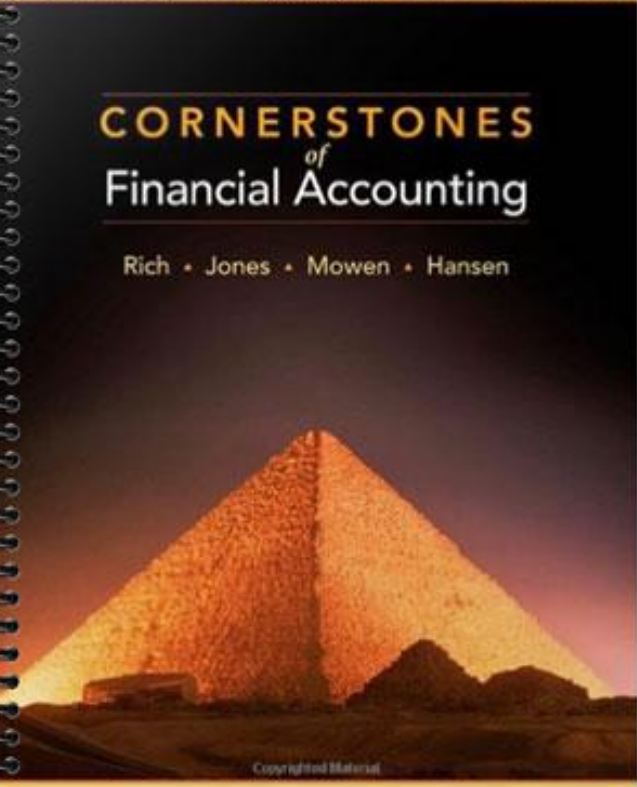


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CORNERSTONES *of* Financial Accounting

Rich • Jones • Mowen • Hansen



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Chapter 2--The Accounting Information System

Student: _____

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

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

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

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

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

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

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

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

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

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

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

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

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

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

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

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

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

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

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

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

_____.

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

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

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

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

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

48. The _____ principle says that assets of a company are initially recorded at their original cost.

49. A(n) _____ is a list of all the accounts used by an entity.

50. The _____ is the file or book that contains all of the company's accounts.

51. The _____ side, or left-side, of a liability account is used to record decreases in the account balance.

52. For assets, expenses, and dividend accounts, credit entries represent _____.

53. For liabilities, stockholders' equity, and revenue accounts, debit entries represent _____.

54. Credits are always on the _____ side of a T-account.

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

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

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

58. Which of the following statements is true regarding economic events?

- A. The signing of a service contract is an example of an external event that is recorded in the accounting records.
- B. Every event which affects an entity can be identified from a source document.
- C. All internal and external events must be measured with sufficient reliability.
- D. External events involve exchanges between an entity and another entity outside the company.

59. Which of the following underlying assumptions for the conceptual framework is the reason the dollar is used in the preparation of financial statements?

- A. Economic Entity
- B. Continuity
- C. Time-Period
- D. Monetary Unit

60. Which of the following is an assumption made in the preparation of the financial statements?
- A. Financial statements are prepared for a specific entity that is distinct from the entity's owners.
 - B. The current market value is assumed to be more relevant than the original cost paid.
 - C. The preparation of financial statements for a specific time period assumes that the balance sheet covers a designated period of time.
 - D. Financial statements are prepared assuming that inflation has a distinct effect on the monetary unit.
61. The time-period assumption is necessary because
- A. inflation exists and causes confusing swings in financial statement amounts over time.
 - B. external users of financial statements want accurately-reported net income for a specific period of time.
 - C. financial statements users expect full disclosure of all economic events throughout the entire time period.
 - D. it is required by the federal government.
62. Which of the following statements is true concerning assets?
- A. Assets are measured using a time-period approach.
 - B. Assets are initially recorded at market value and then adjusted for inflation.
 - C. Assets are initially recorded using the historical cost principle.
 - D. Assets are initially recorded at market value, since historical cost tends to be too arbitrary.
63. Starko Enterprises purchased land for \$200,000 in 2001. In 2010, an independent appraiser assessed the value of the land at 450,000. At what amount should the land be recorded on Starko's 2010 financial statements?
- A. \$200,000
 - B. \$250,000
 - C. \$450,000
 - D. Whichever amount Starko considers to be the best indicator of the land's true value.
64. Which of the following organizations is primarily responsible for establishing GAAP in the United States?
- A. Securities Exchange Commission (SEC)
 - B. Financial Accounting Standards Board (FASB)
 - C. International Accounting Standards Board (IASB)
 - D. Internal Revenue Service (IRS)
65. The Securities Exchange Commission (SEC) is concerned with
- A. Developing a new conceptual framework in order to reduce differences in financial reports for global companies.
 - B. Setting accounting rules for all companies that are incorporated in the United States.
 - C. Setting accounting rules for publicly-traded companies in the United States.
 - D. Working to reduce differences in accounting reports issued by governmental units.

66. Which organization has the power to set accounting rules for companies whose stock is publicly-traded in the U.S. stock markets, but has delegated its power to another organization?

- A. International Accounting Standards Board (IASB)
- B. Financial Accounting Standards Board (FASB)
- C. General Association of Accounting Practitioners (GAAP)
- D. Securities Exchange Commission (SEC)

67. In order for accounting information to be useful in making informed decisions, it must be

- A. Internal
- B. Relevant
- C. Reliable
- D. Both relevant and reliable

68. Which of the following is a constraint to the qualitative characteristics of useful accounting information?

- A. Conservatism
- B. Materiality
- C. Relevance
- D. Comparability

69. The principle of conservatism is concerned with

- A. the avoidance of overstating assets or income in the preparation of financial statements.
- B. the minimization of costs associated with providing financial information.
- C. the company's ability to carry out its existing commitments.
- D. the company's procedures for recording activities at their initial exchange price.

70. The going concern assumption is concerned with

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

71. Which of the following statements is **false** with respect to the qualitative characteristics of useful accounting information?

- A. Comparability is concerned with different companies using the same accounting methods; whereas, consistency is concerned with a single company using the same accounting methods over time.
- B. Trade-offs are often necessary in evaluating relevant versus reliable information.
- C. All external and internal events must be fully disclosed in the accounting system.
- D. The full disclosure policy should be followed in all situations that would made a difference to financial statement users.

72. Which of the following is an internal event?

- A. Caddie salaries are paid by a country club.
- B. Dividends are distributed to a company's stockholders.
- C. Potatoes used to make french fries in a fast-food restaurant are purchased.
- D. Products are transferred from the assembly area to the painting station.

73. All of the following are external events **except**:

- A. a grocery store recognizes losses from spoilage.
- B. a grocery store runs ads in a local newspaper.
- C. a grocery store purchases produce from a local farmer.
- D. a grocery store sells groceries to customers on credit.

74. Which of the following is an internal event for a business entity?

- A. An attorney provides services for clients.
- B. An attorney purchases computer equipment.
- C. An attorney uses computer equipment to maintain business records and prepare legal documents.
- D. An attorney receives cash payments from clients who were billed for legal services.

75. Which of the following statements is true?

- A. Only the effects of internal transactions must be recognized and recorded in the accounting system.
- B. An internal transaction represents a business activity between an entity and its environment.
- C. Evidence used to record transactions affecting a business entity comes from source documents.
- D. Only the effects of external events must be recognized, measured, and recorded in an entity's accounting system.

76. Which of the following statements is **false** regarding the use of source documents?

- A. Checks and deposit slips are the main source documents backing up the bank statement.
- B. Retailers may use cash register tapes to recognize sales transactions.
- C. Stock certificates provide evidence of being a creditor of the company.
- D. Time cards may be used as a source of information to record wages.

77. The purchase of office equipment on credit has what effect on the accounting equation?

- A. Assets and stockholders' equity decrease
- B. Liabilities increase and stockholders' equity decreases
- C. Assets and liabilities increase
- D. Assets and liabilities decrease

78. The payment of employee salaries has what effect on the accounting equation?

- A. Assets and stockholders' equity decrease
- B. Liabilities and stockholders' equity decrease
- C. Assets decrease and liabilities increase
- D. Assets increase and liabilities decrease

79. During March, Connor Corp. purchased supplies for cash. The supplies will be used in April. What effect does this transaction have on the accounting equation at the time the supplies are purchased?

- A. Assets increase and stockholders' equity decreases
- B. Assets and liabilities increase
- C. There is no effect on the accounting equation, as one asset account increases while another asset account decreases.
- D. There is no effect on the accounting equation, as the transaction should not be recognized until April.

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

- A. Predictable
- B. Conservative
- C. Relevant
- D. Comparable

81. If an investor can use accounting information for two different companies to evaluate the types and amounts of expenses, the information is said to have the quality of

- A. Comparability
- B. Consistency
- C. Neutrality
- D. Materiality

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

- A. Conservatism
- B. Materiality
- C. Neutrality
- D. Verifiability

83. Scott Brothers, Inc. follows the qualitative characteristic of consistency. This means that

- A. For expenses, Scott uses the same account names as used by its competitors.
- B. Scott has elected certain accounting principles that can never be changed.
- C. Scott applies the same accounting principles each period.
- D. Scott applies the same accounting principles as its competitors.

84. Information that is material means that an error in recording the dollar amount of a transaction would

- A. likely affect the judgment of someone relying on the financial statements
- B. not affect the decisions of financial statement users
- C. not impact a business decision of a creditor
- D. result in the overstatement of assets or income

85. An accountant is uncertain about the best estimate of an amount for a business transaction. If there are two possible amounts that could be recorded, the amount least likely to overstate assets and earnings is selected.

Which of the following qualities is characterized by this action?

- A. Comparability
- B. Conservatism
- C. Materiality
- D. Neutrality

86. The qualitative characteristics of accounting information include

- A. reliability
- B. cash flow information
- C. all accounting information
- D. assets reported on the balance sheet

87. Bellarim Corp. made cash sales to customers. What effect does this transaction have on the accounting equation?
- A. Liabilities and retained earnings increase.
 - B. Assets and liabilities increase.
 - C. Assets and retained earnings increase.
 - D. There is no effect on the accounting equation, as one asset account increases while another asset account decreases.
88. Clay and Lora each invest \$15,000 in a Deyer, Inc. and are given shares of stock as evidence of their ownership interest. What effect does this transaction have on the accounting equation of Deyer?
- A. Assets and liabilities increase.
 - B. Assets and contributed capital increase.
 - C. Liabilities increase and retained earnings decrease.
 - D. Assets and liabilities decrease.
89. Machinery is purchased on credit. What effect does this transaction have on the accounting equation?
- A. Assets and liabilities increase.
 - B. Assets and stockholders' equity increase.
 - C. Liabilities increase and stockholders' equity decreases.
 - D. Assets and liabilities decrease.
90. Lang Industries provided services to customers then sent invoices for the amounts the customers owed. What effect does this transaction have on the accounting equation?
- A. Assets and liabilities increase.
 - B. Assets and retained earnings increase.
 - C. Liabilities decrease and contributed capital increases.
 - D. Assets and liabilities decrease.
91. Lang Industries received payments from customers who had been billed earlier for services provided. What effect does this transaction have on Lang's accounting equation?
- A. Assets and liabilities increase.
 - B. Assets and stockholders' equity increase.
 - C. Assets and liabilities decrease.
 - D. There is no effect on the accounting equation, as one asset account increases while another asset account decreases.

92. Payment is made for machinery purchases previously on credit. What effect does this transaction have on the accounting equation?

- A. Assets and liabilities increase.
- B. Assets and contributed capital increase.
- C. Liabilities decrease and retained earnings increase.
- D. Assets and liabilities decrease.

93. The telephone bill for the current period is received and recorded, but payment will be made later. What effect does this transaction have on the accounting equation?

- A. Assets and liabilities increase.
- B. Assets and contributed capital increase.
- C. Liabilities increase and retained earnings decrease.
- D. Assets and liabilities decrease.

94. Payment is made for the telephone bill which was recorded previously. What effect does this transaction have on the accounting equation?

- A. Assets and liabilities increase.
- B. Assets and retained earnings increase.
- C. Liabilities increase and contributed decreases.
- D. Assets and liabilities decrease.

95. Services are provided for customers who pay for their services immediately. What effect does this transaction have on the accounting equation?

- A. Assets and liabilities increase.
- B. Assets and retained earnings increase.
- C. Liabilities increase and retained earnings decreases.
- D. Assets and liabilities decrease.

96. Dividends are declared and paid to the company's stockholders. What effect does this transaction have on the company's accounting equation?

- A. Assets and liabilities decrease.
- B. Assets and retained earnings decrease.
- C. Liabilities decrease and retained earnings increases.
- D. Liabilities increase and contributed capital decreases.

97. When a firm borrows money, one effect on the accounting equation is a(n)

- A. decrease in contributed capital.
- B. increase in assets.
- C. decrease in liabilities.
- D. decrease in assets.

98. Which of the following statements best describes the effects of recognizing revenue earned by a business entity?

- A. Assets increase only when cash sales are collected.
- B. Stockholders' equity increases only when credit sales are made.
- C. Assets and stockholders' equity increase when either cash or credit sales are made.
- D. Assets increase and stockholders' equity decreases when either cash or credit sales are made.

99. Which of the following best describes one effect of recognizing expenses incurred by a business entity?

- A. Assets will increase.
- B. Liabilities will decrease.
- C. Contributed capital will increase.
- D. Retained earnings will decrease.

100. Which of the following statements regarding a company's operating activities is true?

- A. Revenues decrease stockholders' equity.
- B. Expenses increase stockholders' equity.
- C. Expenses decrease stockholders' equity.
- D. Dividends decrease assets.

101. Which of the following transactions does **not** affect the total assets of Dusty Knoll Inc.?

- A. The bills are received for last month's utilities.
- B. Dividends are paid to stockholders.
- C. Customers are billed for services provided on credit.
- D. A new automobile is purchased on credit.

102. Which of the following transactions affects the liabilities for Stallion Corp.?

- A. Equipment is purchased for cash.
- B. Services are provided for a customer for credit.
- C. Payment is made on a bank loan.
- D. Common stock is issued.

103. The Rebecca Company purchased equipment for \$60,000 cash. What is the effect on assets?

- A. Increase
- B. Decrease
- C. No net effect
- D. Cannot be determined from this limited information.

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

- A. Increase
- B. Decrease
- C. No net effect
- D. Unable to determine with this limited information.

105. Elliot's current ratio is 1.67. If Elliot pays a supplier within 30 days of a purchase, what is the effect on the current ratio?

- A. Increase
- B. Decrease
- C. No change
- D. Unable to determine

106. Given that Worrest, Inc.'s current ratio is 1.5, what is the effect of obtaining land in exchange for shares of Worrest's stock?

- A. Increase
- B. Decrease
- C. No change
- D. Unable to determine

107. A list of all asset, liability, stockholders' equity, revenue, expense, and dividend accounts which are used by the company is called a(n)

- A. General Ledger
- B. General Journal
- C. Chart of Accounts
- D. Trial Balance

108. The two-column record used to accumulate monetary increases and decreases for individual assets, liabilities, stockholders' equity, revenue, expense, and dividends items is a(n)

- A. Chart of accounts
- B. T-account
- C. Trial Balance
- D. Posting

109. The chronological record in which transactions are initially recorded in the order in which they occur is called a(n)

- A. T-account
- B. Chart of Accounts
- C. Trial Balance
- D. Journal

110. A list of all active accounts and their balances at a particular date, which is used to prove the equality of debits and credits, is a

- A. Chart of accounts
- B. General ledger
- C. Journal
- D. Trial Balance

111. The process of transferring amounts from the book of original entry into specific account records is referred to as

- A. Journalizing
- B. Posting
- C. Analyzing
- D. Classifying

112. The correct term for the entry made on the left side of a T-account is

- A. Debit
- B. Credit
- C. Posting
- D. Journalizing

113. The term for the process of recording business events in a book of original entry is

- A. Analyzing
- B. Journalizing
- C. Posting
- D. Classifying

114. The system of accounting in which there are at least two accounts affected in every transaction so that the accounting equation stays in balance is called

- A. Debit
- B. Credit
- C. Double-entry
- D. Full disclosure

115. A credit means

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

116. When the amount for a debit entry in a journal is transferred to a specific account in the general ledger, it must be posted as a

- A. debit to the account in the general ledger.
- B. credit to the account in the general ledger.
- C. total amount, without regard to debit or credit, since the general ledger accounts do not have spaces for debit and credit entries.
- D. decrease to the account in the general ledger.

117. An entry made to the right side of an account is always a(n)

- A. Debit
- B. Credit
- C. Increase
- D. Decrease

118. An abbreviated version of an account, which is useful for analyzing the effects of business events, is the

- A. chart of accounts
- B. T-account
- C. Journal
- D. Double-entry system

119. Debit entries are used to

- A. increase asset accounts.
- B. increase revenue accounts.
- C. increase liability accounts.
- D. increase stockholders' equity.

120. Credit entries are used to

- A. increase asset accounts
- B. increase liability accounts
- C. increase expense accounts
- D. increase dividends

121. Which of the following accounts is decreased by a debit entry?

- A. Unearned Revenue
- B. Prepaid Insurance
- C. Cash
- D. Insurance Expense

122. Which of the following accounts is decreased by a debit entry?

- A. Cash
- B. Prepaid Insurance
- C. Accounts Payable
- D. Insurance Expense

123. Which of the following accounts is increased by a debit entry?

- A. Common Stock
- B. Equipment
- C. Notes Payable
- D. Service Revenue

124. Which of the following accounts is increased by a credit entry?

- A. Accounts Receivable
- B. Dividends
- C. Service Revenue
- D. Salary Expense

125. All of the following accounts have normal debit balances **except**

- A. Accounts Receivable
- B. Dividends
- C. Supplies Expense
- D. Service Revenue

126. All of the following accounts have normal credit balances **except**

- A. Accounts Payable
- B. Unearned Revenue
- C. Common Stock
- D. Inventory

127. Which pair of accounts has the same set of rules for debit and credit entries?

- A. Common Stock and Accounts Payable
- B. Salary Expense and Retained Earnings
- C. Cash and Notes Payable
- D. Sales Revenue and Accounts Receivable

128. Which pair of accounts has the same set of procedures for debit and credit entries?

- A. Service Revenue and Rent Expense
- B. Dividends and Retained Earnings
- C. Equipment and Salary Expense
- D. Accounts Receivable and Accounts Payable

129. Fort Marcus County Club

Selected accounts for Fort Marcus Country Club are provided below.

CASH		UNEARNED REVENUE	
8/1 bal.	6,000		8/3 500
8/3	500		
8/5	400		
8/7	900		

ACCOUNTS RECEIVABLE		MEMBERSHIP REVENUE	
8/2	1,800	8/7 900	8/2 1,800
			8/5 400

Refer to the information provided for Fort Marcus Country Club. On which date did the country club make a credit sale of club memberships?

- A. August 2nd
- B. August 3rd
- C. August 5th
- D. August 7th

ACCOUNTS RECEIVABLE		MEMBERSHIP REVENUE							
8/2	1,800		8/7	900				8/2	1,800
								8/5	400

Refer to the information provided for Fort Marcus Country Club. Assuming that there are no other transactions, how much was owed to the country club by the members on August 7th?

- A. \$1,800
- B. \$1,300
- C. \$ 900
- D. \$ 500

134. Bravada Enterprises

Transactions for Bravada Enterprises are provided below.

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

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

- A. Service Revenue
- B. Cash
- C. Accounts Receivable
- D. Retained Earnings

135. Bravada Enterprises

Transactions for Bravada Enterprises are provided below.

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

Refer to the transactions that occurred at Bravada Enterprises. The journal entry to record the September 9th transaction will include a credit of \$1,220 to

- A. Furniture & Supplies
- B. Cash
- C. Accounts Payable
- D. Delivery Expense

136. Bravada Enterprises

Transactions for Bravada Enterprises are provided below.

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

Refer to the transactions that occurred at Bravada Enterprises. The journal entry to record the September 15th transaction will include a debit of \$1,220 to

- A. Salary Expense
- B. Salaries Payable
- C. Prepaid Expenses
- D. Accounts Payable

137. Bravada Enterprises

Transactions for Bravada Enterprises are provided below.

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

Refer to the transactions that occurred at Bravada Enterprises. The journal entry to record the September 23rd transaction will include a credit of \$430 to

- A. Accounts Receivable
- B. Cash
- C. Advertising Expense
- D. Accounts Payable

138. Bravada Enterprises

Transactions for Bravada Enterprises are provided below.

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

Refer to the transactions that occurred at Bravada Enterprises. The journal entry to record the September 30th transaction will include a credit to

- A. Salary Expense
- B. Salary Payable
- C. Prepaid Salaries
- D. Cash

139. Bravada Enterprises

Transactions for Bravada Enterprises are provided below.

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

Refer to the transactions that occurred at Bravada Enterprises. Based on these transactions, what is the total amount of expenses that should appear on Bravada's income statement for September?

- A. \$ 430
- B. \$ 850
- C. \$1,280
- D. \$1,440

140. Hesson Properties, Inc.

Transactions for Hesson Properties are provided below.

- Nov. 1 Hesson purchases two new maintenance carts on credit at \$375 each. The carts are added to Hesson's property, plant, and equipment records. Payment is due in 30 days.
- Nov. 8 Hesson accepts \$75 of advance payments from customers for services to be provided in December.
- Nov. 15 Hesson receives the utility bill for \$150. Payment is due in 30 days.
- Nov. 20 Customers are billed \$750 by Hesson for property services. Payment is due from the customers in 30 days.
- Nov. 30 Hesson received \$500 from customers who were billed on November 20th.

Refer to the transactions that occurred at Hesson Properties. The journal entry to record the November 1st transaction is

- A. Equipment 750
 Accounts Payable 750
- B. Equipment 750
 Cash 750
- C. Cash 750
 Equipment 750
- D. Accounts Payable 750
 Equipment 750

141. Hesson Properties, Inc.

Transactions for Hesson Properties are provided below.

- Nov. 1 Hesson purchases two new maintenance carts on credit at \$375 each. The carts are added to Hesson's property, plant, and equipment records. Payment is due in 30 days.
- Nov. 8 Hesson accepts \$75 of advance payments from customers for services to be provided in December.
- Nov. 15 Hesson receives the utility bill for \$150. Payment is due in 30 days.
- Nov. 20 Customers are billed \$750 by Hesson for property services. Payment is due from the customers in 30 days.
- Nov. 30 Hesson received \$500 from customers who were billed on November 20th.

Refer to the transactions that occurred at Hesson Properties. Based on these transactions, what is the journal entry to record the November 8th transaction?

A. Cash	75	
Service Revenue		75
B. Accounts Receivable	75	
Service Revenue		75
C. Cash	75	
Unearned Revenue		75
D. Unearned Revenue	75	
Accounts Receivable		75

142. Hesson Properties, Inc.

Transactions for Hesson Properties are provided below.

- Nov. 1 Hesson purchases two new maintenance carts on credit at \$375 each. The carts are added to Hesson's property, plant, and equipment records. Payment is due in 30 days.
- Nov. 8 Hesson accepts \$75 of advance payments from customers for services to be provided in December.
- Nov. 15 Hesson receives the utility bill for \$150. Payment is due in 30 days.
- Nov. 20 Customers are billed \$750 by Hesson for property services. Payment is due from the customers in 30 days.
- Nov. 30 Hesson received \$500 from customers who were billed on November 20th.

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

A. Utilities Expense	150	
Cash		150
B. Accounts Receivable	150	
Utilities Expense		150
C. Utilities Expense	150	
Accounts Payable		150
D. Cash	150	
Utilities Expense		150

143. Hesson Properties, Inc.

Transactions for Hesson Properties are provided below.

Nov. 1	Hesson purchases two new maintenance carts on credit at \$375 each. The carts are added to Hesson's property, plant, and equipment records. Payment is due in 30 days.
Nov. 8	Hesson accepts \$75 of advance payments from customers for services to be provided in December.
Nov. 15	Hesson receives the utility bill for \$150. Payment is due in 30 days.
Nov. 20	Customers are billed \$750 by Hesson for property services. Payment is due from the customers in 30 days.
Nov. 30	Hesson received \$500 from customers who were billed on November 20th.

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

A. Cash	750	
Accounts Receivable		750
B. Accounts Receivable	750	
Service Revenue		750
C. Service Revenue	750	
Cash		750
D. Service Revenue	750	
Accounts Payable		750

144. Hesson Properties, Inc.

Transactions for Hesson Properties are provided below.

Nov. 1	Hesson purchases two new maintenance carts on credit at \$375 each. The carts are added to Hesson's property, plant, and equipment records. Payment is due in 30 days.
Nov. 8	Hesson accepts \$75 of advance payments from customers for services to be provided in December.
Nov. 15	Hesson receives the utility bill for \$150. Payment is due in 30 days.
Nov. 20	Customers are billed \$750 by Hesson for property services. Payment is due from the customers in 30 days.
Nov. 30	Hesson received \$500 from customers who were billed on November 20th.

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

A. Cash	500	
Accounts Receivable		500
B. Accounts Receivable	500	
Service Revenue		500
C. Accounts Payable	500	
Cash		500
D. Service Revenue	500	
Cash		500

145. Hesson Properties, Inc.

Transactions for Hesson Properties are provided below.

Nov. 1	Hesson purchases two new maintenance carts on credit at \$375 each. The carts are added to Hesson's property, plant, and equipment records. Payment is due in 30 days.
Nov. 8	Hesson accepts \$75 of advance payments from customers for services to be provided in December.
Nov. 15	Hesson receives the utility bill for \$150. Payment is due in 30 days.
Nov. 20	Customers are billed \$750 by Hesson for property services. Payment is due from the customers in 30 days.
Nov. 30	Hesson received \$500 from customers who were billed on November 20th.

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

- A. -0-
- B. \$250
- C. \$500
- D. \$700

146. What type of account is increased with a debit but is a **decrease** to retained earnings?

- A. Liability
- B. Asset
- C. Revenue
- D. Expense

147. Which of the following statements is true?

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

148. Which of the following statements is true?

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

149. A trial balance is a(n)

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

150. If the sum of the debits is not equal to the sum of the **credits** in a trial balance, then

- A. there is no concern because the two amounts are not meant to be equal.
- B. the chart of accounts does not balance.
- C. it is safe to proceed with the preparation of financial statements.
- D. it is likely that an error was made in journalizing or posting transactions or in computing the account balance.

151. Which of the following will **not** cause a trial balance to be out of balance?

- A. The balance for the account is incorrectly computed.
- B. A debit entry is posted as a credit.
- C. A credit entry is posted to the wrong account, but still as a credit.
- D. An account is accidentally omitted from the trial balance.

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

Type of Account
 A = Asset
 L = Liability
 SE = Stockholders' Equity
 R = Revenue
 E = Expense
 D = Dividend

Normal Account Balance
 Dr = Debit
 Cr = Credit

Rules to Increase or Decrease the Account
 Dr = Debit
 Cr = Credit

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

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

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

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

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

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

- A) Jan. 23, 2009 Stockholders invested \$70,000 in the business and received shares of common stock as evidence of ownership.
- B) Feb. 1, 2009 Rent of \$1,600 was paid for the month of February.
- C) Feb. 7, 2009 Equipment with a cost of \$3,000 was purchased on credit; payment is due in 30 days.
- D) Feb. 14, 2009 Bills totaling \$5,400 were presented to customers for alterations projects completed and delivered; \$2,900 was collected immediately and the balance of \$2,500 is due within 30 days.
- E) Feb. 18, 2009 Full payment was made for the equipment purchased on Feb. 7th.
- F) Feb. 22, 2009 \$1,900 was collected from customers with balances due from Feb. 14th.
- G) Feb. 28, 2009 Employee salaries of \$3,300 were paid.

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

Accounts:

Cash	Common Stock
Accounts Receivable	Retained Earnings
Inventory	Sales Revenue
Accounts Payable	Selling Expenses
Unearned Revenue	Administrative Expenses

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

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

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

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

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

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

Type of Account

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

Normal Balance

- Dr = Debit
- Cr = Credit

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

159. M. Shay & Company, Inc.

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

Journal (partial):

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

General Ledger (partial):

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

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

160. M. Shay & Company, Inc.

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

Journal (partial):

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

General Ledger (partial):

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

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

161. M. Shay & Company, Inc.

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

Journal (partial):

<u>Date</u>	<u>Account Debit s and Descript ions</u>	<u>Credit</u>
May 5	Account 1,600 s Receivab le Service Revenue	1,600
	Billed customer s for services complete d	
May 11	Cash 500 Service Revenue	500
	Collecte d from a customer billed on May 1 for services rendered	
May 15	Office 700 Supplies Accounts Payable	700
	Purchase d furniture on credit; payment due in 30 days	
May 25	Office 700 Furniture Cash	700
	Paid the furniture bill received on May 15	

General Ledger (partial):

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

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

162. Inferex Corporation

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

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

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

Transaction		=		+	
<u>Date</u>	<u>Assets</u>		<u>Liabilities</u>		<u>Stockholders' Equity</u>

163. Inferex Corporation

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

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

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

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<u>Date</u>	<u>Accounts</u>	<u>Debit</u>	<u>Credit</u>
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164. Inferex Corporation

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

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

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

165. Inferex Corporation

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

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

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

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

Cash		Accounts Payable		Common Stock		
5,000	12,000		3,200	4,200		30,000
9,000	650					24,000
44,000	15,200					
36,000	650					
8,000	16,100		Salaries Payable		Service Revenue	
3,000	650			5,000		21,000
24,000	16,400					9,000
10,000	3,200					22,000
	750					36,000
Accounts Receivable		Unearned Revenue		Advertising Expense		
21,000	8,000		22,000	44,000	4,200	
	3,000					
Prepaid Insurance		Notes Payable		Salaries Expense		
1,200	100			16,500	15,200	
	100				16,100	
	100				16,400	
					5,000	
Equipment					Rent Expense	
35,300					650	
					650	
					650	
					Insurance Expense	
					100	
					100	
					100	
					Dividends	
					7,750	

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

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

168. Meyerich-Sanders & Company

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

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

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

<u>Transaction Date</u>	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Contributed Capital</u>	+	<u>Retained Earnings</u>
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169. Meyerich-Sanders & Company

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

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

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

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<u>Date</u>	<u>Accounts</u>	<u>Debit</u>	<u>Credit</u>
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170. Meyerich-Sanders & Company

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

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

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

171. Meyerich-Sanders & Company

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

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

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

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

173. Each of the situations in A through C below applies to one of the assumptions or principles included in the conceptual framework of accounting. Identify which assumption or principles applies and explain why that assumption or principle applies.

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

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

175. What is the difference between comparability and consistency?

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

177. Several terms which represent components of an accounting system are listed below. For each term, write a brief explanation of how that component is used in the accounting cycle.

- A) Accounts
- B) Chart of Accounts
- C) Double-entry system with debits and credits
- D) Journal
- E) General Ledger
- F) Trial Balance

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

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

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

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

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

Chapter 2--The Accounting Information System **Key**

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

FALSE

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

TRUE

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

TRUE

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

TRUE

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

FALSE

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

FALSE

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

FALSE

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

FALSE

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

FALSE

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

FALSE

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

FALSE

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

TRUE

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

TRUE

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

FALSE

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

FALSE

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

TRUE

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

FALSE

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

TRUE

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

FALSE

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

TRUE

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

TRUE

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

FALSE

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

FALSE

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

TRUE

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

FALSE

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

TRUE

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

FALSE

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

TRUE

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

FALSE

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

FALSE

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

Generally accepted accounting principles *or*

GAAP

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

historical cost

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

going concern

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

Securities Exchange Commission *or*

SEC

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

Financial Accounting Standards Board *or*

FASB

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

Materiality

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

Relevance

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

conservatism

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

Reliability

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

Comparability

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

Consistency

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

_____.

reliable, measurable or
measurable, reliable

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

Source

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

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

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

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

48. The _____ principle says that assets of a company are initially recorded at their original cost.
historical cost

49. A(n) _____ is a list of all the accounts used by an entity.
chart of accounts

50. The _____ is the file or book that contains all of the company's accounts.
general ledger

51. The _____ side, or left-side, of a liability account is used to record decreases in the account balance.
debit

52. For assets, expenses, and dividend accounts, credit entries represent _____.
decreases

53. For liabilities, stockholders' equity, and revenue accounts, debit entries represent _____.
decreases

54. Credits are always on the _____ side of a T-account.
right

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

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

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

58. Which of the following statements is true regarding economic events?

- A. The signing of a service contract is an example of an external event that is recorded in the accounting records.
- B. Every event which affects an entity can be identified from a source document.
- C. All internal and external events must be measured with sufficient reliability.
- D.** External events involve exchanges between an entity and another entity outside the company.

59. Which of the following underlying assumptions for the conceptual framework is the reason the dollar is used in the preparation of financial statements?

- A. Economic Entity
- B. Continuity
- C. Time-Period
- D.** Monetary Unit

60. Which of the following is an assumption made in the preparation of the financial statements?
- A.** Financial statements are prepared for a specific entity that is distinct from the entity's owners.
 - B. The current market value is assumed to be more relevant than the original cost paid.
 - C. The preparation of financial statements for a specific time period assumes that the balance sheet covers a designated period of time.
 - D. Financial statements are prepared assuming that inflation has a distinct effect on the monetary unit.
61. The time-period assumption is necessary because
- A. inflation exists and causes confusing swings in financial statement amounts over time.
 - B.** external users of financial statements want accurately-reported net income for a specific period of time.
 - C. financial statements users expect full disclosure of all economic events throughout the entire time period.
 - D. it is required by the federal government.
62. Which of the following statements is true concerning assets?
- A. Assets are measured using a time-period approach.
 - B. Assets are initially recorded at market value and then adjusted for inflation.
 - C.** Assets are initially recorded using the historical cost principle.
 - D. Assets are initially recorded at market value, since historical cost tends to be too arbitrary.
63. Starko Enterprises purchased land for \$200,000 in 2001. In 2010, an independent appraiser assessed the value of the land at 450,000. At what amount should the land be recorded on Starko's 2010 financial statements?
- A.** \$200,000
 - B. \$250,000
 - C. \$450,000
 - D. Whichever amount Starko considers to be the best indicator of the land's true value.
64. Which of the following organizations is primarily responsible for establishing GAAP in the United States?
- A. Securities Exchange Commission (SEC)
 - B.** Financial Accounting Standards Board (FASB)
 - C. International Accounting Standards Board (IASB)
 - D. Internal Revenue Service (IRS)
65. The Securities Exchange Commission (SEC) is concerned with
- A. Developing a new conceptual framework in order to reduce differences in financial reports for global companies.
 - B. Setting accounting rules for all companies that are incorporated in the United States.
 - C.** Setting accounting rules for publicly-traded companies in the United States.
 - D. Working to reduce differences in accounting reports issued by governmental units.

66. Which organization has the power to set accounting rules for companies whose stock is publicly-traded in the U.S. stock markets, but has delegated its power to another organization?

- A. International Accounting Standards Board (IASB)
- B. Financial Accounting Standards Board (FASB)
- C. General Association of Accounting Practitioners (GAAP)
- D. Securities Exchange Commission (SEC)**

67. In order for accounting information to be useful in making informed decisions, it must be

- A. Internal
- B. Relevant
- C. Reliable
- D. Both relevant and reliable**

68. Which of the following is a constraint to the qualitative characteristics of useful accounting information?

- A. Conservatism
- B. Materiality**
- C. Relevance
- D. Comparability

69. The principle of conservatism is concerned with

- A. the avoidance of overstating assets or income in the preparation of financial statements.**
- B. the minimization of costs associated with providing financial information.
- C. the company's ability to carry out its existing commitments.
- D. the company's procedures for recording activities at their initial exchange price.

70. The going concern assumption is concerned with

- A. The company's ability to continue operations long enough to carry out its existing obligations.**
- B. Any information that is capable of influencing the decisions of anyone using the financial statements.
- C. Measuring ongoing business activities at their exchange price at the time of the initial external transaction.
- D. offsetting management's natural optimism by providing a prudent approach to uncertainty in financial statement items.

71. Which of the following statements is **false** with respect to the qualitative characteristics of useful accounting information?

- A. Comparability is concerned with different companies using the same accounting methods; whereas, consistency is concerned with a single company using the same accounting methods over time.
- B. Trade-offs are often necessary in evaluating relevant versus reliable information.
- C.** All external and internal events must be fully disclosed in the accounting system.
- D. The full disclosure policy should be followed in all situations that would made a difference to financial statement users.

72. Which of the following is an internal event?

- A. Caddie salaries are paid by a country club.
- B. Dividends are distributed to a company's stockholders.
- C. Potatoes used to make french fries in a fast-food restaurant are purchased.
- D.** Products are transferred from the assembly area to the painting station.

73. All of the following are external events **except**:

- A.** a grocery store recognizes losses from spoilage.
- B. a grocery store runs ads in a local newspaper.
- C. a grocery store purchases produce from a local farmer.
- D. a grocery store sells groceries to customers on credit.

74. Which of the following is an internal event for a business entity?

- A. An attorney provides services for clients.
- B. An attorney purchases computer equipment.
- C.** An attorney uses computer equipment to maintain business records and prepare legal documents.
- D. An attorney receives cash payments from clients who were billed for legal services.

75. Which of the following statements is true?

- A. Only the effects of internal transactions must be recognized and recorded in the accounting system.
- B. An internal transaction represents a business activity between an entity and its environment.
- C.** Evidence used to record transactions affecting a business entity comes from source documents.
- D. Only the effects of external events must be recognized, measured, and recorded in an entity's accounting system.

76. Which of the following statements is **false** regarding the use of source documents?

- A. Checks and deposit slips are the main source documents backing up the bank statement.
- B. Retailers may use cash register tapes to recognize sales transactions.
- C.** Stock certificates provide evidence of being a creditor of the company.
- D. Time cards may be used as a source of information to record wages.

77. The purchase of office equipment on credit has what effect on the accounting equation?

- A. Assets and stockholders' equity decrease
- B. Liabilities increase and stockholders' equity decreases
- C. Assets and liabilities increase**
- D. Assets and liabilities decrease

78. The payment of employee salaries has what effect on the accounting equation?

- A. Assets and stockholders' equity decrease**
- B. Liabilities and stockholders' equity decrease
- C. Assets decrease and liabilities increase
- D. Assets increase and liabilities decrease

79. During March, Connor Corp. purchased supplies for cash. The supplies will be used in April. What effect does this transaction have on the accounting equation at the time the supplies are purchased?

- A. Assets increase and stockholders' equity decreases
- B. Assets and liabilities increase
- C. There is no effect on the accounting equation, as one asset account increases while another asset account decreases.**
- D. There is no effect on the accounting equation, as the transaction should not be recognized until April.

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

- A. Predictable
- B. Conservative
- C. Relevant**
- D. Comparable

81. If an investor can use accounting information for two different companies to evaluate the types and amounts of expenses, the information is said to have the quality of

- A. Comparability**
- B. Consistency
- C. Neutrality
- D. Materiality

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

- A. Conservatism
- B. Materiality**
- C. Neutrality
- D. Verifiability

83. Scott Brothers, Inc. follows the qualitative characteristic of consistency. This means that

- A. For expenses, Scott uses the same account names as used by its competitors.
- B. Scott has elected certain accounting principles that can never be changed.
- C. Scott applies the same accounting principles each period.**
- D. Scott applies the same accounting principles as its competitors.

84. Information that is material means that an error in recording the dollar amount of a transaction would

- A. likely affect the judgment of someone relying on the financial statements**
- B. not affect the decisions of financial statement users
- C. not impact a business decision of a creditor
- D. result in the overstatement of assets or income

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

- A. Comparability
- B. Conservatism**
- C. Materiality
- D. Neutrality

86. The qualitative characteristics of accounting information include

- A. reliability**
- B. cash flow information
- C. all accounting information
- D. assets reported on the balance sheet

87. Bellarim Corp. made cash sales to customers. What effect does this transaction have on the accounting equation?

A. Liabilities and retained earnings increase.

B. Assets and liabilities increase.

C. Assets and retained earnings increase.

D. There is no effect on the accounting equation, as one asset account increases while another asset account decreases.

88. Clay and Lora each invest \$15,000 in a Deyer, Inc. and are given shares of stock as evidence of their ownership interest. What effect does this transaction have on the accounting equation of Deyer?

A. Assets and liabilities increase.

B. Assets and contributed capital increase.

C. Liabilities increase and retained earnings decrease.

D. Assets and liabilities decrease.

89. Machinery is purchased on credit. What effect does this transaction have on the accounting equation?

A. Assets and liabilities increase.

B. Assets and stockholders' equity increase.

C. Liabilities increase and stockholders' equity decreases.

D. Assets and liabilities decrease.

90. Lang Industries provided services to customers then sent invoices for the amounts the customers owed. What effect does this transaction have on the accounting equation?

A. Assets and liabilities increase.

B. Assets and retained earnings increase.

C. Liabilities decrease and contributed capital increases.

D. Assets and liabilities decrease.

91. Lang Industries received payments from customers who had been billed earlier for services provided. What effect does this transaction have on Lang's accounting equation?

A. Assets and liabilities increase.

B. Assets and stockholders' equity increase.

C. Assets and liabilities decrease.

D. There is no effect on the accounting equation, as one asset account increases while another asset account decreases.

92. Payment is made for machinery purchases previously on credit. What effect does this transaction have on the accounting equation?

- A. Assets and liabilities increase.
- B. Assets and contributed capital increase.
- C. Liabilities decrease and retained earnings increase.
- D.** Assets and liabilities decrease.

93. The telephone bill for the current period is received and recorded, but payment will be made later. What effect does this transaction have on the accounting equation?

- A. Assets and liabilities increase.
- B. Assets and contributed capital increase.
- C.** Liabilities increase and retained earnings decrease.
- D. Assets and liabilities decrease.

94. Payment is made for the telephone bill which was recorded previously. What effect does this transaction have on the accounting equation?

- A. Assets and liabilities increase.
- B. Assets and retained earnings increase.
- C. Liabilities increase and contributed decreases.
- D.** Assets and liabilities decrease.

95. Services are provided for customers who pay for their services immediately. What effect does this transaction have on the accounting equation?

- A. Assets and liabilities increase.
- B.** Assets and retained earnings increase.
- C. Liabilities increase and retained earnings decreases.
- D. Assets and liabilities decrease.

96. Dividends are declared and paid to the company's stockholders. What effect does this transaction have on the company's accounting equation?

- A. Assets and liabilities decrease.
- B.** Assets and retained earnings decrease.
- C. Liabilities decrease and retained earnings increases.
- D. Liabilities increase and contributed capital decreases.

97. When a firm borrows money, one effect on the accounting equation is a(n)

- A. decrease in contributed capital.
- B.** increase in assets.
- C. decrease in liabilities.
- D. decrease in assets.

98. Which of the following statements best describes the effects of recognizing revenue earned by a business entity?

- A. Assets increase only when cash sales are collected.
- B. Stockholders' equity increases only when credit sales are made.
- C.** Assets and stockholders' equity increase when either cash or credit sales are made.
- D. Assets increase and stockholders' equity decreases when either cash or credit sales are made.

99. Which of the following best describes one effect of recognizing expenses incurred by a business entity?

- A. Assets will increase.
- B. Liabilities will decrease.
- C. Contributed capital will increase.
- D.** Retained earnings will decrease.

100. Which of the following statements regarding a company's operating activities is true?

- A. Revenues decrease stockholders' equity.
- B. Expenses increase stockholders' equity.
- C.** Expenses decrease stockholders' equity.
- D. Dividends decrease assets.

101. Which of the following transactions does **not** affect the total assets of Dusty Knoll Inc.?

- A.** The bills are received for last month's utilities.
- B. Dividends are paid to stockholders.
- C. Customers are billed for services provided on credit.
- D. A new automobile is purchased on credit.

102. Which of the following transactions affects the liabilities for Stallion Corp.?

- A. Equipment is purchased for cash.
- B. Services are provided for a customer for credit.
- C.** Payment is made on a bank loan.
- D. Common stock is issued.

103. The Rebecca Company purchased equipment for \$60,000 cash. What is the effect on assets?

A. Increase

B. Decrease

C. No net effect

D. Cannot be determined from this limited information.

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

A. Increase

B. Decrease

C. No net effect

D. Unable to determine with this limited information.

105. Elliot's current ratio is 1.67. If Elliot pays a supplier within 30 days of a purchase, what is the effect on the current ratio?

A. Increase

B. Decrease

C. No change

D. Unable to determine

106. Given that Worrest, Inc.'s current ratio is 1.5, what is the effect of obtaining land in exchange for shares of Worrest's stock?

A. Increase

B. Decrease

C. No change

D. Unable to determine

107. A list of all asset, liability, stockholders' equity, revenue, expense, and dividend accounts which are used by the company is called a(n)

A. General Ledger

B. General Journal

C. Chart of Accounts

D. Trial Balance

108. The two-column record used to accumulate monetary increases and decreases for individual assets, liabilities, stockholders' equity, revenue, expense, and dividends items is a(n)

- A. Chart of accounts
- B. T-account**
- C. Trial Balance
- D. Posting

109. The chronological record in which transactions are initially recorded in the order in which they occur is called a(n)

- A. T-account
- B. Chart of Accounts
- C. Trial Balance
- D. Journal**

110. A list of all active accounts and their balances at a particular date, which is used to prove the equality of debits and credits, is a

- A. Chart of accounts
- B. General ledger
- C. Journal
- D. Trial Balance**

111. The process of transferring amounts from the book of original entry into specific account records is referred to as

- A. Journalizing
- B. Posting**
- C. Analyzing
- D. Classifying

112. The correct term for the entry made on the left side of a T-account is

- A. Debit**
- B. Credit
- C. Posting
- D. Journalizing

113. The term for the process of recording business events in a book of original entry is

- A. Analyzing
- B. Journalizing**
- C. Posting
- D. Classifying

114. The system of accounting in which there are at least two accounts affected in every transaction so that the accounting equation stays in balance is called

- A. Debit
- B. Credit
- C. Double-entry**
- D. Full disclosure

115. A credit means

- A. the event had a favorable impact on the entity's financial statements.
- B. the event had an unfavorable impact on the entity's financial statements.
- C. the event had an effect on the right side of the T-account.**
- D. the event had the effect of increasing the account balance.

116. When the amount for a debit entry in a journal is transferred to a specific account in the general ledger, it must be posted as a

- A. debit to the account in the general ledger.**
- B. credit to the account in the general ledger.
- C. total amount, without regard to debit or credit, since the general ledger accounts do not have spaces for debit and credit entries.
- D. decrease to the account in the general ledger.

117. An entry made to the right side of an account is always a(n)

- A. Debit
- B. Credit**
- C. Increase
- D. Decrease

118. An abbreviated version of an account, which is useful for analyzing the effects of business events, is the

- A. chart of accounts
- B. T-account**
- C. Journal
- D. Double-entry system

119. Debit entries are used to

- A. increase asset accounts.**
- B. increase revenue accounts.
- C. increase liability accounts.
- D. increase stockholders' equity.

120. Credit entries are used to

- A. increase asset accounts
- B.** increase liability accounts
- C. increase expense accounts
- D. increase dividends

121. Which of the following accounts is decreased by a debit entry?

- A.** Unearned Revenue
- B. Prepaid Insurance
- C. Cash
- D. Insurance Expense

122. Which of the following accounts is decreased by a debit entry?

- A. Cash
- B. Prepaid Insurance
- C.** Accounts Payable
- D. Insurance Expense

123. Which of the following accounts is increased by a debit entry?

- A. Common Stock
- B.** Equipment
- C. Notes Payable
- D. Service Revenue

124. Which of the following accounts is increased by a credit entry?

- A. Accounts Receivable
- B. Dividends
- C.** Service Revenue
- D. Salary Expense

125. All of the following accounts have normal debit balances **except**

- A. Accounts Receivable
- B. Dividends
- C. Supplies Expense
- D.** Service Revenue

126. All of the following accounts have normal credit balances **except**

- A. Accounts Payable
- B. Unearned Revenue
- C. Common Stock
- D. Inventory**

127. Which pair of accounts has the same set of rules for debit and credit entries?

- A. Common Stock and Accounts Payable**
- B. Salary Expense and Retained Earnings
- C. Cash and Notes Payable
- D. Sales Revenue and Accounts Receivable

128. Which pair of accounts has the same set of procedures for debit and credit entries?

- A. Service Revenue and Rent Expense
- B. Dividends and Retained Earnings
- C. Equipment and Salary Expense**
- D. Accounts Receivable and Accounts Payable

129. Fort Marcus County Club

Selected accounts for Fort Marcus Country Club are provided below.

CASH		UNEARNED REVENUE	
8/1 bal.	6,000		8/3 500
8/3	500		
8/5	400		
8/7	900		

ACCOUNTS RECEIVABLE		MEMBERSHIP REVENUE	
8/2	1,800	8/7 900	8/2 1,800
			8/5 400

Refer to the information provided for Fort Marcus Country Club. On which date did the country club make a credit sale of club memberships?

- A. August 2nd**
- B. August 3rd
- C. August 5th
- D. August 7th

ACCOUNTS RECEIVABLE		MEMBERSHIP REVENUE							
8/2	1,800		8/7	900				8/2	1,800
								8/5	400

Refer to the information provided for Fort Marcus Country Club. Assuming that there are no other transactions, how much was owed to the country club by the members on August 7th?

- A. \$1,800
- B. \$1,300
- C. \$ 900**
- D. \$ 500

134. Bravada Enterprises

Transactions for Bravada Enterprises are provided below.

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

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

- A. Service Revenue
- B. Cash
- C. Accounts Receivable**
- D. Retained Earnings

135. Bravada Enterprises

Transactions for Bravada Enterprises are provided below.

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

Refer to the transactions that occurred at Bravada Enterprises. The journal entry to record the September 9th transaction will include a credit of \$1,220 to

- A. Furniture & Supplies
- B. Cash
- C. Accounts Payable**
- D. Delivery Expense

136. Bravada Enterprises

Transactions for Bravada Enterprises are provided below.

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

Refer to the transactions that occurred at Bravada Enterprises. The journal entry to record the September 15th transaction will include a debit of \$1,220 to

- A. Salary Expense
- B. Salaries Payable
- C. Prepaid Expenses
- D. Accounts Payable**

137. Bravada Enterprises

Transactions for Bravada Enterprises are provided below.

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

Refer to the transactions that occurred at Bravada Enterprises. The journal entry to record the September 23rd transaction will include a credit of \$430 to

- A. Accounts Receivable
- B. Cash
- C. Advertising Expense
- D.** Accounts Payable

138. Bravada Enterprises

Transactions for Bravada Enterprises are provided below.

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

Refer to the transactions that occurred at Bravada Enterprises. The journal entry to record the September 30th transaction will include a credit to

- A. Salary Expense
- B. Salary Payable
- C. Prepaid Salaries
- D.** Cash

139. Bravada Enterprises

Transactions for Bravada Enterprises are provided below.

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

Refer to the transactions that occurred at Bravada Enterprises. Based on these transactions, what is the total amount of expenses that should appear on Bravada's income statement for September?

- A. \$ 430
- B. \$ 850
- C. \$1,280**
- D. \$1,440

140. Hesson Properties, Inc.

Transactions for Hesson Properties are provided below.

- Nov. 1 Hesson purchases two new maintenance carts on credit at \$375 each. The carts are added to Hesson's property, plant, and equipment records. Payment is due in 30 days.
- Nov. 8 Hesson accepts \$75 of advance payments from customers for services to be provided in December.
- Nov. 15 Hesson receives the utility bill for \$150. Payment is due in 30 days.
- Nov. 20 Customers are billed \$750 by Hesson for property services. Payment is due from the customers in 30 days.
- Nov. 30 Hesson received \$500 from customers who were billed on November 20th.

Refer to the transactions that occurred at Hesson Properties. The journal entry to record the November 1st transaction is

- A.** Equipment 750
 Accounts Payable 750
- B. Equipment 750
 Cash 750
- C. Cash 750
 Equipment 750
- D. Accounts Payable 750
 Equipment 750

141. Hesson Properties, Inc.

Transactions for Hesson Properties are provided below.

- Nov. 1 Hesson purchases two new maintenance carts on credit at \$375 each. The carts are added to Hesson's property, plant, and equipment records. Payment is due in 30 days.
- Nov. 8 Hesson accepts \$75 of advance payments from customers for services to be provided in December.
- Nov. 15 Hesson receives the utility bill for \$150. Payment is due in 30 days.
- Nov. 20 Customers are billed \$750 by Hesson for property services. Payment is due from the customers in 30 days.
- Nov. 30 Hesson received \$500 from customers who were billed on November 20th.

Refer to the transactions that occurred at Hesson Properties. Based on these transactions, what is the journal entry to record the November 8th transaction?

- | | | |
|------------------------|----|----|
| A. Cash | 75 | |
| Service Revenue | | 75 |
| B. Accounts Receivable | 75 | |
| Service Revenue | | 75 |
| C. Cash | 75 | |
| Unearned Revenue | | 75 |
| D. Unearned Revenue | 75 | |
| Accounts Receivable | | 75 |

142. Hesson Properties, Inc.

Transactions for Hesson Properties are provided below.

- | | |
|---------|--|
| Nov. 1 | Hesson purchases two new maintenance carts on credit at \$375 each. The carts are added to Hesson's property, plant, and equipment records. Payment is due in 30 days. |
| Nov. 8 | Hesson accepts \$75 of advance payments from customers for services to be provided in December. |
| Nov. 15 | Hesson receives the utility bill for \$150. Payment is due in 30 days. |
| Nov. 20 | Customers are billed \$750 by Hesson for property services. Payment is due from the customers in 30 days. |
| Nov. 30 | Hesson received \$500 from customers who were billed on November 20th. |

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

- | | | |
|-----------------------------|-----|-----|
| A. Utilities Expense | 150 | |
| Cash | | 150 |
| B. Accounts Receivable | 150 | |
| Utilities Expense | | 150 |
| C. Utilities Expense | 150 | |
| Accounts Payable | | 150 |
| D. Cash | 150 | |
| Utilities Expense | | 150 |

143. Hesson Properties, Inc.

Transactions for Hesson Properties are provided below.

Nov. 1	Hesson purchases two new maintenance carts on credit at \$375 each. The carts are added to Hesson's property, plant, and equipment records. Payment is due in 30 days.
Nov. 8	Hesson accepts \$75 of advance payments from customers for services to be provided in December.
Nov. 15	Hesson receives the utility bill for \$150. Payment is due in 30 days.
Nov. 20	Customers are billed \$750 by Hesson for property services. Payment is due from the customers in 30 days.
Nov. 30	Hesson received \$500 from customers who were billed on November 20th.

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

A. Cash	750	
Accounts Receivable		750
B. Accounts Receivable	750	
Service Revenue		750
C. Service Revenue	750	
Cash		750
D. Service Revenue	750	
Accounts Payable		750

144. Hesson Properties, Inc.

Transactions for Hesson Properties are provided below.

Nov. 1	Hesson purchases two new maintenance carts on credit at \$375 each. The carts are added to Hesson's property, plant, and equipment records. Payment is due in 30 days.
Nov. 8	Hesson accepts \$75 of advance payments from customers for services to be provided in December.
Nov. 15	Hesson receives the utility bill for \$150. Payment is due in 30 days.
Nov. 20	Customers are billed \$750 by Hesson for property services. Payment is due from the customers in 30 days.
Nov. 30	Hesson received \$500 from customers who were billed on November 20th.

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

A. Cash	500	
Accounts Receivable		500
B. Accounts Receivable	500	
Service Revenue		500
C. Accounts Payable	500	
Cash		500
D. Service Revenue	500	
Cash		500

145. Hesson Properties, Inc.

Transactions for Hesson Properties are provided below.

Nov. 1	Hesson purchases two new maintenance carts on credit at \$375 each. The carts are added to Hesson's property, plant, and equipment records. Payment is due in 30 days.
Nov. 8	Hesson accepts \$75 of advance payments from customers for services to be provided in December.
Nov. 15	Hesson receives the utility bill for \$150. Payment is due in 30 days.
Nov. 20	Customers are billed \$750 by Hesson for property services. Payment is due from the customers in 30 days.
Nov. 30	Hesson received \$500 from customers who were billed on November 20th.

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

- A. -0-
- B. \$250**
- C. \$500
- D. \$700

146. What type of account is increased with a debit but is a **decrease** to retained earnings?

- A. Liability
- B. Asset
- C. Revenue
- D. Expense**

147. Which of the following statements is true?

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

148. Which of the following statements is true?

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

149. A trial balance is a(n)

- A. optional financial statement used only by creditors.
- B.** tool used to prove the equality of debits and credits in the general ledger.
- C. list of accounts and their balances taken from the chart of accounts.
- D. financial statement which can be used in place of a balance sheet.

150. If the sum of the debits is not equal to the sum of the **credits** in a trial balance, then

- A. there is no concern because the two amounts are not meant to be equal.
- B. the chart of accounts does not balance.
- C. it is safe to proceed with the preparation of financial statements.
- D.** it is likely that an error was made in journalizing or posting transactions or in computing the account balance.

151. Which of the following will **not** cause a trial balance to be out of balance?

- A. The balance for the account is incorrectly computed.
- B. A debit entry is posted as a credit.
- C.** A credit entry is posted to the wrong account, but still as a credit.
- D. An account is accidentally omitted from the trial balance.

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

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

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

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

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

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

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

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

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

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

- A) Jan. 23, 2009 Stockholders invested \$70,000 in the business and received shares of common stock as evidence of ownership.
- B) Feb. 1, 2009 Rent of \$1,600 was paid for the month of February.
- C) Feb. 7, 2009 Equipment with a cost of \$3,000 was purchased on credit; payment is due in 30 days.
- D) Feb. 14, 2009 Bills totaling \$5,400 were presented to customers for alterations projects completed and delivered; \$2,900 was collected immediately and the balance of \$2,500 is due within 30 days.
- E) Feb. 18, 2009 Full payment was made for the equipment purchased on Feb. 7th.
- F) Feb. 22, 2009 \$1,900 was collected from customers with balances due from Feb. 14th.
- G) Feb. 28, 2009 Employee salaries of \$3,300 were paid.

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

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

Accounts:

Cash	Common Stock
Accounts Receivable	Retained Earnings
Inventory	Sales Revenue
Accounts Payable	Selling Expenses
Unearned Revenue	Administrative Expenses

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

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

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

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

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

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

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

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

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

Type of Account

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

Normal Balance

Dr = Debit
 Cr = Credit

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

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

159. M. Shay & Company, Inc.

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

Journal (partial):

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

General Ledger (partial):

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

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

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

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

160. M. Shay & Company, Inc.

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

Journal (partial):

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

General Ledger (partial):

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

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

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

161. M. Shay & Company, Inc.

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

Journal (partial):

<u>Date</u>	<u>Account Debit s and Descript ions</u>	<u>Credit</u>
May 5	Account 1,600 s Receivab le Service Revenue	1,600
	Billed customer s for services complete d	
May 11	Cash 500 Service Revenue	500
	Collecte d from a customer billed on May 1 for services rendered	
May 15	Office 700 Supplies Accounts Payable	700
	Purchase d furniture on credit; payment due in 30 days	
May 25	Office 700 Furniture Cash	700
	Paid the furniture bill received on May 15	

General Ledger (partial):

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

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

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

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

162. Inferex Corporation

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

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

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

Transaction					
<u>Date</u>	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>

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

163. Inferex Corporation

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

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

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

JOURNAL

<u>Date</u>	<u>Accounts</u>	<u>Debit</u>	<u>Credit</u>
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JOURNAL

<u>Date</u>	<u>Account Debit</u>	<u>Credit</u>
June 1	Vehicles 8,400	
	Cash	1,000
	Note Payable	7,400
June 8	Cash 3,200	
	Accounts Receivables 12,000	
	Service Revenue	15,200
June 22	Land 35,000	
	Common Stock	35,000
June 30	Advertising Expense 1,200	
	Accounts Payable	1,200

164. Inferex Corporation

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

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

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

Vehicles		Cash		Notes Payable		
6/1			6/8	6/1		6/1
8,400			3,200	1,000		7,400
Accounts Receivable		Service Revenue		Land		
6/8				6/8	6/22	
12,000				15,200	35,000	
Common Stock		Advertising Expense		Accounts Payable		
	6/22		6/30			6/30
	35,000		1,200			1,200

165. Inferex Corporation

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

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

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

Inferex Corporation		
Trial Balance		
June 30, 2010		
Account	Debit	Credit
Cash	\$ 2,200	
Accounts Receivable	12,000	
Land	35,000	
Vehicles	8,400	
Accounts Payable		\$ 1,200
Notes Payable		7,400
Common Stock		35,000
Service Revenue		15,200
Advertising Expense	1,200	
	<u>\$58,800</u>	<u>\$58,800</u>

Battern Corporation		
Trial Balance		
March 31, 2009		
Account	Debit	Credit
Cash	\$ 73,400	
Accounts Receivable	10,000	
Prepaid Insurance	900	
Equipment	35,300	
Accounts Payable		\$ 1,000
Salaries Payable		5,000
Unearned Revenue		22,000
Notes Payable		16,500
Common Stock		54,000
Service Revenue		88,000
Advertising Expense	4,200	
Salaries Expense	52,700	
Rent Expense	1,950	
Insurance Expense	300	
Dividends	7,750	
	<u>\$186,500</u>	<u>\$186,500</u>

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

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

Grammerle, Inc.		
Trial Balance		
September 30, 2009		
Account	Debit	Credit
Cash	\$ 4,200	
Short-term investments	13,000	
Accounts Receivable	4,500	
Inventory	23,000	
Land	90,000	
Building	700,000	
Furniture	450,000	
Equipment	281,700	
Accounts Payable		\$ 7,200
Salaries Payable		4,100
Unearned Revenue		17,000
Interest Payable		2,000
Notes Payable		70,000
Common Stock		460,000
Retained Earnings		977,000
Sales		158,000
Cost of Goods Sold	78,000	
Salaries Expense	24,000	
Rent Expense	6,000	
Insurance Expense	1,000	
Depreciation Expense	11,000	
Utility Expense	900	
Dividends	8,000	
	<u>\$1,695,300</u>	<u>\$1,695,300</u>

168. Meyerich-Sanders & Company

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

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

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

Transaction							
Date	Assets	=	Liabilities	+	Contributed Capital	+	Retained Earnings

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

169. Meyerich-Sanders & Company

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

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

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

JOURNAL

<u>Date</u>	<u>Accounts</u>	<u>Debit</u>	<u>Credit</u>
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JOURNAL

<u>Date</u>	<u>Account Debit</u>	<u>Credit</u>
July 1	Cash 30,000 Note Payable 15,000 Common Stock 15,000	
July 5	Office Supplies 5,100 Accounts Payable 5,100	
July 12	Accounts Receivable 18,000 Service Revenue 18,000	
July 13	Cash 8,800 Service Revenue 8,800	
July 20	Accounts Payable 5,100 Cash 5,100	
July 22	Cash 15,000 Accounts Receivable 15,000	
July 30	Utilities Expense 640 Cash 640	
July 31	Salaries Expense 3,800 Cash 3,800	

170. Meyerich-Sanders & Company

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

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

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

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

171. Meyerich-Sanders & Company

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

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

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

Meyerich-Sanders & Company		
Trial Balance		
July 31, 2011		
Account	Debit	Credit
Cash	\$44,260	
Accounts Receivable	3,000	
Office Supplies	5,100	
Accounts Payable		\$ -0-
Notes Payable		15,000
Common Stock		15,000
Service Revenue		26,800
Utilities Expense	640	
Salaries Expense	3,800	
	<u>\$56,800</u>	<u>\$56,800</u>

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

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

173. Each of the situations in A through C below applies to one of the assumptions or principles included in the conceptual framework of accounting. Identify which assumption or principles applies and explain why that assumption or principle applies.

- A) Global Inc. is a U.S. company that has divisions in several countries around the world. Each country has a currency different than the U.S. dollar. Global must include the financial data of its worldwide divisions in its financial statements.
 - B) Cheetum & Howell operate a security business as a partnership. The partners are considering a change to the corporate form of business organization.
 - C) Yum Shops, Inc. is a locally owned and operated confectionary. The owners have decided to expand into nearby cities. Expansion will require more capital, but management does not expect it will stay in business for more than one year or so regardless of its expansion plans.
-
- A) The Monetary Unit Assumption. Financial statements must be reported in monetary terms, and the standard monetary unit should be denominated in one currency.
 - B) Economic Entity Assumption. A business can take three forms. Regardless of the form, however, the unit itself is distinct from its owners.
 - C) Continuity (Going Concern) Assumption. A business is assumed to continue to operate long enough to carry out its obligations, to more accurately reflect the valuation of assets and appropriately allocate costs to accounting periods.

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

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

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

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

Comparability allows comparisons to be made between or among companies.

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

175. What is the difference between comparability and consistency?

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

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

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

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

177. Several terms which represent components of an accounting system are listed below. For each term, write a brief explanation of how that component is used in the accounting cycle.

- A) Accounts
- B) Chart of Accounts
- C) Double-entry system with debits and credits
- D) Journal
- E) General Ledger
- F) Trial Balance

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

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

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

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

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

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

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

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