipment	Expenses

#### Transactions

1. Shawn Dahl invested \$45,000 in cash to open the business
2. Paid \$12,700 in cash for the purchase of kayak and canoe equipment
3. Paid \$1,050 in cash for rent expense
4. Purchased additional kayak and canoe equipment for \$3,800 on credit
5. Received \$3,900 in cash for kayak rentals
6. Rented canoes and kayaks for \$1,200 on account
7. Purchased office equipment for \$125 in cash
8. Received \$800 in cash from credit clients
9. Shawn Dahl withdrew \$1,500 in cash for personal expenses

75. Based on the information shown in transaction #4 above, indicate the accounts affected and use plus and minus to show the changes caused by the transaction.

Cullen Beatty plans to start a consulting business—Cullen Consulting Services. In preparation to do this, on April 1, 2013, he invested \$50,000 in cash and \$19,000 in equipment, and opened an account at Office Plus by purchasing \$1,500 in office supplies which is due by the end of the month. He then signed a one-year lease agreement on an office building for \$6,000, paying the full amount in advance.

76. Prepare a Balance Sheet for Cullen Consulting Services as of April 1, 2013, before he conducts any services.



77. On December 1, 2013, Geneva Jordan opened her new business with the following assets and liabilities. Complete the accounting equation for the firm.

Accounts Payable	\$1,100	Prepaid Rent	\$6,000
Cash	3,950	Loans Payable	15,500
Equipment	26,200	Supplies	1,250

Assets \$\_\_\_\_\_ = Liabilities \$\_\_\_\_\_ + Owner's Equity \$\_\_\_\_\_

78. Performed services on credit

79. Paid cash for utilities

Chapter 02 - Analyzing Business Transactions

80. Issued checks to pay salaries

81. Received cash from credit customers

82. Performed services for cash

83. Based on the information shown above, what is the balance of Accounts Receivable for Whitewater Rentals at the end of September?

84. Based on the information above, what is the fundamental accounting equation at the end of September for Whitewater Rentals?

85. During October, a firm had the following transactions involving revenue and expenses. Did the firm earn a net income or incur a net loss for the period? What was the amount?

Paid \$1,200 for rent

Provided services for \$2,750 in cash

Paid \$250 for telephone service

Provided services for \$1,900 on credit

Paid salaries of \$1,675 to employees

Paid \$350 for office cleaning service

Chapter 02 - Analyzing Business Transactions

The figure below shows the transactions for Sawyer Architecture Services during June. Greg Sawyer opened this business on June 1 with a capital investment of \$72,000 (Transaction 1).

Trans	Assets			=	Liab.		Owner's Equity		
	Cash	Accts Rec	Supp		Equip	Accts Pay	G. Sawyer, Capital	Rev.	Expense
1	+72,000						+72,000		
2	- 8,200			+8,200					
3		5,200						+5,200	
4				+3,680	+3,680				
5	- 3,500								-3,500
6	+ 670	- 670							
7	- 2,400						- 2,400		
8	- 450		+450						
Bal	58,120 +	4,530 +	450 +	11,880 =	3,680	+	69,600 +	5,200 +	-3,500

86. What was the net income or net loss for Sawyer Architecture Services for the month of June?

87. Guy McKinley started the McKinley Charter Service at the beginning of August 2013. On August 31, 2013, the accounting records of the business showed the following information. Prepare an income statement and a statement of owner's equity for the month and a balance sheet as of August 31, 2013.

Equipment	\$17,000	Rent Expense	\$4,500
Accounts Receivable	2,600	Cash	5,000
Fees Income	28,000	Salaries Expense	9,600
Boats	103,000	Utilities Expense	1,900
Gasoline Expense	6,500	Supplies	2,300
Loans Payable	77,500	Initial Investment	51,000
Owner's Withdrawal	4,100		

88. Prepare the statement of owner's equity for Sawyer Architecture Services for the month ended June 30, 2013.

89. Prepare the balance sheet for Sawyer Architecture Services as of June 30, 2013.

90. Cullen would like an explanation of the accounting for his business actions as of April 1, 2013. Explain the terms and interactions between the categories on a Balance Sheet.

## Chapter 02 Analyzing Business Transactions **Answer Key**

### **True / False Questions**

1. A business transaction is a financial event that affects the resources of a business.

**TRUE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Level: Easy*

*Topic: Property and Financial Interest*

2. A creditor's claim against the firm's property lasts until the debt is paid.

**TRUE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Level: Medium*

*Topic: Property and Financial Interest*

3. Assets always equal debts of the business plus the financial interest of the owner.

**TRUE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Level: Easy*

*Topic: Property and Financial Interest*

4. When cash is paid to a creditor, the firm's liabilities decrease.

**TRUE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Level: Easy*

*Topic: Property and Financial Interest*

5. The entire process of analyzing, recording, and reporting business transactions is based on the fundamental accounting equation.

**TRUE**

*AACSB: Analytic*

*AICPA FN: Decision Making*

*Bloom's: Remember*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

6. When using the fundamental accounting equation, an accountant must make sure that total assets are always equal to total liabilities and owner's equity.

**TRUE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*



Chapter 02 - Analyzing Business Transactions

7. Al Dunn Bakery bought a new oven for \$1,380. Al paid \$300 as a cash down payment and will pay the balance in 30 days. Total assets increased by \$1,080.

**TRUE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Medium*

*Topic: The Accounting Equation and Financial Statements*

8. If the owner takes cash out of the business for personal use, the withdrawal should be recorded as an expense of the business.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

9. When cash is collected from accounts receivable, the total amount of assets increases.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

Chapter 02 - Analyzing Business Transactions

10. A company has assets of \$56,320 and liabilities of \$29,500. The owner's equity is \$85,820.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Apply*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

11. Revenue is recorded when cash is collected from charge-account clients.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Medium*

*Topic: The Accounting Equation and Financial Statements*

12. A withdrawal of funds by the owner for personal use is considered a business expense.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

13. If assets are \$8,000 and liabilities are \$2,000, owner's equity is \$10,000.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

Chapter 02 - Analyzing Business Transactions

14. For statements prepared on plain paper, dollar signs are placed with the first amount in each column and with each total.

**TRUE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Level: Medium*

*Topic: The Accounting Equation and Financial Statements*

15. The expenses for a period are reported on the balance sheet.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-04 Prepare an income statement.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

16. A double line drawn under the figures in a money column shows that the computation is complete.

**TRUE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-04 Prepare an income statement.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

17. If there is an excess of expenses over revenues, the excess represents a profit.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-04 Prepare an income statement.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

18. The income statement is also known as the profit and loss statement.

**TRUE**

*AACSB: Analytic  
AICPA BB: Critical Thinking  
Bloom's: Remember  
Learning Objective: 02-04 Prepare an income statement.  
Level: Easy  
Topic: The Accounting Equation and Financial Statements*

19. The net income or net loss for the period is shown on both the income statement and the balance sheet.

**FALSE**

*AACSB: Analytic  
AICPA BB: Critical Thinking  
Bloom's: Remember  
Learning Objective: 02-04 Prepare an income statement.  
Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.  
Level: Medium  
Topic: The Accounting Equation and Financial Statements*

20. The statement of owner's equity is prepared before the balance sheet so that the ending capital balance is available.

**TRUE**

*AACSB: Analytic  
AICPA BB: Critical Thinking  
Bloom's: Remember  
Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.  
Level: Easy  
Topic: The Accounting Equation and Financial Statements*

21. The amount of net income or net loss is needed to complete the statement of owner's equity.

**TRUE**

*AACSB: Analytic  
AICPA BB: Critical Thinking  
Bloom's: Remember  
Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.  
Level: Medium  
Topic: The Accounting Equation and Financial Statements*

22. Withdrawals by the owner are reported on the income statement.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

**Fill in the Blank Questions**

23. The account used to record amounts that are owed for goods or services purchased on credit are known as \_\_\_\_\_.

**accounts payable**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Level: Easy*

*Topic: Property and Financial Interest*

24. The property that a business owns is referred to as its \_\_\_\_\_.

**assets**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Level: Easy*

*Topic: Property and Financial Interest*

25. The debts or obligations of a business are known as its \_\_\_\_\_.

**liabilities**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Level: Easy*

*Topic: Property and Financial Interest*

26. The financial interest of the owner in a business is called owner's equity, or

\_\_\_\_\_.  
**capital**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Level: Easy*

*Topic: Property and Financial Interest*

27. The \_\_\_\_\_ is the financial report that shows the assets, liabilities, and owner's equity of a business on a specific date.

**balance sheet**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Level: Easy*

*Topic: Property and Financial Interest*

28. When a business sells services for cash, assets increase and revenue

\_\_\_\_\_.  
**increases**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Understand*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

29. The account used to record amounts that will be collected from charge account customers in the future are referred to as \_\_\_\_\_.

**accounts receivable**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

30. If assets are \$17,000 and owner's equity is \$10,000, liabilities are \_\_\_\_\_.

**\$7,000**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Apply*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

31. When a business pays cash for salaries, assets decrease and expenses \_\_\_\_\_.

**increase**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Apply*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

32. Funds taken from the business by the owner for personal use are called \_\_\_\_\_.

**withdrawals**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

33. The income statement shows revenue, \_\_\_\_\_, and net income or net loss for a period of time.

**expenses**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-04 Prepare an income statement.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

34. When revenue is greater than expenses, the result is a net \_\_\_\_\_.

**income**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Understand*

*Learning Objective: 02-04 Prepare an income statement.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

35. When revenue and expenses are equal, the firm is said to \_\_\_\_\_.

**break even**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-04 Prepare an income statement.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*



36. The three-line heading of a financial statement shows who, what, and

\_\_\_\_\_.  
**when**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-04 Prepare an income statement.*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

37. The statement of \_\_\_\_\_ reports the changes that have occurred in the owner's financial interest during the reporting period.

**owner's equity**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

### **Multiple Choice Questions**

38. Amounts that a business must pay in the future are known as

A. accounts receivable.

**B.** accounts payable.

C. capital.

D. expenses.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Level: Easy*

*Topic: Property and Financial Interest*

Chapter 02 - Analyzing Business Transactions

39. Ginger Yale Ice Company receives money from a customer on account. Recording this transaction will

- A. increase Accounts Receivable
- B. increase G. Yale, Capital
- C. decrease Accounts Payable
- D.** increase Cash

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Level: Easy*

*Topic: Property and Financial Interest*

40. The owner's investment or equity in a business is called

- A. cash
- B. drawing
- C.** capital
- D. accounts payable

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Level: Easy*

*Topic: Property and Financial Interest*

41. When equipment is purchased on credit,

- A.** assets and liabilities increase.
- B. assets increase and liabilities decrease.
- C. assets and owner's equity increase.
- D. assets and expenses increase.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Level: Easy*

*Topic: Property and Financial Interest*

Chapter 02 - Analyzing Business Transactions

42. When equipment is purchased for cash,
- A. assets decrease and expenses increase.
  - B.** one asset increases and another asset decreases.
  - C. assets and owner's equity increase.
  - D. assets increase and liabilities decrease.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Level: Medium*

*Topic: Property and Financial Interest*

43. The rent paid for future months is a(n)
- A.** asset.
  - B. liability.
  - C. expense.
  - D. revenue.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Level: Easy*

*Topic: Property and Financial Interest*

44. In order to analyze the effect of a business transaction one must do all of the following except
- A. identify the property.
  - B. identify who owns the property.
  - C.** determine which asset, liability, or equity accounts will change.
  - D. determine the amount of increase or decrease.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Level: Medium*

*Topic: Property and Financial Interest*

Chapter 02 - Analyzing Business Transactions

45. The balance sheet shows each of the following except the A. owner's investment.
- B. amount and types of property the business owns.
  - C. owner's interest.
  - D. amount owed creditors.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Level: Easy*

*Topic: Property and Financial Interest*

46. The statement of financial position is another term for which financial statement?
- A. Income Statement
  - B. Statement of Owner's Equity
  - C. Balance Sheet
  - D. Trial Balance

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Level: Easy*

*Topic: Property and Financial Interest*

47. The balance sheet shows
- A. the results of business operations.
  - B. all revenues and expenses.
  - C. the amount of net income or loss.
  - D. the financial position of a business at a given time.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Level: Easy*

*Topic: Property and Financial Interest*

Chapter 02 - Analyzing Business Transactions

48. Assets and liabilities are reported on  
**A.** the balance sheet.  
B. the income statement.  
C. the statement of owner's equity.  
D. both the balance sheet and the income statement.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Level: Easy*

*Topic: Property and Financial Interest*

49. Examples of assets are  
**A.** cash and accounts receivable.  
B. cash and revenue.  
C. cash and rent expense.  
D. investments by the owner and revenue.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Understand*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: Property and Financial Interest*

*Topic: The Accounting Equation and Financial Statements*

50. Total assets of Douglas Fuhr Furniture Co. are \$36,000 and the total liabilities are \$12,000. What is the amount of the owner's equity?  
A. \$36,000  
**B.** \$24,000  
C. \$48,000  
D. \$6,000

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

Chapter 02 - Analyzing Business Transactions

51. If during the year total assets increase by \$75,000 and total liabilities decrease by \$16,000, by how much did owner's equity increase/decrease?

- A. \$91,000 increase
- B. \$59,000 decrease
- C. \$91,000 decrease
- D. \$75,000 increase

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Evaluate*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Hard*

*Topic: The Accounting Equation and Financial Statements*

52. When the owner invests cash in a business,

- A. assets and revenue increase.
- B. assets increase and owner's equity decreases.
- C. liabilities decrease and owner's equity increases.
- D. assets and owner's equity increase.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

53. When the owner withdraws cash for personal use,

- A. assets decrease and expenses increase.
- B. assets decrease and owner's equity increases.
- C. assets decrease and owner's equity decreases.
- D. owner's equity decreases and revenue decreases.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Medium*

*Topic: The Accounting Equation and Financial Statements*

Chapter 02 - Analyzing Business Transactions

54. When the owner writes a company check to pay the firm's electric bill,
- A. assets and owner's equity increase.
  - B. assets decrease and expenses increase.**
  - C. assets and liabilities decrease.
  - D. expenses increase and owner's equity increases.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

55. If liabilities are \$4,000 and owner's equity is \$15,000, assets are
- A. \$9,000.
  - B. \$15,000.
  - C. \$19,000.**
  - D. \$4,000.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Apply*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

56. Which financial statement is a representation of the accounting equation?
- A. Income Statement
  - B. Statement of Owner's Equity
  - C. Balance Sheet**
  - D. Profit and Loss Statement

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Understand*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Medium*

*Topic: The Accounting Equation and Financial Statements*

Chapter 02 - Analyzing Business Transactions

57. A net loss results

- A. when expenses are greater than revenue.
- B. when assets are greater than liabilities.
- C. when revenue is greater than expenses.
- D. when expenses are greater than assets.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-04 Prepare an income statement.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

58. The income statement shows

- A. the financial position of a business on a specific date.
- B. revenue and owner's equity.
- C. the results of operations for a period of time.
- D. the total value of the business.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-04 Prepare an income statement.*

*Level: Medium*

*Topic: The Accounting Equation and Financial Statements*

59. If the income statement covered a six-month period ending on November 30, 2010, the third line of the income statement heading would read

- A. Month Ended November 30, 2010.
- B. November 30, 2010.
- C. Six-month Period Ended November 30, 2010.
- D. Month of November, 2010.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Create*

*Learning Objective: 02-04 Prepare an income statement.*

*Level: Medium*

*Topic: The Accounting Equation and Financial Statements*



60. The financial statement that is prepared first is
- A. up to the accountant.
  - B.** the income statement.
  - C. the balance sheet.
  - D. the statement of owner's equity.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-04 Prepare an income statement.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

61. An Income Statement is all of the following except
- A. a formal report of business operations.
  - B. a profit and loss statement.
  - C.** a statement of revenues less withdrawals and expenses.
  - D. a statement of income and expenses.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-04 Prepare an income statement.*

*Level: Medium*

*Topic: The Accounting Equation and Financial Statements*

At the end of the first month of operations for SloMo Delivery Service, the business had the following accounts: Accounts Receivable, \$1,200; Prepaid Insurance, \$500; Equipment, \$36,200 and Cash, \$40,650. On the same date, SloMo owed the following creditors: Simpson Supply Company, \$12,000; Allen Office Equipment, \$9,500.

Chapter 02 - Analyzing Business Transactions

62. The total assets for the SloMo Delivery Service are

- A. \$42,350
- B. \$78,550**
- C. \$76,850
- D. \$41,850

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Apply*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Level: Medium*

*Topic: The Accounting Equation and Financial Statements*

63. The total amount of Liabilities is

- A. \$36,200
- B. \$9,500
- C. \$21,500**
- D. \$40,650

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Apply*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Level: Medium*

*Topic: The Accounting Equation and Financial Statements*

64. Which financial statement is reported as of a specific date?

- A. Balance Sheet**
- B. Statement of Owner's Equity
- C. Income Statement
- D. Statement of Changes in Financial Position

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

65. The Statement of Owner's Equity is calculated as follows:

- A.** beginning capital + net income - withdrawals + additional investments = ending capital
- B. beginning capital + net loss + withdrawals + additional investments = ending capital
- C. beginning capital + net loss - withdrawals + additional investments = ending capital
- D. beginning capital + net income + withdrawals + additional investments = ending capital

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Level: Medium*

*Topic: The Accounting Equation and Financial Statements*

66. The Balance Sheet heading includes each of the following except

- A. firm's name.
- B.** firm's address.
- C. title of the report.
- D. date of the report.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

67. The current worth of an asset is its

- A. original cost.
- B. cost less accumulated depreciation.
- C. asking price when put up for sale.
- D.** fair market value.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-06 Define the accounting terms new to this chapter.*

*Level: Medium*

*Topic: The Accounting Equation and Financial Statements*

Chapter 02 - Analyzing Business Transactions

68. Owner's equity is

- A. the amount taken out of a business by the owner for personal use.
- B.** the financial interest of the owner of a business.
- C. the amount the owner invested in the business.
- D. the revenues less the expenses.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Remember*

*Learning Objective: 02-06 Define the accounting terms new to this chapter.*

*Level: Medium*

*Topic: The Accounting Equation and Financial Statements*

69. An expense by definition is not

- A.** an amount a business must pay in the future.
- B. an outflow of cash.
- C. the use of other assets.
- D. the incurring of a liability.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-06 Define the accounting terms new to this chapter.*

*Level: Medium*

*Topic: The Accounting Equation and Financial Statements*

**Short Answer Questions**

The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

Cash	K. Mitchell, Capital
Accounts Receivable	Revenue
Equipment	Expenses
Accounts Payable	

Chapter 02 - Analyzing Business Transactions

70. Sent a check to a creditor

minus Accounts Payable; minus Cash

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Level: Easy*

*Topic: Property and Financial Interest*

71. Purchased a computer for cash

plus Equipment; minus Cash

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Level: Easy*

*Topic: Property and Financial Interest*

72. The owner made an additional investment of cash

plus Cash; plus K. Mitchell, Capital

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Level: Easy*

*Topic: Property and Financial Interest*

Chapter 02 - Analyzing Business Transactions

73. Purchased furniture on credit

plus Furniture; plus Accounts Payable

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Level: Easy*

*Topic: Property and Financial Interest*

74. Had a computer repaired; payment is due in 30 days

plus Expenses; plus Accounts Payable

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Level: Easy*

*Topic: Property and Financial Interest*

On September 1, Shawn Dahl established Whitewater Rentals, a canoe and kayak rental business. The following transactions occurred in the month of September and affected the following accounts:

Cash	Accounts Payable
Accounts Receivable	Shawn Dahl, Capital
Office Equipment	Revenue
Canoe and Kayak Equipment	Expenses

### Transactions

1. Shawn Dahl invested \$45,000 in cash to open the business
2. Paid \$12,700 in cash for the purchase of kayak and canoe equipment
3. Paid \$1,050 in cash for rent expense
4. Purchased additional kayak and canoe equipment for \$3,800 on credit
5. Received \$3,900 in cash for kayak rentals
6. Rented canoes and kayaks for \$1,200 on account
7. Purchased office equipment for \$125 in cash
8. Received \$800 in cash from credit clients
9. Shawn Dahl withdrew \$1,500 in cash for personal expenses

75. Based on the information shown in transaction #4 above, indicate the accounts affected and use plus and minus to show the changes caused by the transaction.

plus Canoe and Kayak Equipment; plus Accounts Payable

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Apply*

*Learning Objective: 02-01 Record in equation form the financial effects of a business transaction.*

*Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.*

*Level: Easy*

*Topic: Property and Financial Interest*

Cullen Beatty plans to start a consulting business—Cullen Consulting Services. In preparation to do this, on April 1, 2013, he invested \$50,000 in cash and \$19,000 in equipment, and opened an account at Office Plus by purchasing \$1,500 in office supplies which is due by the end of the month. He then signed a one-year lease agreement on an office building for \$6,000, paying the full amount in advance.

76. Prepare a Balance Sheet for Cullen Consulting Services as of April 1, 2013, before he conducts any services.

Cullen Consulting Services			
Balance Sheet			
April 1, 2013			
Assets		Liabilities	
Cash	\$44,000	Accounts Payable	\$1,500
Supplies	1,500		
Prepaid Rent	6,000	Owner's Equity	
Equipment	19,000	Cullen Beatty, Capital	69,000
Total	\$70,500	Total	\$70,500

AACSB: Analytic

AICPA BB: Critical Thinking

Bloom's: Create

Learning Objective: 02-02 Define; identify; and understand the relationship between asset; liability; and owner's equity accounts.

Level: Medium

Topic: Property and Financial Interest

77. On December 1, 2013, Geneva Jordan opened her new business with the following assets and liabilities. Complete the accounting equation for the firm.

Accounts Payable	\$1,100	Prepaid Rent	\$6,000
Cash	3,950	Loans Payable	15,500
Equipment	26,200	Supplies	1,250

Assets \$\_\_\_\_\_ = Liabilities \$\_\_\_\_\_ + Owner's Equity \$\_\_\_\_\_

Assets \$37,400 = Liabilities \$16,600 + Owner's Equity \$20,800

AACSB: Analytic

AICPA BB: Critical Thinking

Bloom's: Analyze

Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.

Level: Medium

Topic: The Accounting Equation and Financial Statements



## Chapter 02 - Analyzing Business Transactions

### 78. Performed services on credit

plus Accounts Receivable; plus Revenue

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

### 79. Paid cash for utilities

plus Expenses; minus Cash

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

### 80. Issued checks to pay salaries

plus Expenses; minus Cash

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

## Chapter 02 - Analyzing Business Transactions

### 81. Received cash from credit customers

plus Cash; minus Accounts Receivable

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

### 82. Performed services for cash

plus Cash; plus Revenue

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

### 83. Based on the information shown above, what is the balance of Accounts Receivable for Whitewater Rentals at the end of September?

The balance of Accounts Receivable at September 30 is \$400.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Apply*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

84. Based on the information above, what is the fundamental accounting equation at the end of September for Whitewater Rentals?

Assets \$51,350 = Liabilities \$3,800 + Owner's Equity \$47,550

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Analyze*

*Learning Objective: 02-03 Analyze the effects of business transactions on a firm's assets; liabilities; and owner's equity and record these effects in accounting equation form.*

*Level: Hard*

*Topic: The Accounting Equation and Financial Statements*

85. During October, a firm had the following transactions involving revenue and expenses. Did the firm earn a net income or incur a net loss for the period? What was the amount?

Paid \$1,200 for rent

Provided services for \$2,750 in cash

Paid \$250 for telephone service

Provided services for \$1,900 on credit

Paid salaries of \$1,675 to employees

Paid \$350 for office cleaning service

Net income: \$1,175

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Apply*

*Learning Objective: 02-04 Prepare an income statement.*

*Level: Medium*

*Topic: The Accounting Equation and Financial Statements*

Chapter 02 - Analyzing Business Transactions

The figure below shows the transactions for Sawyer Architecture Services during June. Greg Sawyer opened this business on June 1 with a capital investment of \$72,000 (Transaction 1).

Trans	Assets			=	Liab.		Owner's Equity		
	Cash	Accts Rec	Supp	Equip	Accts Pay		G. Sawyer, Capital	Rev.	Expense
1	+72,000						+72,000		
2	- 8,200			+8,200					
3		5,200						+5,200	
4				+3,680	+3,680				
5	- 3,500								-3,500
6	+ 670	- 670							
7	- 2,400						- 2,400		
8	- 450		+450						
Bal	58,120 +	4,530 +	450 +	11,880 =	3,680 +		69,600 +	5,200 +	-3,500

86. What was the net income or net loss for Sawyer Architecture Services for the month of June?

Net income was \$1,700.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Bloom's: Apply*

*Learning Objective: 02-04 Prepare an income statement.*

*Level: Easy*

*Topic: The Accounting Equation and Financial Statements*

87. Guy McKinley started the McKinley Charter Service at the beginning of August 2013. On August 31, 2013, the accounting records of the business showed the following information. Prepare an income statement and a statement of owner's equity for the month and a balance sheet as of August 31, 2013.

Equipment	\$17,000	Rent Expense	\$4,500
Accounts Receivable	2,600	Cash	5,000
Fees Income	28,000	Salaries Expense	9,600
Boats	103,000	Utilities Expense	1,900
Gasoline Expense	6,500	Supplies	2,300
Loans Payable	77,500	Initial Investment	51,000
Owner's Withdrawal	4,100		

MCKINLEY CHARTER SERVICE  
Income Statement  
Month Ended August 31, 2013

Revenue		
Fees Income		28,000
Expenses		
Gasoline Expense	6,500	
Rent Expense	4,500	
Salaries Expense	9,600	
Utilities Expense	<u>1,900</u>	
Total Expenses		<u>22,500</u>
Net Income		<u>5,500</u>

MCKINLEY CHARTER SERVICE  
Statement of Owner's Equity  
Month Ended August 31, 2013

Guy McKinley, Capital, August 1, 2013		51,000
Net Income for August	5,500	
Less Withdrawals for August	<u>4,100</u>	
Increase in Capital		<u>1,400</u>
Guy McKinley, Capital, August 31, 2013		<u>52,400</u>

MCKINLEY CHARTER SERVICE  
Balance Sheet  
August 31, 2013

Assets		Liabilities	
Cash	5,000	Loans Payable	77,500
Accounts Receivable	2,600		
Supplies	2,300	Owner's Equity	
Equipment	17,000	Guy McKinley, Capital	<u>52,400</u>
Boats	<u>103,000</u>	Total Liabilities	
Total Assets	<u>129,900</u>	and Owner's Equity	<u>129,900</u>

Chapter 02 - Analyzing Business Transactions

AACSB: Analytic

AICPA BB: Critical Thinking

Bloom's: Create

Learning Objective: 02-04 Prepare an income statement.

Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.

Level: Hard

Topic: The Accounting Equation and Financial Statements

88. Prepare the statement of owner's equity for Sawyer Architecture Services for the month ended June 30, 2013.

**Sawyer Architecture Services  
Statement of Owner's Equity  
Month Ended June 30, 2013**

Greg Sawyer, Capital, June 1, 2013		72,000
Net Income for June	1,700	
Less Withdrawals for June	<u>(2,400)</u>	
Decrease in Capital		<u>(700)</u>
Greg Sawyer, Capital, June 30, 2013		<u><u>71,300</u></u>

AACSB: Analytic

AICPA BB: Critical Thinking

Bloom's: Create

Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.

Level: Medium

Topic: The Accounting Equation and Financial Statements

89. Prepare the balance sheet for Sawyer Architecture Services as of June 30, 2013.

Sawyer Architecture Services			
Balance Sheet			
June 30, 2013			
	Assets		Liabilities
Cash	58,120	Accounts Payable	3,680
Accounts Receivable	4,530		
Supplies	450	Owner's Equity	
Equipment	<u>11,880</u>	Greg Sawyer, Capital	<u>71,300</u>
Total Assets	<u>74,980</u>	Total Liabilities and Owner's Equity	<u>74,980</u>

*AACSB: Analytic*  
*AICPA BB: Critical Thinking*  
*Bloom's: Apply*  
*Learning Objective: 02-05 Prepare a statement of owner's equity and a balance sheet.*  
*Level: Medium*  
*Topic: The Accounting Equation and Financial Statements*

90. Cullen would like an explanation of the accounting for his business actions as of April 1, 2013. Explain the terms and interactions between the categories on a Balance Sheet.

Answers will vary. Items that should be included are:

The Balance Sheet is a format report of a business's financial condition

- on a certain date
- reports assets, liabilities, and owner's equity of a business
- reports property owned by a business, obligations (debts) of a business
- reports the financial interest (proprietorship, net worth) of the owner
- total assets equals the total liabilities plus total owner's equity

*AACSB: Analytic*  
*AICPA BB: Critical Thinking*  
*Bloom's: Create*  
*Learning Objective: 02-06 Define the accounting terms new to this chapter.*  
*Level: Medium*  
*Topic: The Accounting Equation and Financial Statements*