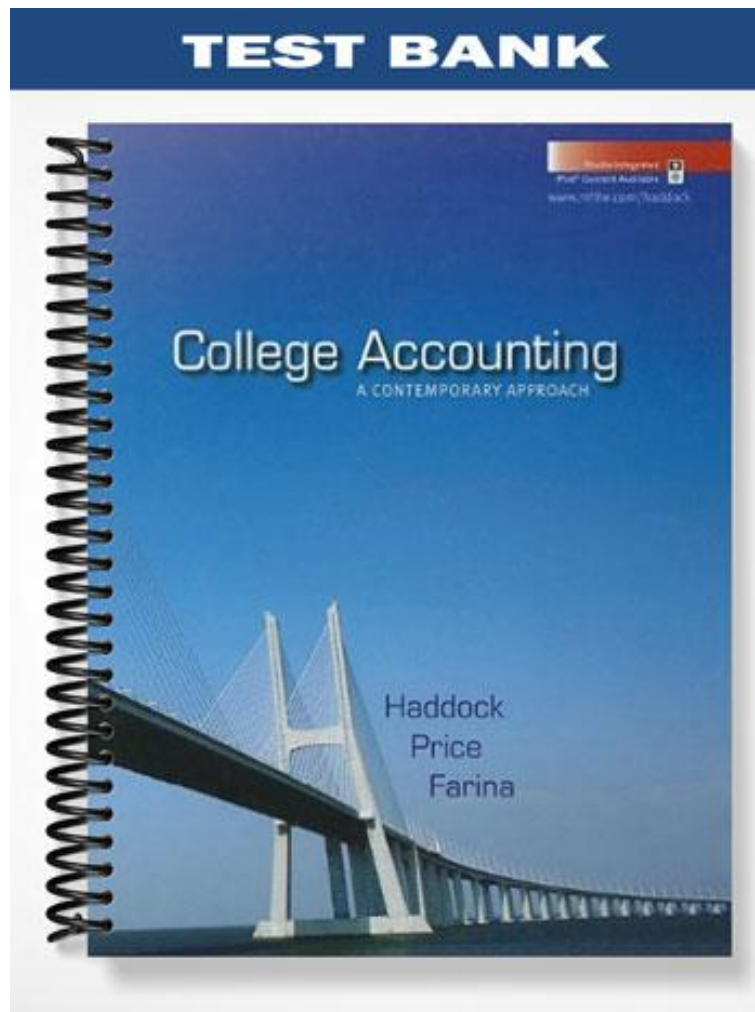


TEST BANK



Chapter 002 Analyzing Business Transactions

True / False Questions

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

True False

2. 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

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

True False

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

True False

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

True False

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

True False

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

True False

Chapter 002 Analyzing Business Transactions

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

Chapter 002 Analyzing Business Transactions

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

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

Fill in the Blank Questions

20. The property that a business owns is referred to as its _____.

21. The debts or obligations of a business are known as its _____.

22. The income statement shows revenue, _____, and net income or net loss for a period of time.

Chapter 002 Analyzing Business Transactions

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

_____.

24. Amounts that are owed for goods or services purchased on credit are known as

_____.

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

_____.

26. Amounts that will be collected from charge account customers in the future are referred to as _____.

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

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

_____.

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

_____.

Chapter 002 Analyzing Business Transactions

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

_____.

31. The statement of _____ reports the changes that have occurred in the owner's financial interest during the reporting period.

32. When revenue is greater than expenses, the result is a net _____.

33. When revenue and expenses are equal, the firm is said to _____.

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

_____.

Multiple Choice Questions

35. 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.

Chapter 002 Analyzing Business Transactions

36. Amounts that a business must pay in the future are known as
- A. accounts receivable.
 - B. accounts payable.
 - C. capital.
 - D. expenses.
37. 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.
38. 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.
39. 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.
40. 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.

Chapter 002 Analyzing Business Transactions

41. 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.
42. 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.
43. 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.
44. 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.
45. 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.

Chapter 002 Analyzing Business Transactions

46. 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.
47. 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.
48. 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.
49. The rent paid for future months is a(n)
- A. asset.
 - B. liability.
 - C. expense.
 - D. revenue.
50. 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

Chapter 002 Analyzing Business Transactions

51. Which statement is a depiction of the accounting equation?
- A. Income Statement
 - B. Statement of Owner's Equity
 - C. Balance Sheet
 - D. Profit and Loss Statement
52. The Statement of Owner's Equity is calculated as follows:
- A. beginning capital + net income - withdrawals + additional investment = ending capital
 - B. beginning capital + net loss + withdrawals + additional investment = ending capital
 - C. beginning capital + net loss - withdrawals + additional investment = ending capital
 - D. beginning capital + net income + withdrawals + additional investment = ending capital
53. 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.
54. 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.
55. 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.

Chapter 002 Analyzing Business Transactions

56. 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.

57. 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.

58. 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.

59. 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.

Chapter 002 Analyzing Business Transactions

Essay Questions

60. On December 1, 2010, 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 \$ _____

61. 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 002 Analyzing Business Transactions

The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following financial items. Indicate the financial item 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	

62. Performed services on credit

63. Paid cash for utilities

64. Sent a check to a creditor

Chapter 002 Analyzing Business Transactions

65. Issued checks to pay salaries

66. Purchased a computer for cash

67. Received cash from credit customers

68. Performed services for cash

Chapter 002 Analyzing Business Transactions

69. The owner made an additional investment of cash

70. Purchased furniture on credit

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

Chapter 002 Analyzing Business Transactions

72. Guy McKinley started the McKinley Charter Service at the beginning of August 2010. On August 31, 2010, 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, 2010.

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
Owners's Withdrawal	4,100		

Chapter 002 Analyzing Business Transactions

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 these 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

73. 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.

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

Chapter 002 Analyzing Business Transactions

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

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

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

Chapter 002 Analyzing Business Transactions

77. Prepare the statement of owner's equity for Sawyer Architecture Services for the month ended June 30, 2010.

78. Prepare the balance sheet for Sawyer Architecture Services as of June 30, 2010.

Cullen Beatty plans to start a consulting business—Cullen Consulting Services. In preparation to do this, on April 1, 2010, he paid \$1,000 toward the \$500 per month rent on an office building and signed a one-year lease agreement for \$6,000, invested \$50,000 in cash, \$1,500 in supplies, and \$19,000 in equipment to be used in the business.

79. Prepare a Balance Sheet for Cullen Consulting Services as of April 1, 2010 before he conducts any services.

Chapter 002 Analyzing Business Transactions

80. Cullen would like an explanation of the accounting for his business actions as of April 1, 2010. Explain the terms and interactions between the categories on a Balance Sheet.

True / False Questions

1. 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: Knowledge
Learning Objective: 2-3
Level: Easy
Section: 2*

2. 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: Knowledge
Learning Objective: 2-3
Level: Easy
Section: 2*

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

TRUE

*AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-2
Level: Easy
Section: 1*

Chapter 002 Analyzing Business Transactions **Key**

4. 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: Knowledge
Learning Objective: 2-3
Learning Objective: 2-5
Level: Medium
Section: 2*

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

FALSE

*AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-4
Level: Easy
Section: 2*

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

FALSE

*AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-3
Level: Easy
Section: 2*

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

TRUE

*AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-2
Level: Easy
Section: 1*

Chapter 002 Analyzing Business Transactions **Key**

8. 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: Knowledge
Learning Objective: 2-4
Level: Easy
Section: 2*

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

TRUE

*AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-1
Level: Easy
Section: 1*

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

TRUE

*AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-1
Level: Medium
Section: 1*

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

FALSE

*AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-4
Level: Easy
Section: 2*

Chapter 002 Analyzing Business Transactions **Key**

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

FALSE

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-3
Level: Medium
Section: 2

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

FALSE

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-3
Level: Easy
Section: 2

14. 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: Knowledge
Learning Objective: 2-5
Level: Easy
Section: 2

15. 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: Knowledge
Learning Objective: 2-3
Level: Easy
Section: 2

Chapter 002 Analyzing Business Transactions **Key**

16. 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: Knowledge
Learning Objective: 2-5
Level: Medium
Section: 2*

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

FALSE

*AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-5
Level: Easy
Section: 2*

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

TRUE

*AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-4
Level: Easy
Section: 2*

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: Knowledge
Learning Objective: 2-4
Learning Objective: 2-5
Level: Medium
Section: 2*

Chapter 002 Analyzing Business Transactions **Key**

Fill in the Blank Questions

20. The property that a business owns is referred to as its _____.

assets

*AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-2
Level: Easy
Section: 1*

21. The debts or obligations of a business are known as its _____.

liabilities

*AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-2
Level: Easy
Section: 1*

22. 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: Knowledge
Learning Objective: 2-4
Level: Easy
Section: 2*

Chapter 002 Analyzing Business Transactions **Key**

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

_____.
capital

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-2
Level: Easy
Section: 1

24. Amounts that are owed for goods or services purchased on credit are known as

_____.
accounts payable

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-1
Level: Easy
Section: 1

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

_____.
increases

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-3
Level: Easy
Section: 2

26. 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: Knowledge
Learning Objective: 2-3
Level: Easy
Section: 2

Chapter 002 Analyzing Business Transactions **Key**

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: Knowledge
Learning Objective: 2-2
Level: Easy
Section: 1

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

\$7,000

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Application
Learning Objective: 2-3
Level: Easy
Section: 2

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

increase

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Application
Learning Objective: 2-3
Level: Easy
Section: 2

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

withdrawals

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-3
Level: Easy
Section: 2

Chapter 002 Analyzing Business Transactions **Key**

31. 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: Knowledge
Learning Objective: 2-5
Level: Easy
Section: 2

32. When revenue is greater than expenses, the result is a net _____.

income

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-4
Level: Easy
Section: 2

33. When revenue and expenses are equal, the firm is said to _____.

break even

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-4
Level: Easy
Section: 2

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

when

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-4
Learning Objective: 2-5
Level: Easy
Section: 2

Multiple Choice Questions

35. 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: Knowledge
Learning Objective: 2-2
Level: Easy
Section: 1

36. 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: Knowledge
Learning Objective: 2-1
Level: Easy
Section: 1

37. 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: Knowledge
Learning Objective: 2-2
Learning Objective: 2-3
Level: Easy
Section: 1, 2

Chapter 002 Analyzing Business Transactions **Key**

38. 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: Analysis
Learning Objective: 2-4
Level: Easy
Section: 2

39. 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: Knowledge
Learning Objective: 2-4
Level: Medium
Section: 2

40. 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: Synthesis
Learning Objective: 2-4
Level: Medium
Section: 2

Chapter 002 Analyzing Business Transactions **Key**

41. 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: Analysis
Learning Objective: 2-3
Level: Easy
Section: 2

42. 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: Analysis
Learning Objective: 2-1
Level: Easy
Section: 1

43. 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: Analysis
Learning Objective: 2-1
Level: Medium
Section: 1

Chapter 002 Analyzing Business Transactions **Key**

44. 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: Analysis
Learning Objective: 2-3
Level: Medium
Section: 2

45. 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: Analysis
Learning Objective: 2-3
Level: Easy
Section: 2

46. 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: Application
Learning Objective: 2-3
Level: Easy
Section: 2

Chapter 002 Analyzing Business Transactions **Key**

47. 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: Knowledge
Learning Objective: 2-2
Level: Easy
Section: 1

48. 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: Knowledge
Learning Objective: 2-4
Level: Easy
Section: 2

49. 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: Knowledge
Learning Objective: 2-1
Level: Easy
Section: 1

Chapter 002 Analyzing Business Transactions **Key**

50. 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: Knowledge
Learning Objective: 2-2
Level: Easy
Section: 1

51. Which statement is a depiction 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: Knowledge
Learning Objective: 2-3
Level: Medium
Section: 2

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

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

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Knowledge
Learning Objective: 2-5
Level: Medium
Section: 2

Chapter 002 Analyzing Business Transactions **Key**

53. 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: Analysis
Learning Objective: 2-4
Level: Medium
Section: 2

54. 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: Knowledge
Learning Objective: 2-6
Level: Medium
Section: 2

55. 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: Knowledge
Learning Objective: 2-6
Level: Medium
Section: 2

Chapter 002 Analyzing Business Transactions **Key**

56. 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: Analysis
Learning Objective: 2-1
Level: Medium
Section: 1

57. 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: Analysis
Learning Objective: 2-2
Level: Easy
Section: 1

58. 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: Analysis
Learning Objective: 2-5
Level: Easy
Section: 2

Chapter 002 Analyzing Business Transactions **Key**

59. 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: Analysis
Learning Objective: 2-6
Level: Medium
Section: 2

Essay Questions

60. On December 1, 2010, 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: Application
Learning Objective: 2-3
Level: Medium
Section: 2

Chapter 002 Analyzing Business Transactions **Key**

61. 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: Application
Learning Objective: 2-4
Level: Easy
Section: 2

The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following financial items. Indicate the financial item 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	

62. Performed services on credit

plus Accounts Receivable; plus Revenue

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Analysis
Learning Objective: 2-3
Level: Easy
Section: 2

63. Paid cash for utilities

plus Expenses; minus Cash

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Analysis
Learning Objective: 2-3
Level: Easy
Section: 2

64. Sent a check to a creditor

minus Accounts Payable; minus Cash

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Analysis
Learning Objective: 2-1
Level: Easy
Section: 1

65. Issued checks to pay salaries

plus Expenses; minus Cash

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Analysis
Learning Objective: 2-3
Level: Easy
Section: 2

Chapter 002 Analyzing Business Transactions **Key**

66. Purchased a computer for cash

plus Equipment; minus Cash

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Analysis
Learning Objective: 2-1
Level: Easy
Section: 1

67. Received cash from credit customers

plus Cash; minus Accounts Receivable

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Analysis
Learning Objective: 2-3
Level: Easy
Section: 2

68. Performed services for cash

plus Cash; plus Revenue

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Analysis
Learning Objective: 2-3
Level: Easy
Section: 2

Chapter 002 Analyzing Business Transactions **Key**

69. The owner made an additional investment of cash

plus Cash; plus K. Mitchell, Capital

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Analysis
Learning Objective: 2-1
Level: Easy
Section: 1

70. Purchased furniture on credit

plus Furniture; plus Accounts Payable

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Analysis
Learning Objective: 2-1
Level: Easy
Section: 1

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

plus Expenses; plus Accounts Payable

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Analysis
Learning Objective: 2-1
Level: Easy
Section: 1

Chapter 002 Analyzing Business Transactions **Key**

72. Guy McKinley started the McKinley Charter Service at the beginning of August 2010. On August 31, 2010, 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, 2010.

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
Owners's Withdrawal	4,100		

Chapter 002 Analyzing Business Transactions Key

MCKINLEY CHARTER SERVICE

Income Statement

Month Ended August 31, 2010

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, 2010

Guy McKinley, Capital, August 1, 2010		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, 2010		<u>52,400</u>

MCKINLEY CHARTER SERVICE

Balance Sheet

August 31, 2010

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>

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Application
Learning Objective: 2-4
Learning Objective: 2-5
Level: Medium
Section: 2

Chapter 002 Analyzing Business Transactions **Key**

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 these 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

73. 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: Application
Learning Objective: 2-1
Learning Objective: 2-2
Level: Easy
Section: 1

Chapter 002 Analyzing Business Transactions **Key**

74. 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: Application
Learning Objective: 2-3
Level: Easy
Section: 2

75. 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: Application
Learning Objective: 2-3
Level: Medium
Section: 2

Chapter 002 Analyzing Business Transactions Key

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

76. 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: Application
Learning Objective: 2-4
Level: Easy
Section: 2

Chapter 002 Analyzing Business Transactions Key

77. Prepare the statement of owner's equity for Sawyer Architecture Services for the month ended June 30, 2010.

Sawyer Architecture Services Statement of Owner's Equity Month Ended June 30, 2010		
Greg Sawyer, Capital, June 1, 2010		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, 2010		<u>71,300</u>

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Application
Learning Objective: 2-5
Level: Medium
Section: 2

78. Prepare the balance sheet for Sawyer Architecture Services as of June 30, 2010.

Sawyer Architecture Services Balance Sheet June 30, 2010			
	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: Application
Learning Objective: 2-5
Level: Medium
Section: 2

Chapter 002 Analyzing Business Transactions **Key**

Cullen Beatty plans to start a consulting business—Cullen Consulting Services. In preparation to do this, on April 1, 2010, he paid \$1,000 toward the \$500 per month rent on an office building and signed a one-year lease agreement for \$6,000, invested \$50,000 in cash, \$1,500 in supplies, and \$19,000 in equipment to be used in the business.

79. Prepare a Balance Sheet for Cullen Consulting Services as of April 1, 2010 before he conducts any services.

Cullen Consulting Services Balance Sheet April 1, 2010			
Assets		Liabilities	
Cash	\$50,000	Lease Payable	\$ 6,000
Supplies	1,500		
Prepaid Rent	1,000	Owner's Equity	
Equipment	19,000	Cullen Beatty, Capital	65,500
Total	\$71,500	Total	\$71,500

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Application
Learning Objective: 2-2
Level: Medium
Section: 1

Chapter 002 Analyzing Business Transactions **Key**

80. Cullen would like an explanation of the accounting for his business actions as of April 1, 2010. 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: Synthesis

Learning Objective: 2-6

Level: Medium

Section: 2