

TEST BANK



COLLEGE ACCOUNTING

CHAPTERS 1 - 25

A Practical Approach

TENTH EDITION

WITH NEW FINANCIAL STATEMENTS ADDED

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Chapter 1

Objectives:

1. Defining and listing the functions of accounting.
2. Recording transactions in the basic accounting equation.
3. Seeing how revenue, expenses, and withdrawals expand the basic accounting equation.
4. Preparing an income statement, a statement of owner's equity, and a balance sheet.

MULTIPLE CHOICE

1. Which of the following will be recorded in the owner's equity column as an increase?
 - a) An exchange of assets
 - b) The purchase of an asset on credit
 - c) An investment by the owner
 - d) A withdrawal by the owner

ANSWER:

(L.O. 1, c)

2. Payment of wages is recorded as:
 - a) an expense.
 - b) an increase to capital.
 - c) an increase to assets.
 - d) all of these.

ANSWER:

(L.O. 1, a)

3. The net income or net loss is developed on the:
 - a) balance sheet.
 - b) statement of owner's equity.
 - c) income statement.
 - d) none of these

ANSWER:

(L.O. 1, c)

4. Anytime an owner removes any asset for personal use it is recorded as:
 - a) an investment.
 - b) an expense.
 - c) a withdrawal.
 - d) payment of a liability.

ANSWER:

(L.O. 1, c)

5. The increase or decrease in the owner's equity is reported on the:
- a) income statement.
 - b) statement of owner's equity.
 - c) balance sheet.
 - d) all of these

ANSWER:
(L.O. 1, b)

6. The purpose of the accounting process is to provide financial information on:
- a) individuals.
 - b) small businesses.
 - c) large corporations.
 - d) All of these answers are correct.

ANSWER:
(L.O. 1, d)

7. Accounting provides information to:
- a) managers.
 - b) government.
 - c) investors.
 - d) All of these answers are correct.

ANSWER:
(L.O. 1, d)

8. Which of the following is a characteristic of a sole proprietorship?
- a) Business owned by more than one person
 - b) Easy to form
 - c) Each stockholder acts as an owner of the company
 - d) Can continue indefinitely

ANSWER:
(L.O. 1, b)

9. A corporation is a business which is:
- a) easy to form.
 - b) ends with the death of a stockholder.
 - c) owned by stockholders.
 - d) None of these answers are correct.

ANSWER:
(L.O. 1, c)

10. Which is an advantage of a sole proprietorship form of business?
- a) There is limited personal risk.
 - b) The business can continue indefinitely.
 - c) The owner makes all the decisions.
 - d) All of these answers are correct.

ANSWER:
(L.O. 1, c)

11. Which of the following is not a business organization form?
- a) Corporation
 - b) Partnership
 - c) Sole proprietorship
 - d) Operation

ANSWER:
(L.O. 1, d)

12. Items owned by the business such as land, supplies, and equipment are its:
- a) assets.
 - b) liabilities.
 - c) owner's equity.
 - d) revenue.

ANSWER:
(L.O. 1, a)

13. Which of the following is not an asset?
- a) Cash
 - b) Accounts receivable
 - c) Accounts payable
 - d) Buildings

ANSWER:
(L.O. 1, c)

14. The rights or claims of owners against assets are:
- a) entities.
 - b) valuations.
 - c) liabilities.
 - d) owner's equity.

ANSWER:
(L.O. 1, d)

15. Debts owed by a business are referred to as:

- a) assets.
- b) liabilities.
- c) owner's equity.
- d) expenses.

ANSWER:

(L.O. 1, b)

16. The claims of creditors against the assets are:

- a) expenses.
- b) revenues.
- c) liabilities.
- d) owner's equity.

ANSWER:

(L.O. 1, c)

17. Owner's equity is equal to:

- a) assets + liabilities.
- b) liabilities – assets.
- c) assets – liabilities.
- d) None of these answers are correct.

ANSWERS:

(L.O. 1, c)

18. Assets are equal to:

- a) liabilities + owner's equity.
- b) liabilities – owner's equity.
- c) liabilities – revenues.
- d) revenues – expenses.

ANSWER:

(L.O. 1, a)

19. The basic accounting equation is:

- a) $\text{Assets} = \text{Revenues} - \text{Expenses}$.
- b) $\text{Assets} = \text{Liabilities} - \text{Owner's Equity}$.
- c) $\text{Assets} = \text{Owner's Equity} - \text{Liabilities}$.
- d) $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$.

ANSWER:

(L.O. 1, d)

20. An acceptable variation of the accounting equation is:
- a) $\text{Assets} - \text{Liabilities} = \text{Owner's Equity}$.
 - b) $\text{Assets} + \text{Owner's Equity} = \text{Liabilities}$.
 - c) $\text{Assets} = \text{Liabilities} - \text{Owner's Equity}$.
 - d) All of these answers are correct.

ANSWER:
(L.O. 1, a)

21. If total liabilities are \$7,000 and owner's equity is \$15,000, the total assets must be:
- a) \$8,000.
 - b) \$22,000.
 - c) \$40,000.
 - d) \$23,000.

ANSWER:
(L.O. 1, b)

22. If total liabilities are \$7,000 and owner's equity is \$20,000, the total assets must be:
- a) \$8,000.
 - b) \$27,000.
 - c) \$13,000.
 - d) \$2,000.

ANSWER:
(L.O. 1, b)

23. Owner's withdrawals:
- a) increase assets.
 - b) increase expenses.
 - c) increase liabilities.
 - d) decrease owner's equity.

ANSWER:
(L.O. 3, d)

24. How does the purchase of equipment on account affect the accounting equation?
- a) Assets increase; liabilities decrease
 - b) Assets increase; owner's equity increases
 - c) Assets increase; liabilities increase
 - d) Liabilities increase; owner's equity decreases

ANSWER:
(L.O. 1, c)

25. Mary Semloh invested cash in her new business. What effect will this have?
- a) Increase an asset and increase a liability
 - b) Decrease an asset and increase a liability
 - c) Increase an asset and increase owner's equity
 - d) Increase an asset and decrease owner's equity

ANSWER:

(L.O. 1, c)

26. A business paid \$4,000 to a creditor in payment of an amount owed. The effect of the transaction on the accounting equation was to:
- a) increase one asset, decrease another asset.
 - b) increase an asset, increase a liability.
 - c) decrease an asset, decrease a liability.
 - d) increase an asset, increase owner's equity.

ANSWER:

(L.O. 1, c)

27. Johnson Hardware has total assets of \$75,000. What are the total assets if new computerized paint mixing equipment is purchased for \$10,000 cash?
- a) \$85,000
 - b) \$65,000
 - c) \$10,000
 - d) \$75,000

ANSWER:

(L.O. 1, d)

28. Sunrise, Inc., has total assets of \$25,000. If \$4,000 cash is used to purchase a new computer, the total assets would be:
- a) \$25,000.
 - b) \$29,000.
 - c) \$7,000.
 - d) \$3,000.

ANSWER:

(L.O. 1, a)

29. Cater Right, with total assets of \$50,000, borrows \$15,000 from the bank. Which of the following is a True statement upon borrowing the money?
- a) Total assets are now \$35,000.
 - b) Total assets are now \$65,000.
 - c) Total assets are now \$50,000.
 - d) Owner's equity is \$15,000 more.

ANSWER:
(L.O. 1, b)

30. Motor Sports Express borrows \$10,000 from a finance company to purchase equipment. Which of the following is a True statement?
- a) Total assets increase.
 - b) Total assets are unchanged.
 - c) Total liabilities decrease by \$10,000.
 - d) Net income is \$10,000 less.

ANSWER:
(L.O. 1, a)

31. Roger-Smith Photo purchases \$1,000 worth of office equipment on account. This causes:
- a) Cash and Roger-Smith, Capital to decrease by \$1,000.
 - b) Office Equipment and Accounts Payable to increase by \$1,000.
 - c) Office Equipment to decrease and Accounts Payable to increase by \$1,000.
 - d) Accounts Payable to increase and Roger-Smith, Capital to decrease by \$1,000.

ANSWER:
(L.O. 1, b)

32. Cooks Worldwide Co. purchases a new computer for \$3,000 on account. This causes:
- a) Cash and Cooks Worldwide, Capital to increase by \$3,000.
 - b) Equipment and Accounts Payable to increase by \$3,000.
 - c) Equipment to decrease and Accounts Payable to increase by \$3,000.
 - d) Accounts Payable to increase and Cooks Worldwide, Capital to increase by \$3,000.

ANSWER:
(L.O. 1, b)

33. Chad purchases a new \$12,000 SUV for the company on account. The transaction will:
- a) increase Vehicle \$12,000; increase Chad, Capital \$12,000.
 - b) decrease Cash \$12,000; increase Accounts Payable \$12,000.
 - c) decrease Cash \$12,000; increase vehicle \$12,000.
 - d) increase Vehicle \$12,000; increase Accounts Payable \$12,000.

ANSWER:
(L.O. 1, d)

34. Kevin purchased \$20,000 of new equipment for his construction company on account. The effect on the basic accounting equation was to:
- a) decrease Cash \$20,000 and increase Equipment \$20,000.
 - b) increase Equipment \$20,000 and increase Accounts Payable \$20,000.
 - c) decrease Cash \$20,000 and increase Equipment \$20,000.
 - d) decrease Cash \$20,000 and increase Equipment \$20,000.

ANSWER:
(L.O. 1, b)

35. S&M Appliance Store collects \$3,500 of its accounts receivable. The expanded accounting equation changes include:
- a) Cash and S&M, Capital increases, \$3,500.
 - b) Cash and Revenue increase \$3,500.
 - c) Cash increases and Accounts Receivable decreases \$3,500.
 - d. Accounts Receivable decreases and S&M, Capital increases \$3,500.

ANSWER:
(L.O. 3, c)

36. If beginning capital was \$85,000, ending capital is \$75,000, and the owner's withdrawals were \$15,000, the amount of net income or net loss was:
- a) net income of \$5,000.
 - b) net income of \$15,000.
 - c) net income of \$20,000.
 - d) net loss of \$5,000.

ANSWER:
(L.O. 3, a)

37. Mark paid \$500 rent for the month. Identify the accounts affected.
- a) Cash and Rent Expenses increase.
 - b) Cash decreases, and Rent Expense increases.
 - c) Cash and Capital increase.
 - d) Cash decreases, and Rent Expense decreases.

ANSWER:
(L.O. 3, b)

38. James withdrew cash from the business. The expanded accounting equation changes include:
- a) increase in both Cash and Withdrawal.
 - b) decrease in both Cash and Withdrawal.
 - c) decrease in Cash and increase in Withdrawal.
 - d) increase in Cash and decrease in Withdrawal.

ANSWER:
(L.O. 3, c)

39. The balance sheet contains:
- a) liabilities, expenses, and owner's equity.
 - b) assets, liabilities, and revenues.
 - c) debts, assets, and cash.
 - d) assets, liabilities, and owner's equity.

ANSWER:
(L.O. 2, d)

40. Which of the following items is not in a balance sheet?
- a) Accounts Payable
 - b) Accounts Receivable
 - c) Revenue
 - d) Equipment

ANSWER:
(L.O. 2, c)

41. An accounting report that shows business results in terms of revenue and expenses is:
- a) an income statement.
 - b) a balance sheet.
 - c) a statement of owner's equity.
 - d) the owner's financial report.

ANSWER:
(L.O. 4, a)

42. An accounting report that shows the changes in capital during the accounting period is:
- a) a balance sheet.
 - b) an income statement.
 - c) a statement of owner's equity.
 - d) All of these answers are correct.

ANSWER:
(L.O. 4, c)

43. Which of the following items are on both the balance sheet and the statement of owner's equity?
- a) Net loss
 - b) Owner's equity
 - c) Additional owner's investments
 - d) Owner's withdrawals

ANSWER:
(L.O. 4, b)

44. Revenue, expenses, and withdrawals are part of:
- a) assets.
 - b) liabilities.
 - c) owner's equity.
 - d) All of these answers are correct.

ANSWER:
(L.O. 3, c)

45. The amount charged to customers for goods or services sold is called:
- a) an expense.
 - b) a revenue.
 - c) a liability.
 - d) an asset.

ANSWER:
(L.O. 3, b)

46. A claim against a customer for a sale made on account is called a(n):
- a) account receivable.
 - b) account payable.
 - c) asset.
 - d) withdrawal.

ANSWER:
(L.O. 3, a)

47. If Suite Dream Toys' revenues are less than its expenses during the accounting period:
- a) owner withdrawals decrease net income.
 - b) net income causes liabilities to decrease.
 - c) the business will incur a loss.
 - d) owner's withdrawals decrease owner's equity.

ANSWER:
(L.O. 4, c)

48. If Suite Dream Toys' revenues are greater than its expenses during the accounting period:
- a) assets will increase more than liabilities.
 - b) owner's equity will increase more than assets.
 - c) the business will incur a loss.
 - d) the business will earn a net income.

ANSWER:

(L O. 4, d)

49. Erin billed her legal clients for \$2,000 for legal work completed during the month. This transaction will:
- a) cause a \$2,000 increase in revenues and owner's equity.
 - b) cause a \$2,000 increase in revenues and a decrease in liabilities.
 - c) cause a \$2,000 increase in assets and revenues.
 - d) not be recorded until the cash is collected.

ANSWER:

(L.O. 3, c)

50. A Sharp Image paid \$4,000 in salaries and wages for February. This transaction will:
- a) increase expenses and decrease revenue.
 - b) increase expenses and increase liabilities.
 - c) decrease assets and increase expenses.
 - d) decrease assets and expenses.

ANSWER:

(L.O. 3, c)

51. Snore Right Motel received and paid a utility bill for \$550 for the month of November. This transaction will:
- a) increase Cash \$550 and increase Utility Expense \$550.
 - b) decrease Cash \$550 and increase Utility Expense \$550.
 - c) increase Cash \$550 and decrease Utility Expense \$550.
 - d) increase Utility Expenses and decrease Withdrawal.

ANSWER:

(L.O. 3, b)

52. If a company increases its revenues and decreases its expenses, it will cause:
- a) an increase in owner's equity.
 - b) a decrease in owner's equity.
 - c) an increase in assets.
 - d) no effect on owner's equity.

ANSWER:

(L.O. 3, a)

53. All of the following are financial statement(s) of a proprietorship except the:
- a) income statement.
 - b) statement of owner's equity.
 - c) statement of drawing.
 - d) statement of cash flows.

ANSWER:
(L.O. 4, c)

54. The financial statement that presents a summary of the assets, liabilities, and owner's equity as of a specific date is called a(n):
- a) income statement.
 - b) statement owner's equity.
 - c) statement of cash flows.
 - d) balance sheet.

ANSWER:
(L.O. 4, d)

55. The financial statement that shows revenue and expenses for a period of time is the:
- a) balance sheet.
 - b) income statement.
 - c) statement of owner's equity.
 - d) statement of liabilities and capital.

ANSWER:
(L.O. 4, b)

TRUE/FALSE

56. Expenses increase the owner's equity.

ANSWER:
(L.O. 1, False)

57. There are five major groups of accounts.

ANSWER:
(L.O. 1, True)

58. When the owner of a business withdraws cash from the business to pay his/her rent, the transaction should be recorded in the rent expense column.

ANSWER:
(L.O. 1, False)

59. Revenue is entered in its own column because it makes it easier to account for and prepare the income statement.

ANSWER:
(L.O. 1, True)

60. The income statement is prepared for a specific point in time.

ANSWER:
(L.O. 1, False)

61. Revenue will be recorded only when the cash is collected.

ANSWER:
(L.O. 1, False)

62. Expenses are recorded as costs of doing business whether cash was paid or not.

ANSWER:
(L.O. 1, True)

63. Each asset, liability, revenue, and expense account will have its own separate column on a spreadsheet.

ANSWER:
(L.O. 1, True)

64. Only investments and withdrawals will be recorded in the owner's equity column(s).

ANSWER:
(L.O. 1, True)

65. The financial statements report only the summary of the activity that has taken place.

ANSWER:
(L.O. 1, True)

66. If the liabilities owed by a business total \$450,000, then the assets must also total \$450,000.

ANSWER:
(L.O. 1, False)

67. The left side of the accounting equation must always equal the right side of the equation.

ANSWER:
(L.O. 1, True)

68. Withdrawals are considered a liability of doing business.

ANSWER:
(L.O. 3, False)

69. Liabilities represent amounts owed to creditors.

ANSWER:
(L.O. 1, True)

70. The function of accounting includes analyzing, recording, classifying, summarizing, reporting, and interpreting financial information.

ANSWER:
(L.O. 1, True)

71. The income statement is for a particular date.

ANSWER:
(L.O. 4, False)

72. If the assets owned by a business total \$400,000, owner's equity must also total \$400,000.

ANSWER:
(L.O. 1, False)

73. In a shift of assets, the composition of the assets changes but total assets do not.

ANSWER:
(L.O. 1, True)

74. When expenses are greater than revenue, net income is the result.

ANSWER:
(L.O. 4, False)

75. The four parts of owner's equity include capital, withdrawals, revenue, and expenses.

ANSWER:
(L.O. 3, True)

76. If the assets owned by a business total \$100,000 and liabilities total \$60,000, then owner's equity totals \$160,000.

ANSWER:
(L.O. 1, False)

77. Statement of owner's equity shows the change in capital.

ANSWER:
(L.O. 4, True)

78. An income statement reports the performance of a firm.

ANSWER:
(L.O. 4, True)

79. Cash withdrawals by owner decrease both equity and assets.

ANSWER:
(L.O. 3, True)

80. Cash withdrawals by owner increase both equity and assets.

ANSWER:
(L.O. 3, False)

81. Cash investments by owner increase both equity and assets.

ANSWER:
(L.O. 3, True)

82. Creditors' claims against assets are called owner's equity.

ANSWER:
(L.O. 1, False)

83. A business organization that is owned by stockholders is a corporation.

ANSWER:
(L.O. 1, True)

84. The accounting equation states that total assets must always equal total liabilities plus owner's equity.

ANSWER:
(L.O. 1, True)

85. The statement of owner's equity shows assets as well as revenue and expenses.

ANSWER:
(L.O. 4, False)

86. Revenue and cash will always be the same amount.

ANSWER:
(L.O. 3, False)

87. Total assets are included in the statement of owner's equity.

ANSWER:
(L.O. 4, False)

88. Withdrawals are business expenses that are included on the balance sheet.

ANSWER:
(L.O. 4, False)

89. The statement of owner's equity is the link between the income statement and balance sheet.

ANSWER:
(L.O. 4, True)

90. If liabilities are \$3,000 and assets are \$7,000, owner's equity will be \$4,000.

ANSWER:
(L.O. 1, True)

91. Withdrawals and net income increase owner's equity.

ANSWER:
(L.O. 4, False)

92. If expenses are more than revenue, a net loss is incurred.

ANSWER:
(L.O. 4, True)

93. Accounts Payable is an asset and shows the amount owed by customers.

ANSWER:
(L.O. 1, False)

94. If expenses are less than revenue, the result is a net income.

ANSWER:
(L.O. 4, True)

95. A type of business with one owner is a sole proprietorship.

ANSWER:
(L.O. 1, True)

ESSAY

96. Record the following transactions in the basic accounting equation:

- a. Philip Dean invests \$5,000 cash to begin a lawn mowing service.
- b. The company buys mower equipment for cash, \$900.
- c. The company buys additional equipment on account, \$600.
- d. The company makes a payment on the mower equipment, \$300.

Philip Dean's Mowing Service

ASSETS = LIABILITIES + OWNER'S EQUITY
 Cash + Mowing = Accounts + Dean's, Capital
 Equipment Payable

- a.
- b.
- c.
- d.
- Totals

ANSWER:

Philip Dean's Mowing Service

	ASSETS		=	LIABILITIES	OWNER'S EQUITY
	Cash +	Mowing Equipment	=	Accounts Payable	Dean's Capital
a.	+\$5,000		=		+\$5,000
b.	- 900	+\$900	=		
c.		+ 600	=	+\$600	
d.	<u>- 300</u>	<u> </u>	=	<u>- 300</u>	<u> </u>
T	+\$3,800	+\$1,500	=	+\$300	+\$5,000

(L.O. 1)

97. Juan Carlos, Photography, completes the following transactions:
- Mr. Carlos invests \$8,000 cash in his company.
 - The company purchases equipment on account, \$800.
 - The company purchases additional equipment for cash, \$300.
 - The company makes a payment on account for the equipment, \$500.
- Required: Record the above transactions in the basic accounting equation.

Juan Carlos Company

ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
Cash + Equipment	=	Accounts Payable	+	Juan Carlos, Capital
a.	=			
b.	=			
c.	=			
d.	=			
Totals	=			

ANSWER:

Juan Carlos Company

ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
Cash + Equipment	=	Accounts Payable	+	Juan Carlos, Capital
a. +\$8,000	=			+\$8,000
b. +\$800	=	+\$800		
c. -300 +300	=			
d. -500 _____	=	-500		_____
T +\$7,200 +\$1,100	=	+\$300		+\$8,000

(L.O. 1)

98. Indicate whether each of the following represents (1) Asset, (2) Liability, or (3) Owner's Equity:

1. _____ Office Supplies
2. _____ Accounts Payable
3. _____ Capital
4. _____ Cash
5. _____ Withdrawal
6. _____ Land
7. _____ Accounts Receivable
8. _____ Expense
9. _____ Equipment
10. _____ Revenue

ANSWER:

1. Asset
 2. Liability
 3. Owner's Equity
 4. Asset
 5. Owner's Equity
 6. Asset
 7. Asset
 8. Owner's Equity
 9. Asset
 10. Owner's Equity
- (L.O. 3)

99. Indicate whether each of the following represents (1) Asset, (2) Liability, or (3) Owner's Equity:

1. _____ Accounts Receivable
2. _____ Accounts Payable
3. _____ J. Cook, Capital
4. _____ Revenue
5. _____ Cash
6. _____ Land
7. _____ Rent Expense
8. _____ Withdrawals
9. _____ Equipment
10. _____ Supplies on Hand

ANSWER:

1. Asset
 2. Liability
 3. Owner's Equity
 4. Owner's Equity
 5. Asset
 6. Asset
 7. Owner's Equity
 8. Owner's Equity
 9. Asset
 10. Asset
- (L.O. 3)

100. Record the following transactions into the expanded accounting equation for the Sands Company. Note that all titles have beginning balances. (You will need to determine the beginning capital balance.)
- Rendered services for cash, \$80
 - Billed customers for services rendered, \$200
 - Received and paid the monthly utility bill, \$30
 - Collected \$60 on account from customers
 - Paid supplies expense, \$25
 - Withdrew \$30 cash for personal use

Sands Company

		ASSETS	=	LIAB.	OWNER'S EQUITY			
	Cash +	Accts.Rec.	=	Accts Payable	Sands, Capital	+Rev.	-Exp	-Sands, With.
beg.	\$900	\$100	=	\$300		\$700	\$400	\$200
a.								
b.								
c.								
d.								
e.								
f.								
T								

ANSWER:

Sands Company

		ASSETS	=	LIAB.	OWNER'S EQUITY			
	Cash +	Accts.Rec.	=	Accts Payable	Sands, Capital	+Rev.	-Exp	-Sands, With.
beg.	\$900	\$100	=	\$300	\$600	\$700	\$400	\$200
a.	80		=			80		
b.		+200	=			200		
c.	- 30		=				30	
d.	+60	-60	=					
e.	-25		=				25	
f.	-30		=					30
T	\$955	\$240	=	\$300	\$600	\$980	\$455	\$230

(L.O. 3)

101. H. Coy Tax Service completed the following transactions:

- a. Billed clients for service, \$250.
- b. Completed tax work for cash clients, \$600.
- c. Received a bill for computer rental to be paid later, \$40.
- d. Collected cash on account from clients, \$100.
- e. Paid the amount due for computer rental.
- f. Withdrew \$50 cash for personal use.

Required: Record the above transactions in the expanded accounting equation. Note that the items have beginning balances.

Coy Tax Service

	ASSETS		=	LIAB.	OWNER'S EQUITY			
	Cash +	Accts.Rec.	=	Accts Payable	Coy, Capital	+Rev.	-Exp.	-Coy, With.
beg.	\$ 800	\$ 85	=	\$300	\$235	\$ 900	\$400	\$150
a.								
b.								
c.								
d.								
e.								
f.								
T								

ANSWER:

Coy Tax Service

	ASSETS		=	LIAB.	OWNER'S EQUITY			
	Cash +	Accts.Rec.	=	Accts Payable	Coy, Capital	+Rev.	-Exp.	-Coy, With
beg.	\$ 800	\$ 85	=	\$300	\$235	\$ 900	\$400	\$150
a.		250	=			250		
b.	600		=			600		
c.			=	40			40	
d.	100	-100	=					
e.	-40		=	-40				
f.	-50		=					50
T	\$1410	\$235	=	\$300	\$235	\$1750	\$440	\$200

(L.O. 3)

102. Use the following information to prepare 1) an income statement, 2) a statement of owner's equity, and 3) a balance sheet for the month ended March 31, 200x for Crow Company.

L. Crow, Capital (beg.)	\$2,000
Revenue	900
Expenses	600
Withdrawals	150
Cash	3,000
Equipment	1,000
Accounts Receivable	150
Accounts Payable	2,000

ANSWER:

Crow Company
INCOME STATEMENT
For the month ended March 31, 200x

Revenue	\$900
Expenses	<u>600</u>
Net Income	<u>\$300</u>

Crow Company
STATEMENT OF OWNER'S EQUITY
For the month ended March 31, 200x

L. Crow, Capital, March 1	\$2,000
Net Income	\$300
Less Withdrawals	<u>150</u>
Increase in Capital	<u>150</u>
L. Crow, Capital, March 31	<u>\$2,150</u>

Crow Company
BALANCE SHEET
March 31, 200x

Assets	Liabilities and Owner's Equity		
	Liabilities		
Cash	\$3,000	Accounts Payable	\$2,000
Accounts Receivable	150	Owner's Equity	
Equipment	<u>1,000</u>	L. Crow, Capital	<u>2,150</u>
Total Assets	<u>\$4,150</u>	Total Liab. and Owner's Equity	<u>\$4,150</u>

(L.O. 4)

103. R. Travis of Travis Engineering has requested you prepare from the following account balances 1) a income statement, 2) a statement of owner's equity, and 3) a balance sheet for the month ended October 31, 200x.

Cash	\$1,300
Accounts Receivable	500
Equipment	2,000
Accounts Payable	600
Travis, Capital	3,000
Revenue	1,000
Expenses	700
Travis, Withdrawal	100

ANSWER:

Travis Engineering
INCOME STATEMENT
For the month ended October 31, 200x

Revenue	\$1,000
Expenses	<u>700</u>
Net Income	<u>\$300</u>

Travis Engineering
 STATEMENT OF OWNER'S EQUITY
 For the month ended October 31, 200x

R. Travis , Capital, Oct. 1	\$3,000
Net Income	\$300
Less Withdrawals	<u>100</u>
 Increase in Capital	 <u>200</u>
 L. Travis, Capital, Oct. 31	 <u><u>\$3,200</u></u>

Travis Engineering
 BALANCE SHEET
 October 31, 200x

Assets	Liabilities and Owner's Equity		
		Liabilities	
Cash	\$1,300	Accounts Payable	\$ 600
Accounts Receivable	500	Owner's Equity	
Equipment	<u>2,000</u>	R. Travis, Capital	<u>3,200</u>
Total Assets	<u><u>\$3,800</u></u>	Total Liab. and Owner's Equity	<u><u>\$3,800</u></u>

(L.O. 4)

104. Discuss the advantages and disadvantages of sole proprietorships, partnerships, and corporations.

ANSWER:

A sole proprietorship is a business that has one owner. The advantage of a sole proprietorship is that the owner makes all of the decisions for the business. Another advantage is ease of formation. A disadvantage is that if the business cannot pay its obligations, the business owner must pay them from personal assets. The business ends with the death of the owner or the closing of the business.

A partnership is a business owned by more than one person. Its advantage is ease of formation. The disadvantages are that partners could lose personal assets to meet obligations of the partnership and a partnership ends with death of a partner or exit of a partner.

A corporation is a business owned by stockholders. The advantages are that stockholders have limited personal risk which is limited to their investment in the company. The corporation has unlimited life and the disadvantage is that a corporation is more difficult to form.

(L.O. 1)

105. Explain the purpose of the following:

- a. Income statement
- b. Statement of owner's equity
- c. Balance sheet

ANSWER:

a. The income statement is an accounting report that shows business results in terms of revenue and expenses. If revenue is greater than expenses, the result is net income. If expenses are greater than revenue, the result is a net loss. An income statement can cover any period of time up to one year.

b. The statement of owner's equity shows for a certain time period the changes that occurred in the owner's equity. Increases are due to owner investments and net income, while decreases are due to owner withdrawals and net loss.

c. The balance sheet, or statement of financial position, presents information from the ending balances of the company's assets, liabilities and owner's equity. It summarizes the business's financial position on a given date.

(L.O. 4)

ADDITIONAL TEST QUESTIONS

106. The purchase of equipment with a down payment was recorded as a pure credit purchase.

This error would cause:

- a. assets were understated
- b. liabilities were overstated
- c. owner's equity was overstated
- d. None of the above are correct

ANSWER:

(L.O. 2, b)

107. The cash purchase of equipment was recorded as a purchase on credit. This error would cause:

- a. assets were overstated.
- b. liabilities were overstated.
- c. owner's equity was overstated.
- d. Both a and b are correct.

ANSWER:

(L.O. 2, d)

108. The purchase of supplies with a down payment was recorded as a pure cash purchase. This error would cause:
- a. assets were overstated.
 - b. liabilities were understated.
 - c. owner's equity was overstated.
 - d. None of the above are correct.

ANSWER:
(L.O. 2, b)

109. The purchase of a truck with a down payment was recorded as a pure cash purchase. This error would cause:
- a. assets were overstated.
 - b. liabilities were understated.
 - c. owner's equity was overstated.
 - d. None of the above are correct.

ANSWER:
(L.O. 2, b)

110. The purchase of equipment with a down payment was recorded as a pure cash purchase. This error would cause:
- a. assets were understated.
 - b. liabilities were understated.
 - c. both a and b are correct.
 - d. None of the above are correct.

ANSWER:
(L.O. 2, c)

111. The cash purchase of a truck was recorded as a purchase on credit. This error would cause:
- a. assets were overstated.
 - b. liabilities were overstated.
 - c. answers a and b are correct.
 - d. None of the above are correct.

ANSWER:
(L.O. 2, c)

112. The business provided services to a credit customer.
- a. Assets and owner's equity increase.
 - b. Liabilities and owner's equity increase.
 - c. Assets and revenue increase.
 - d. None of the above are correct.

ANSWER:
(L.O. 3, c)

113. The business paid a creditor.
- a. Assets and owner's equity increase.
 - b. Liabilities and owner's equity increase.
 - c. Assets and liabilities increase.
 - d. None of the above are correct.

ANSWER:
(L.O. 2, d)

114. The business bought supplies on account.
- a. Assets and owner's equity increase.
 - b. Liabilities and owner's equity increase.
 - c. Assets and liabilities increase.
 - d. None of the above are correct.

ANSWER:
(L.O. 2, c)

115. The business provided services to a cash customer
- a. Assets and owner's equity increase.
 - b. Liabilities and owner's equity increase.
 - c. Assets and revenue increase.
 - d. None of the above are correct.

ANSWER:
(L.O. 3, c)

116. The owner withdrew cash from the business.
- a. Assets and owner's equity decrease.
 - b. Liabilities and owner's equity increase.
 - c. Assets and liabilities increase.
 - d. None of the above are correct.

ANSWER:
(L.O. 2, a)

117. Which of the following transactions would cause one asset to increase and another to decrease?
- a. The owner invested cash in the business.
 - b. The business paid a creditor.
 - c. The business incurred an expense on credit.
 - d. The business bought supplies for cash.

ANSWER:
(L.O. 2, d)

118. Which of the following transactions would cause an asset to decrease and the owner's equity to decrease?
- a. The business provided services to a cash customer.
 - b. The business bought supplies for cash.
 - c. The owner withdrew cash from the business.
 - d. The business bought supplies on account.

ANSWER:
(L.O. 2, c)

119. Which of the following transactions would cause an asset to increase and the owner's equity to increase?
- a. The owner invested cash in the business.
 - b. The business incurred an expense on credit.
 - c. The business bought supplies on account.
 - d. The owner withdrew cash from the business.

ANSWER:
(L.O. 2, a)

120. Which of the following would result if the owner invested cash in the business?
- a. Cash would increase and Capital would decrease.
 - b. Cash would increase and Capital would increase.
 - c. Cash would decrease and Capital would increase.
 - d. An investment by the owner is not a business transaction.

ANSWER:
(L.O. 2, b)

121. Which of the following would result if the business purchased supplies on credit?
- a. Supplies would increase and Cash would decrease.
 - b. Supplies would increase and Capital would increase.
 - c. Supplies would increase and Accounts Payable would increase.
 - d. The purchase of supplies is not a business transaction.

ANSWER:
(L.O. 2, c)

122. Which of the following would result if the business provided services to a customer collecting cash?
- a. Cash would increase and Revenue would decrease.
 - b. Cash would increase and Capital would increase.
 - c. Cash would increase and Revenue would increase.
 - d. Since the cash was collected there is no need to record this.

ANSWER:
(L.O. 3, c)

123. Which of the following would result if the business purchased Equipment paying 1/2 in cash?
- a. Equipment would increase and Cash would decrease.
 - b. Equipment would increase and Accounts Payable would increase.
 - c. Cash would decrease and both Equipment and Accounts Payable would increase.
 - d. Since the equipment has not been paid for there is nothing to record.

ANSWER:
(L.O. 2, c)

124. Determine the ending owner's equity of a business having a beginning owner's equity of \$2,030, additional investments of \$375, withdrawals of \$950, revenue of \$4,410, and expenses of \$3,600.
\$ _____

ANSWER:
\$2,265 [$\$2,030 + \$375 - \$950 + \$4,410 - \$3,600$]
(L.O. 4)

125. Determine the beginning owner's equity of a business having an ending owner's equity of \$4,900, additional investments of \$530, withdrawals of \$750, and a net loss of \$1,200.
\$ _____

ANSWER:
\$6,320 [$\$4,900 - \$530 + \$750 + \$1,200$]
(L.O. 4)

126. Given the following accounts and their respective balances you are to determine the Owner's Equity. Cash \$977, Accounts Receivable \$126, Equipment \$585, and Accounts Payable \$931.

\$_____

ANSWER:

\$757 [$\$977 + \$126 + \$585 - \931]

(L.O. 4)