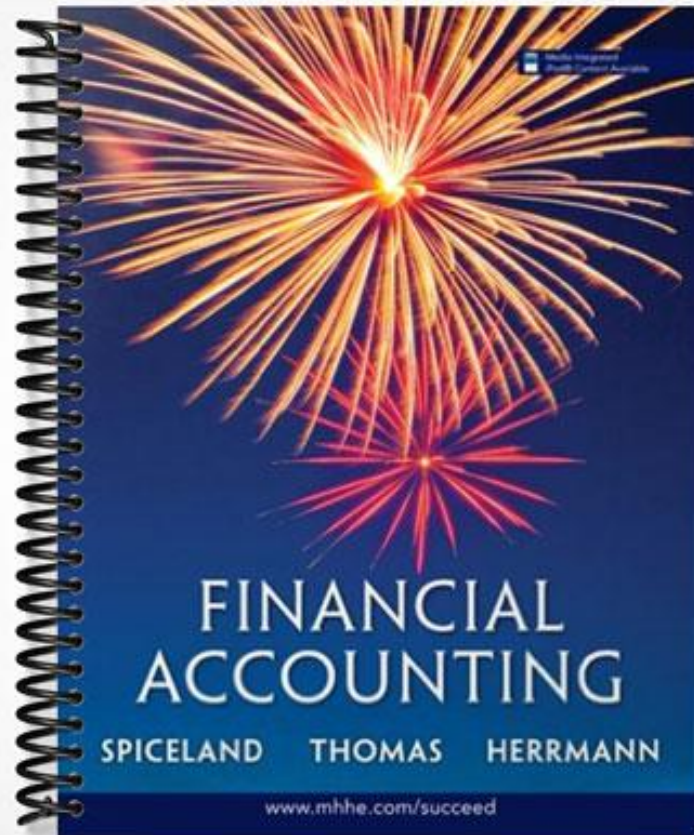


**TEST BANK**



## Chapter 002 The Accounting Information System

### True / False Questions

1. External transactions are transactions the firm conducts with a separate economic entity, such as selling products to a customer, purchasing supplies from a vendor, paying salaries to an employee, and borrowing money from a bank.

True False

2. Internal transactions are events that affect the financial position of the company but do not include an exchange with a separate economic entity. Examples are using supplies on hand and earning revenues after having received cash in advance from a customer.

True False

3. A list of all account names used to record transactions of a company is referred to as a T-account.

True False

4. After recording each transaction, total assets must equal total liabilities plus stockholders' equity.

True False

5. If a transaction causes total assets of the company to increase by \$2,000, then liabilities plus stockholders' equity also increases by \$2,000.

True False

6. If a transaction causes total assets of the company to increase by \$5,000 and total liabilities to increase by \$3,000, then stockholders' equity increases by \$8,000.

True False

7. Borrowing cash from the bank causes assets to increase and liabilities to increase.

True False

## Chapter 002 The Accounting Information System

8. Purchasing equipment using cash causes assets to increase.

True False

9. Providing services to customers for cash causes stockholders' equity to increase.

True False

10. Incurring employees' salaries but not paying them causes no change to stockholders' equity.

True False

11. Paying dividends to its stockholders causes a company's stockholders' equity to decrease.

True False

12. Selling common stock for cash causes assets to increase and stockholders' equity to decrease.

True False

13. Purchasing office supplies on account causes assets to increase and liabilities to increase.

True False

14. Providing services to customers on account causes assets to increase and stockholders' equity to increase.

True False

15. Receiving cash in advance from a customer for services to be provided in the future causes assets to increase and stockholders' equity to increase.

True False

## Chapter 002 The Accounting Information System

16. Paying for one year of rent in advance does not affect the accounting equation.  
True False
17. Purchasing supplies on account increases the balance of the accounts receivable account.  
True False
18. Amounts owed from customers are recorded in the accounts receivable account.  
True False
19. The two components of stockholders' equity are debits and credits.  
True False
20. Revenues have the effect of increasing retained earnings.  
True False
21. Expenses have the effect of decreasing retained earnings.  
True False
22. Receiving cash in advance from customers increases the service revenue account.  
True False
23. Unearned revenue is a liability account.  
True False
24. Liability accounts increase with a debit and decrease with a credit.  
True False

## Chapter 002 The Accounting Information System

25. Liability accounts increase with a credit and decrease with a debit.

True False

26. Common stock increases with a credit and decreases with a debit.

True False

27. Revenue accounts increase with a debit and decrease with a credit.

True False

28. Expense accounts increase with a debit and decrease with a credit.

True False

29. The dividends account increases with a credit and decreases with a debit.

True False

30. A debit to an account balance always results in the balance increasing.

True False

31. A credit to an account balance always results in the balance decreasing.

True False

32. A journal provides a chronological record of all transactions affecting a firm.

True False

33. For each transaction, there must be at least one debit amount and one credit amount.

True False

## Chapter 002 The Accounting Information System

34. For each transaction, the total debit amounts must equal the total credit amounts.

True False

35. Selling common stock for cash is recorded with a debit to common stock.

True False

36. Borrowing cash from the bank is recorded with a debit to cash.

True False

37. Purchasing office supplies is recorded with a credit to office supplies.

True False

38. Paying employees' salaries for the current period is recorded with a debit to salaries expense.

True False

39. Providing services to customers is recorded with a debit to service revenue.

True False

40. The general ledger includes all accounts used to record the company's transactions.

True False

41. The process of transferring the debit and credit information from the journal to individual accounts in the general ledger is called journalizing.

True False

## Chapter 002 The Accounting Information System

42. After we've posted transactions to the general ledger accounts, the sum of the accounts with debit balances should equal the sum of the accounts with credit balances.

True False

43. A trial balance is a list of all accounts and their balances at a particular date, showing that assets equal liabilities.

True False

44. If total debits equal total credits in the trial balance, then all balances are necessarily correct.

True False

### Multiple Choice Questions

45. Which of the following is not part of measuring external transactions?

- A. Using source documents to analyze accounts affected.
- B. Recording transactions.
- C. Making payments on all amounts owed.
- D. Analyzing transactions for their effect on the accounting equation.

46. External events include all of the following *except*:

- A. Paying employees' salaries.
- B. Purchasing equipment.
- C. Using office supplies.
- D. Collecting an account receivable.

## Chapter 002 The Accounting Information System

47. For each transaction recorded in an accounting system, the basic equation that must be maintained at all times is:

- A.  $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$ .
- B.  $\text{Cash Increases} = \text{Cash Decreases}$ .
- C.  $\text{Revenues} = \text{Expenses} + \text{Dividends}$ .
- D.  $\text{Assets} = \text{Liabilities}$ .

48. The following amounts are reported in the ledger of Mariah Company:

Assets	\$80,000
Liabilities	36,000
Retained Earnings	12,000

What is the balance in the common stock account?

- A. \$44,000.
- B. \$32,000.
- C. \$48,000.
- D. \$42,000.

49. When a company incurs workers' salaries but does not pay them, how will the basic accounting equation be affected?

- A. Stockholders' equity decreases.
- B. Revenues decrease.
- C. Expenses decrease.
- D. Liabilities decrease.

50. When cash payments are made to stockholders, what is the effect on the company's accounts?

- A. Cash decreases and dividends increase.
- B. Cash increases and dividends decrease.
- C. Cash decreases and common stock decreases.
- D. Cash increases and common stock increases.



## Chapter 002 The Accounting Information System

51. Which of the following is not an asset account?

- A. Office supplies.
- B. Accounts payable.
- C. Equipment.
- D. Accounts receivable.

52. An account receivable can best be defined as:

- A. A payment to the owners.
- B. A sale of goods and services.
- C. A resource owned by the company.
- D. An amount owed by the company.

53. Receiving assets from customers before services are performed results in:

- A. Prepaid assets.
- B. Service revenue.
- C. Unearned revenues.
- D. Accounts receivable.

54. When the company pays stockholders a dividend, what is the effect on the accounting equation for that company?

- A. Decrease stockholders' equity and increase assets.
- B. Increase liabilities and increase assets.
- C. Decrease assets and decrease liabilities.
- D. Decrease assets and decrease stockholders' equity.

55. Pumpkin Inc. sold \$500 in pumpkins to a customer on account on January 1. On January 11

Pumpkin collected the cash from that customer. What is the impact on Pumpkin's accounting equation from the collection of cash?

- A. No net effect to the accounting equation.
- B. Decrease assets and increase liabilities.
- C. Increase assets and increase liabilities.
- D. Decrease assets and decrease liabilities.

## Chapter 002 The Accounting Information System

56. A company receives a \$50,000 cash deposit from a customer on October 15 but will not provide services until November 20. Which of the following statements is true?

- A. The company records service revenue on October 15.
- B. The company records cash collection November 20.
- C. The company records an unearned revenue on October 15.
- D. The company records nothing on October 15.

57. Which of the following would increase assets and increase liabilities?

- A. Provide services to customers on account.
- B. Purchase office supplies on account.
- C. Pay dividends to stockholders.
- D. Received a utility bill but do not pay for it.

58. Receiving cash from an account receivable:

- A. Increases a revenue and decreases an asset.
- B. Decreases a liability and increases an asset.
- C. Increases an asset and increases a revenue.
- D. Increases one asset and decreases another asset.

59. An expense has what effect on the accounting equation?

- A. Decrease liabilities.
- B. Decrease stockholders' equity.
- C. Increase assets.
- D. No effect.

60. A revenue has what effect on the accounting equation?

- A. Increase liabilities.
- B. Decrease assets.
- C. Increase stockholders' equity.
- D. No effect.

## Chapter 002 The Accounting Information System

61. Investments by stockholders have what effect on the accounting equation?

- A. Assets increase and liabilities increase.
- B. Expenses increase and liabilities increase.
- C. Assets increase and revenues increase.
- D. Assets increase and stockholders' equity increases.

62. Which of the following is not possible when recording a transaction?

- A. Liabilities increase and assets decrease.
- B. Stockholders' equity increases and assets increase.
- C. One asset increases and another asset decreases.
- D. Stockholders' equity decreases and assets decrease.

63. Amounts owed to suppliers for supplies purchased on account are defined as:

- A. Cash.
- B. Accounts receivable.
- C. Accounts payable.
- D. Supplies expense.

64. Purchasing office supplies on account will:

- A. Not change assets.
- B. Increase assets and decrease liabilities.
- C. Increase assets and increase liabilities.
- D. Increase assets and increase stockholders' equity.

65. Providing services and receiving cash will:

- A. Increase assets and increase stockholders' equity.
- B. Increase assets and increase liabilities.
- C. Decrease assets and increase liabilities.
- D. Decrease liabilities and increase stockholders' equity.

## Chapter 002 The Accounting Information System

66. When a company provides services on account, the accounting equation would be affected as follows:

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

67. If a company provides services on account, which of the following is true?

- A. Expenses increase.
- B. Liabilities increase.
- C. Stockholders' equity increases.
- D. Assets decrease.

68. When a payment is made on an account payable:

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

69. Purchasing office equipment on account has what impact on the accounting equation?

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

70. Purchasing supplies for cash has what effect on the accounting equation?

- A. Increase assets.
- B. Decrease stockholders' equity.
- C. Decrease liabilities.
- D. No effect.

## Chapter 002 The Accounting Information System

71. The unearned revenue account is shown in which statement?
- A. Income statement.
  - B. Statement of cash flows.
  - C. Balance sheet.
  - D. Statement of stockholders' equity.
72. On January 1 Brad Inc. sold \$30,000 in products to a customer on account. Then, on January 10, Brad collected the cash on that account. What is the impact on Brad's accounting equation from the collection of cash on January 10?
- A. No net effect to the accounting equation.
  - B. Assets increase and liabilities decrease.
  - C. Assets decrease and liabilities decrease.
  - D. Assets increase and stockholders' equity increases.
73. Which of the accounts are decreased on the debit side and increased on the credit side?
- A. Liabilities, stockholders' equity, and revenues.
  - B. Dividends, liabilities, and assets.
  - C. Expenses, dividends, and stockholders' equity.
  - D. Assets, dividends, and expenses.
74. Which of the following is true about a "debit"?
- I. It is part of the double-entry procedure that keeps the accounting equation in balance.
  - II. It represents an increase to assets.
  - III. It represents a decrease to liabilities.
  - IV. It is on the right side of a T-account.
- A. I and II.
  - B. IV only.
  - C. I, II, and III.
  - D. I, II, III, and IV.

## Chapter 002 The Accounting Information System

75. Which of the following is true about a "credit"?
- I. It is part of the double-entry procedure that keeps the accounting equation in balance.
  - II. It represents a decrease to assets.
  - III. It represents an increase to liabilities.
  - IV. It is on the right side of a T-account.
- A. I and II.
  - B. IV only.
  - C. I, II, and III.
  - D. I, II, III, and IV.
76. Dividends normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.
- A. Debit; Statement of stockholders' equity.
  - B. Debit; Income statement.
  - C. Credit; Balance sheet.
  - D. Debit; Balance Sheet.
77. Expenses normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.
- A. Debit; Statement of stockholders' equity.
  - B. Debit; Income statement.
  - C. Credit; Balance sheet.
  - D. Debit; Balance Sheet.
78. Liabilities normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.
- A. Debit; Statement of stockholders' equity.
  - B. Debit; Income statement.
  - C. Credit; Balance sheet.
  - D. Debit; Balance Sheet.
79. Which of the following accounts has a debit balance?
- A. Accounts payable.
  - B. Unearned revenue.
  - C. Service revenue.
  - D. Salaries expense.

## Chapter 002 The Accounting Information System

80. Which of the following accounts would normally have a credit balance?

- A. Accounts payable, service revenue, common stock.
- B. Salaries payable, unearned revenue, telephone expense.
- C. Income taxes payable, service revenue, dividends.
- D. Cash, maintenance expense, dividends.

81. Which of the following accounts would normally have a debit balance?

- A. Accounts payable, service revenue, common stock.
- B. Salaries payable, unearned revenue, telephone expense.
- C. Income taxes payable, service revenue, dividends.
- D. Cash, maintenance expense, dividends.

82. Which of the following accounts would normally have a debit balance and appear in the balance sheet?

- A. Accounts receivable.
- B. Unearned revenue.
- C. Salary expense.
- D. Dividends.

83. Which of the following accounts has a credit balance?

- A. Salaries expense
- B. Income taxes payable.
- C. Land.
- D. Prepaid rent.

## Chapter 002 The Accounting Information System

84. The following statements pertain to recording transactions. Which of them are true?

- I. Total debits should equal total credits.
  - II. It is possible to have multiple debits or credits in one journal entry.
  - III. Assets are always listed first in journal entries.
  - IV. Some journal entries will have debits only.
- A. I only.
  - B. I and II.
  - C. I, II, and IV.
  - D. II, III, and IV.
  - E. All comments are true.

85. Which of the following is not a possible journal entry?

- A. Credit assets; Debit expenses.
- B. Debit assets; Debit owners' equity.
- C. Credit revenues; Debit assets.
- D. Debit expenses; Credit liabilities.

86. Which of the accounts are increased with a debit and decreased with a credit?

- A. Liabilities, stockholders' equity, and revenues.
- B. Dividends, liabilities, and assets.
- C. Expenses, dividends, and stockholders' equity.
- D. Assets, dividends, and expenses.

87. A sale on account would be recorded with a:

- A. Debit to revenues.
- B. Credit to assets.
- C. Credit to liabilities.
- D. Debit to assets.



## Chapter 002 The Accounting Information System

88. Xenon Corporation borrows \$75,000 from First Bank. Xenon Corporation records this transaction with a:

- A. Debit to investments.
- B. Credit to retained earnings.
- C. Credit to liabilities.
- D. Credit to expenses.

89. Childers Service Company provides services to customers totaling \$3,000, for which it billed the customers. How would the transaction be recorded?

- A. Debit cash \$3,000, credit service revenue \$3,000.
- B. Debit accounts receivable \$3,000, credit service revenue \$3,000.
- C. Debit accounts receivable \$3,000, credit cash \$3,000.
- D. Debit service revenue \$3,000, credit accounts receivable \$3,000.

90. A company received a bill for newspaper advertising services received, \$400. The bill will be paid in 10 days. How would the transaction be recorded today?

- A. Debit advertising expense \$400, credit accounts payable \$400.
- B. Debit accounts payable \$400, credit advertising expense \$400.
- C. Debit accounts payable \$400, credit cash \$400.
- D. Debit advertising expense \$400, credit cash \$400.

91. When a company pays utilities of \$1,800 in cash, the transaction is recorded as:

- A. Debit utilities expense \$1,800, credit utilities payable \$1,800.
- B. Debit utilities payable \$1,800, credit cash \$1,800.
- C. Debit cash \$1,800, credit utilities expense \$1,800.
- D. Debit utilities expense \$1,800, credit cash \$1,800.

92. Assume that cash is paid for rent to cover the next year. The appropriate debit and credit are:

- A. Debit rent expense, credit cash.
- B. Debit prepaid rent, credit rent expense.
- C. Debit prepaid rent, credit cash.
- D. Debit cash, credit prepaid rent.

## Chapter 002 The Accounting Information System

93. Summer Leasing received \$12,000 for 24 months rent in advance. How should Summer record this transaction?

- |    |                  |        |        |
|----|------------------|--------|--------|
|    | Prepaid Rent     | 12,000 |        |
| A. | Rent expense     |        | 12,000 |
|    | Cash             | 12,000 |        |
| B. | Unearned revenue |        | 12,000 |
|    | Cash             | 12,000 |        |
| C. | Rent revenue     |        | 12,000 |
|    | Rent expense     | 12,000 |        |
| D. | Cash             |        | 12,000 |

94. Styleson Inc. performed cleaning services for their customers for cash. These transactions would be recorded as:

- A. Debit service revenue, credit cash.
- B. Debit cash, credit service revenue.
- C. Debit cash, credit accounts receivable.
- D. Debit accounts receivable, credit service revenue.

95. Assume that \$18,000 cash is paid for insurance to cover the next year. The appropriate debit and credit are:

- A. Debit insurance expense \$18,000, credit prepaid insurance \$18,000.
- B. Debit prepaid insurance \$18,000, credit insurance expense \$18,000.
- C. Debit prepaid insurance \$18,000, credit cash \$18,000.
- D. Debit cash \$18,000, credit prepaid insurance \$18,000.

96. Schooner Inc. purchased a wagon by signing a note payable. This transaction would be recorded as:

- A. Debit wagon, credit cash.
- B. Debit cash, credit notes payable.
- C. Debit notes payable, credit wagon.
- D. Debit wagon, credit notes payable.

## Chapter 002 The Accounting Information System

97. When a company pays \$2,500 dividends to its stockholders, the transaction should be recorded as:

- |    |                   |       |  |
|----|-------------------|-------|--|
|    | Cash              | 2,500 |  |
| A. | Dividends         | 2,500 |  |
|    | Retained Earnings | 2,500 |  |
| B. | Dividends         | 2,500 |  |
|    | Dividends         | 2,500 |  |
| C. | Cash              | 2,500 |  |
|    | Dividends         | 2,500 |  |
| D. | Accounts Payable  | 2,500 |  |

98. Daniel Dino Restaurants owes workers' salaries of \$15,000. This would be recorded as:

- A. Debit salaries expense, credit cash.
- B. Debit salaries payable, credit cash.
- C. Debit salaries expense, credit salaries payable.
- D. Debit salaries payable, credit wages expense.

99. Jerome purchased a building for his business by signing a note to pay the amount due over the next ten years. Which of the following correctly describes how to record this transaction?

- A. Debit assets, credit liabilities.
- B. Debit assets, credit stockholders' equity.
- C. Debit liabilities, credit assets.
- D. Debit expenses, credit liabilities.

100. Incurring an expense for advertising on account would be recorded by:

- A. Debiting liabilities.
- B. Crediting assets.
- C. Debiting an expense.
- D. Debiting assets.

## Chapter 002 The Accounting Information System

101. Tyler Incorporated receives \$150,000 from investors for issuing them shares of its common stock. Tyler Incorporated records this transaction with a:

- A. Debit to investments.
- B. Credit to retained earnings.
- C. Credit to common stock.
- D. Credit to revenue.

102. The owner of an office building should report rent collected in advance as a debit to cash and a credit to:

- A. A liability.
- B. An asset other than cash.
- C. A revenue.
- D. An owners' equity.

103. Clement Company paid an account payable related to a previous utility bill of \$1,000. This transaction should be recorded as follows on the payment date:

- A. Debit accounts payable \$1,000, credit cash \$1,000.
- B. Debit cash \$1,000, credit accounts payable \$1,000.
- C. Debit utilities expense \$1,000, credit cash \$1,000.
- D. Debit cash \$1,000, credit utilities expense \$1,000.

104. On July 7, 2010, Saints Inc. received \$10,000 in cash from a customer for services to be provided on October 10, 2010. Which of the following describes how the transaction should be recorded on July 7, 2010?

- A. Debit cash \$10,000, credit service revenue \$10,000.
- B. Debit accounts receivable \$10,000, credit service revenue \$10,000.
- C. Debit cash \$10,000, credit unearned revenue \$10,000.
- D. Debit unearned revenue \$10,000, credit cash \$10,000.

## Chapter 002 The Accounting Information System

105. On December 1, 2010, Bears Inc. signed a contract with a retailer to supply stuffed animal toys for the next calendar year. How should this transaction be recorded on December 1, 2010?

- A. Debit cash, credit sales revenue.
- B. Debit cash, credit accounts receivable.
- C. Debit accounts receivable, credit sales revenue.
- D. No transaction should be recorded on December 1, 2010.

106. The accounts payable account has a beginning balance of \$12,000 and the company purchased \$50,000 of supplies on account during the month. The ending balance was \$10,000. How much did the company pay to creditors during the month?

- A. \$50,000.
- B. \$52,000.
- C. \$60,000.
- D. \$62,000.

107. On March 3, Cobra Inc. purchased a desk for \$450 on account. On March 22, Cobra purchased another desk for \$500 also on account, and then on March 24, Cobra paid \$400 on account. At the end of March, what amount should Cobra report for desks (assuming these two desks were the only desks they had)?

- A. \$50.
- B. \$450.
- C. \$500.
- D. \$950.

## Chapter 002 The Accounting Information System

### Essay Questions

108. Below are the steps in the measurement process of external transactions. Arrange them from first (1) to last (6).

- \_\_\_\_\_ (a) Post the transaction to the T-accounts in the general ledger.
- \_\_\_\_\_ (b) Assess whether the impact of the transaction results in a debit or credit to the account balance.
- \_\_\_\_\_ (c) Use source documents to identify accounts affected by external transactions.
- \_\_\_\_\_ (d) Analyze the impact of the transaction on the accounting equation.
- \_\_\_\_\_ (e) Prepare a trial balance.
- \_\_\_\_\_ (f) Record transactions using debits and credits.

109. A company received a utility bill of \$600 but did not pay it. Indicate the amount of increases and decreases in the accounting equation.

110. A company purchases supplies on account for \$1,700. Indicate the amount of increases and decreases in the accounting equation.

## Chapter 002 The Accounting Information System

111. A company provides services to customers on account for \$2,400. Indicate the amount of increases and decreases in the accounting equation.

112. A company pays \$800 dividends to stockholders. Indicate the amount of increases and decreases in the accounting equation.

113. A company pays \$1,300 on account for supplies previously purchased on account. Indicate the amount of increases and decreases in the accounting equation.

## Chapter 002 The Accounting Information System

114. The following transactions occur for the Hamilton Manufacturers.

- (a) Provide services to customers on account for \$4,500.
- (b) Purchase equipment by signing a note with the bank for \$10,000.
- (c) Pay advertising of \$1,500 for the current month.

Analyze each transaction and indicate the amount of increases and decreases in the accounting equation.

115. Using the notion that the accounting equation (Assets = Liabilities + Stockholders' Equity) must remain in balance, indicate whether each of the following transactions is possible.

- (a) Cash decreases; Accounts Payable decreases.
- (b) Salaries expense increases; Salaries Payable decreases.
- (c) Accounts receivable decreases; Service revenue increases.



## Chapter 002 The Accounting Information System

116. Suppose a company has the following balance sheet accounts:

<b>Accounts</b>	<b>Balances</b>
Land	\$ 9,000
Building	?
Salaries payable	3,700
Common stock	?
Accounts payable	2,600
Cash	5,300
Retained earnings	11,600
Supplies	3,200
Machinery	4,500

Calculate the missing amounts assuming the company has total assets of \$40,000.

117. For each of the following accounts, indicate whether a debit or credit is used to increase (+) or decrease (–) the balance of the account.

<b>Account</b>	<b>Debit</b>	<b>Credit</b>
(a) Common Stock		
(b) Liability		
(c) Asset		
(d) Revenue		
(e) Dividend		
(f) Retained Earnings		
(g) Expense		

## Chapter 002 The Accounting Information System

118. For each of the following accounts, indicate whether we use a debit or a credit to increase the balance of the account.

- (a) Accounts receivable
- (b) Accounts payable
- (c) Salaries expense
- (d) Service revenue
- (e) Office supplies
- (f) Common stock
- (g) Advertising expense
- (h) Dividends

119. For each of the following accounts, indicate whether we use a debit or a credit to decrease the balance of the account.

- (a) Accounts receivable
- (b) Accounts payable
- (c) Salaries expense
- (d) Service revenue
- (e) Office supplies
- (f) Common stock
- (g) Advertising expense
- (h) Dividends

## **Chapter 002 The Accounting Information System**

120. A company sells common stock for \$20,000 cash. Record the transaction.

121. A company purchases a building for \$100,000, paying \$20,000 cash and signing a note payable for the remainder. Record the transaction.

122. A company purchases machinery for \$15,000 cash. Record the transaction.

123. A company purchases office supplies on account for \$7,500. Record the transaction.

## Chapter 002 The Accounting Information System

124. A company provides services to customers on account, \$3,500. Record the transaction.

125. A company provides services to customers for \$2,400 cash. Record the transaction.

126. A company incurs employee salaries of \$4,200 but does not pay them. Record the transaction.

127. A company pays \$2,000 dividends to its stockholders. Record the transaction.

## Chapter 002 The Accounting Information System

128. A company collects \$4,000 cash from customers for services previously provided on account. Record the transaction.

129. A company receives \$6,500 cash in advance from customers for services to be provided next year. Record the transaction.

130. A company pays \$5,400 for maintenance in the current period. Record the transaction.

131. A company pays \$12,000 to purchase a one-year insurance policy. Record the transaction.

## Chapter 002 The Accounting Information System

132. Record the following transactions for Acme Builders:

- (a) Purchase office supplies on account, \$1,200.
- (b) Provide services to customers for cash, \$2,500.
- (c) Pay \$1,100 in salaries for the current month.

133. Record the following transactions for the Stroud Music Store:

- (a) Provide music lessons to students for \$12,000 on account.
- (b) Purchase music supplies on account, \$1,500.
- (c) Pay rent for the current month, \$2,000.
- (d) Receive \$10,000 cash from students in (a) above.

134. Rite Shoes was involved in the transactions described below. Record each transaction. If an entry is not required, state "No Entry."

- (a) Purchased \$8,200 of supplies on account.
- (b) Paid weekly salaries, \$920.
- (c) Provide services to customers: Cash: \$7,100; On account: \$5,300.
- (d) Paid for supplies purchased in (a) above.
- (e) Placed an order for \$6,200 of supplies.

## Chapter 002 The Accounting Information System

135. Record the following transactions. If an entry is not required, state "No Entry."
- (a) Started business by issuing 10,000 shares of common stock for \$20,000.
  - (b) Hire Rebecca as an administrative assistant, promising to pay her \$2,000 every two week.
  - (c) Rented a building for three years at \$500 per month and paid six months' rent in advance.
  - (d) Purchased equipment for \$5,400 cash.
  - (e) Purchased \$1,800 of supplies on account.
  - (f) Provided services to customers for \$7,800 cash.
  - (g) Paid employee salaries, \$5,200.
  - (h) Paid for supplies purchased in item (e).
  - (i) Paid \$800 for current advertising in a local newspaper.
  - (j) Paid utility bill of \$1,300 for the current month.

136. Consider the following T-account for accounts payable.

<b>Accounts Payable</b>	
8,800	10,200
	4,500

1. Compute the balance of the accounts payable account.
2. Give an example of a transaction that would have resulted in the \$8,800 posting to the account.
3. Give an example of a transaction that would have resulted in the \$4,500 posting to the account.

## Chapter 002 The Accounting Information System

137. Consider the following transactions for Mittel Corporation:

- a. Sell common stock for \$10,000.
- b. Purchase equipment for \$11,500 cash
- c. Pay employee salaries of \$3,700.
- e. Provides services to customers for \$6,200 cash.

1. Post these transaction to the cash T-account. Assume the balance of cash before these transaction is \$4,200.

2. Calculate the ending balance of cash.

138. Use the following information to prepare a trial balance.

Cash	\$6,200	Dividends	\$ 1,200
Unearned revenue	1,200	Salaries expense	2,200
Prepaid insurance	1,200	Accounts receivable	3,400
Accounts payable	1,900	Common stock	6,200
Retained earnings	1,600	Service revenue	7,100
Utilities expense	3,000	Maintenance expense	800

139. Describe the difference between external events and internal events and give two examples of each.



## Chapter 002 The Accounting Information System

140. Describe the six steps in the measurement process of external transactions.

141. Explain what it means that external transactions have a dual effect.

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

**Terms:**

- a. Assets
- b. Debit
- c. Journal entry
- d. Liabilities
- e. Revenues
- f. Expenses
- g. Credit
- h. General ledger
- i. Trial balance
- j. Dividends

## Chapter 002 The Accounting Information System

142. \_\_\_\_ Refers to the right side of an account.
143. \_\_\_\_ Convention used to record transactions of a company.
144. \_\_\_\_ Resources earned by providing goods and services to customers.
145. \_\_\_\_ Resources owned by a company.
146. \_\_\_\_ List of all accounts and their balances after external transactions are recorded.

## Chapter 002 The Accounting Information System

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

**Terms:**

- a. Assets
- b. Debit
- c. Journal entry
- d. Liabilities
- e. Revenues
- f. Expenses
- g. Credit
- h. General ledger
- i. Trial balance
- j. Dividends

147. \_\_\_\_ Asset and expense accounts normally have this type of balance.

148. \_\_\_\_ Contains all the accounts of a company.

## Chapter 002 The Accounting Information System

149. \_\_\_\_ Costs to generate revenues.

150. \_\_\_\_ Resources owed by a company.

151. \_\_\_\_ Payments to stockholders.

**True / False Questions**

1. External transactions are transactions the firm conducts with a separate economic entity, such as selling products to a customer, purchasing supplies from a vendor, paying salaries to an employee, and borrowing money from a bank.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 1*

2. Internal transactions are events that affect the financial position of the company but do not include an exchange with a separate economic entity. Examples are using supplies on hand and earning revenues after having received cash in advance from a customer.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 1*

3. A list of all account names used to record transactions of a company is referred to as a T-account.

**FALSE**

This is referred to as a chart of accounts

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 1*

## Chapter 002 The Accounting Information System **Key**

4. After recording each transaction, total assets must equal total liabilities plus stockholders' equity.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 2*

5. If a transaction causes total assets of the company to increase by \$2,000, then liabilities plus stockholders' equity also increases by \$2,000.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 2*

6. If a transaction causes total assets of the company to increase by \$5,000 and total liabilities to increase by \$3,000, then stockholders' equity increases by \$8,000.

**FALSE**

Assets (\$5,000) = Liabilities (\$3,000) + Stockholders' Equity (\$2,000).

*AACSB: Analytical*  
*AICPA: Measurement*  
*Bloom's: Analysis*  
*Difficulty: Medium*  
*Learning Objective: 2*

7. Borrowing cash from the bank causes assets to increase and liabilities to increase.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 2*

## Chapter 002 The Accounting Information System **Key**

8. Purchasing equipment using cash causes assets to increase.

**FALSE**

There is no change to total assets.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 2*

9. Providing services to customers for cash causes stockholders' equity to increase.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 2*

10. Incurring employees' salaries but not paying them causes no change to stockholders' equity.

**FALSE**

The salaries expense would reduce stockholders' equity.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 2*

11. Paying dividends to its stockholders causes a company's stockholders' equity to decrease.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 2*

## Chapter 002 The Accounting Information System **Key**

12. Selling common stock for cash causes assets to increase and stockholders' equity to decrease.

**FALSE**

Stockholders' equity increases.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 2*

13. Purchasing office supplies on account causes assets to increase and liabilities to increase.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 2*

14. Providing services to customers on account causes assets to increase and stockholders' equity to increase.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 2*



## Chapter 002 The Accounting Information System **Key**

15. Receiving cash in advance from a customer for services to be provided in the future causes assets to increase and stockholders' equity to increase.

**FALSE**

Assets increase and liabilities increase.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 2*

16. Paying for one year of rent in advance does not affect the accounting equation.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 2*

17. Purchasing supplies on account increases the balance of the accounts receivable account.

**FALSE**

The balance of accounts payable increases.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 2*

18. Amounts owed from customers are recorded in the accounts receivable account.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA: Critical Thinking*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 2*

## Chapter 002 The Accounting Information System **Key**

19. The two components of stockholders' equity are debits and credits.

**FALSE**

The two components of stockholders' equity are common stock and retained earnings.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 2*

20. Revenues have the effect of increasing retained earnings.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 2*

21. Expenses have the effect of decreasing retained earnings.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 2*

22. Receiving cash in advance from customers increases the service revenue account.

**FALSE**

Receiving cash in advance from customers increases the unearned revenue account.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 2*

23. Unearned revenue is a liability account.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA: Critical Thinking*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 2*

24. Liability accounts increase with a debit and decrease with a credit.

**FALSE**

Liability accounts increase with a credit and decrease with a debit.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 3*

25. Liability accounts increase with a credit and decrease with a debit.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 3*

26. Common stock increases with a credit and decreases with a debit.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 3*

27. Revenue accounts increase with a debit and decrease with a credit.

**FALSE**

Revenue accounts increase with a credit and decrease with a debit.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 3*

28. Expense accounts increase with a debit and decrease with a credit.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 3*

29. The dividends account increases with a credit and decreases with a debit.

**FALSE**

The dividends account increases with a debit and decreases with a credit.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 3*

30. A debit to an account balance always results in the balance increasing.

**FALSE**

A debit increases assets and dividends, but decreases liabilities, stockholders' equity, and revenues.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 3*

31. A credit to an account balance always results in the balance decreasing.

**FALSE**

A credit decreases assets and dividends, but increases liabilities, stockholders' equity, and revenues.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 3*

32. A journal provides a chronological record of all transactions affecting a firm.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA: Critical Thinking*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 4*

33. For each transaction, there must be at least one debit amount and one credit amount.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 4*

## Chapter 002 The Accounting Information System **Key**

34. For each transaction, the total debit amounts must equal the total credit amounts.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 4*

35. Selling common stock for cash is recorded with a debit to common stock.

**FALSE**

Selling common stock for cash is recorded with a credit to common stock.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 4*

36. Borrowing cash from the bank is recorded with a debit to cash.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 4*

37. Purchasing office supplies is recorded with a credit to office supplies.

**FALSE**

Purchasing office supplies is recorded with a debit to office supplies.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 4*

38. Paying employees' salaries for the current period is recorded with a debit to salaries expense.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 4*

39. Providing services to customers is recorded with a debit to service revenue.

**FALSE**

Providing services to customers is recorded with a credit to service revenue.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 4*

40. The general ledger includes all accounts used to record the company's transactions.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA: Critical Thinking*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 5*

41. The process of transferring the debit and credit information from the journal to individual accounts in the general ledger is called journalizing.

**FALSE**

The process is called posting.

*AACSB: Reflective Thinking*  
*AICPA: Critical Thinking*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 5*

## Chapter 002 The Accounting Information System **Key**

42. After we've posted transactions to the general ledger accounts, the sum of the accounts with debit balances should equal the sum of the accounts with credit balances.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA: Critical Thinking*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 6*

43. A trial balance is a list of all accounts and their balances at a particular date, showing that assets equal liabilities.

**FALSE**

The trial balance shows that total debits equal total credits.

*AACSB: Reflective Thinking*  
*AICPA: Critical Thinking*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 6*

44. If total debits equal total credits in the trial balance, then all balances are necessarily correct.

**FALSE**

A trial balance could contain offsetting errors where the balance of one account is misstated in one direction but the balance of another account (with the same type of debit or credit balance) is misstated in the other direction.

*AACSB: Reflective Thinking*  
*AICPA: Critical Thinking*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 6*



### Multiple Choice Questions

45. Which of the following is not part of measuring external transactions?

- A. Using source documents to analyze accounts affected.
- B. Recording transactions.
- C. Making payments on all amounts owed.**
- D. Analyzing transactions for their effect on the accounting equation.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 1*

46. External events include all of the following *except*:

- A. Paying employees' salaries.
- B. Purchasing equipment.
- C. Using office supplies.**
- D. Collecting an account receivable.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 1*

47. For each transaction recorded in an accounting system, the basic equation that must be maintained at all times is:

- A. Assets = Liabilities + Stockholders' Equity.**
- B. Cash Increases = Cash Decreases.
- C. Revenues = Expenses + Dividends.
- D. Assets = Liabilities.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 2*

## Chapter 002 The Accounting Information System **Key**

48. The following amounts are reported in the ledger of Mariah Company:

Assets	\$80,000
Liabilities	36,000
Retained Earnings	12,000

What is the balance in the common stock account?

- A. \$44,000.
- B.** \$32,000.
- C. \$48,000.
- D. \$42,000.

*AACSB: Analytical*  
*AICPA: Critical Thinking*  
*Bloom's: Analysis*  
*Difficulty: Hard*  
*Learning Objective: 2*

49. When a company incurs workers' salaries but does not pay them, how will the basic accounting equation be affected?

- A.** Stockholders' equity decreases.
- B. Revenues decrease.
- C. Expenses decrease.
- D. Liabilities decrease.

*AACSB: Reflective Thinking*  
*AICPA: Critical Thinking*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 2*

## Chapter 002 The Accounting Information System **Key**

50. When cash payments are made to stockholders, what is the effect on the company's accounts?

- A.** Cash decreases and dividends increase.
- B. Cash increases and dividends decrease.
- C. Cash decreases and common stock decreases.
- D. Cash increases and common stock increases.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 2*

51. Which of the following is not an asset account?

- A. Office supplies.
- B.** Accounts payable.
- C. Equipment.
- D. Accounts receivable.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 2*

52. An account receivable can best be defined as:

- A. A payment to the owners.
- B. A sale of goods and services.
- C.** A resource owned by the company.
- D. An amount owed by the company.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 2*

## Chapter 002 The Accounting Information System **Key**

53. Receiving assets from customers before services are performed results in:

- A. Prepaid assets.
- B. Service revenue.
- C. Unearned revenues.**
- D. Accounts receivable.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 2*

54. When the company pays stockholders a dividend, what is the effect on the accounting equation for that company?

- A. Decrease stockholders' equity and increase assets.
- B. Increase liabilities and increase assets.
- C. Decrease assets and decrease liabilities.
- D. Decrease assets and decrease stockholders' equity.**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 2*

55. Pumpkin Inc. sold \$500 in pumpkins to a customer on account on January 1. On January 11

Pumpkin collected the cash from that customer. What is the impact on Pumpkin's accounting equation from the collection of cash?

- A. No net effect to the accounting equation.**
- B. Decrease assets and increase liabilities.
- C. Increase assets and increase liabilities.
- D. Decrease assets and decrease liabilities.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Hard*

*Learning Objective: 2*

## Chapter 002 The Accounting Information System **Key**

56. A company receives a \$50,000 cash deposit from a customer on October 15 but will not provide services until November 20. Which of the following statements is true?

- A. The company records service revenue on October 15.
- B. The company records cash collection November 20.
- C.** The company records an unearned revenue on October 15.
- D. The company records nothing on October 15.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Hard*  
*Learning Objective: 2*

57. Which of the following would increase assets and increase liabilities?

- A. Provide services to customers on account.
- B.** Purchase office supplies on account.
- C. Pay dividends to stockholders.
- D. Received a utility bill but do not pay for it.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 2*

58. Receiving cash from an account receivable:

- A. Increases a revenue and decreases an asset.
- B. Decreases a liability and increases an asset.
- C. Increases an asset and increases a revenue.
- D.** Increases one asset and decreases another asset.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 2*

59. An expense has what effect on the accounting equation?

- A. Decrease liabilities.
- B.** Decrease stockholders' equity.
- C. Increase assets.
- D. No effect.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 2*

60. A revenue has what effect on the accounting equation?

- A. Increase liabilities.
- B. Decrease assets.
- C.** Increase stockholders' equity.
- D. No effect.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 2*

61. Investments by stockholders have what effect on the accounting equation?

- A. Assets increase and liabilities increase.
- B. Expenses increase and liabilities increase.
- C. Assets increase and revenues increase.
- D.** Assets increase and stockholders' equity increases.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 2*

62. Which of the following is not possible when recording a transaction?

- A.** Liabilities increase and assets decrease.
- B. Stockholders' equity increases and assets increase.
- C. One asset increases and another asset decreases.
- D. Stockholders' equity decreases and assets decrease.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 2*

63. Amounts owed to suppliers for supplies purchased on account are defined as:

- A. Cash.
- B. Accounts receivable.
- C.** Accounts payable.
- D. Supplies expense.

*AACSB: Reflective Thinking*  
*AICPA: Critical Thinking*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 2*

64. Purchasing office supplies on account will:

- A. Not change assets.
- B. Increase assets and decrease liabilities.
- C.** Increase assets and increase liabilities.
- D. Increase assets and increase stockholders' equity.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 2*

65. Providing services and receiving cash will:
- A.** Increase assets and increase stockholders' equity.
  - B. Increase assets and increase liabilities.
  - C. Decrease assets and increase liabilities.
  - D. Decrease liabilities and increase stockholders' equity.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 2*

66. When a company provides services on account, the accounting equation would be affected as follows:
- A. Assets increase.
  - B. Revenues increase.
  - C. Assets increase and liabilities decrease.
  - D.** Assets increase and stockholders' equity increases.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Hard*  
*Learning Objective: 2*

67. If a company provides services on account, which of the following is true?
- A. Expenses increase.
  - B. Liabilities increase.
  - C.** Stockholders' equity increases.
  - D. Assets decrease.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 2*



## Chapter 002 The Accounting Information System **Key**

68. When a payment is made on an account payable:

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

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 2*

69. Purchasing office equipment on account has what impact on the accounting equation?

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

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 2*

70. Purchasing supplies for cash has what effect on the accounting equation?

- A. Increase assets.
- B. Decrease stockholders' equity.
- C. Decrease liabilities.
- D. No effect.**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Hard*

*Learning Objective: 2*

## Chapter 002 The Accounting Information System **Key**

71. The unearned revenue account is shown in which statement?

- A. Income statement.
- B. Statement of cash flows.
- C. Balance sheet.**
- D. Statement of stockholders' equity.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 2*

72. On January 1 Brad Inc. sold \$30,000 in products to a customer on account. Then, on January 10, Brad collected the cash on that account. What is the impact on Brad's accounting equation from the collection of cash on January 10?

- A. No net effect to the accounting equation.**
- B. Assets increase and liabilities decrease.
- C. Assets decrease and liabilities decrease.
- D. Assets increase and stockholders' equity increases.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Hard*

*Learning Objective: 2*

73. Which of the accounts are decreased on the debit side and increased on the credit side?

- A. Liabilities, stockholders' equity, and revenues.**
- B. Dividends, liabilities, and assets.
- C. Expenses, dividends, and stockholders' equity.
- D. Assets, dividends, and expenses.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 3*

## Chapter 002 The Accounting Information System **Key**

74. Which of the following is true about a "debit"?

- I. It is part of the double-entry procedure that keeps the accounting equation in balance.
  - II. It represents an increase to assets.
  - III. It represents a decrease to liabilities.
  - IV. It is on the right side of a T-account.
- A. I and II.  
B. IV only.  
**C. I, II, and III.**  
D. I, II, III, and IV.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 3*

75. Which of the following is true about a "credit"?

- I. It is part of the double-entry procedure that keeps the accounting equation in balance.
  - II. It represents a decrease to assets.
  - III. It represents an increase to liabilities.
  - IV. It is on the right side of a T-account.
- A. I and II.  
B. IV only.  
C. I, II, and III.  
**D. I, II, III, and IV.**

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 3*

## Chapter 002 The Accounting Information System **Key**

76. Dividends normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.

- A.** Debit; Statement of stockholders' equity.
- B. Debit; Income statement.
- C. Credit; Balance sheet.
- D. Debit; Balance Sheet.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 3*

77. Expenses normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.

- A. Debit; Statement of stockholders' equity.
- B.** Debit; Income statement.
- C. Credit; Balance sheet.
- D. Debit; Balance Sheet.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 3*

78. Liabilities normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.

- A. Debit; Statement of stockholders' equity.
- B. Debit; Income statement.
- C.** Credit; Balance sheet.
- D. Debit; Balance Sheet.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 3*

## Chapter 002 The Accounting Information System **Key**

79. Which of the following accounts has a debit balance?

- A. Accounts payable.
- B. Unearned revenue.
- C. Service revenue.
- D. Salaries expense.**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 3*

80. Which of the following accounts would normally have a credit balance?

- A. Accounts payable, service revenue, common stock.**
- B. Salaries payable, unearned revenue, telephone expense.
- C. Income taxes payable, service revenue, dividends.
- D. Cash, maintenance expense, dividends.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 3*

81. Which of the following accounts would normally have a debit balance?

- A. Accounts payable, service revenue, common stock.
- B. Salaries payable, unearned revenue, telephone expense.
- C. Income taxes payable, service revenue, dividends.
- D. Cash, maintenance expense, dividends.**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 3*

## Chapter 002 The Accounting Information System **Key**

82. Which of the following accounts would normally have a debit balance and appear in the balance sheet?

- A.** Accounts receivable.
- B. Unearned revenue.
- C. Salary expense.
- D. Dividends.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 3*

83. Which of the following accounts has a credit balance?

- A. Salaries expense
- B.** Income taxes payable.
- C. Land.
- D. Prepaid rent.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 3*

84. The following statements pertain to recording transactions. Which of them are true?

- I. Total debits should equal total credits.
  - II. It is possible to have multiple debits or credits in one journal entry.
  - III. Assets are always listed first in journal entries.
  - IV. Some journal entries will have debits only.
- A. I only.
  - B.** I and II.
  - C. I, II, and IV.
  - D. II, III, and IV.
  - E. All comments are true.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Hard*  
*Learning Objective: 4*

85. Which of the following is not a possible journal entry?

- A. Credit assets; Debit expenses.
- B.** Debit assets; Debit owners' equity.
- C. Credit revenues; Debit assets.
- D. Debit expenses; Credit liabilities.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 4*

86. Which of the accounts are increased with a debit and decreased with a credit?

- A. Liabilities, stockholders' equity, and revenues.
- B. Dividends, liabilities, and assets.
- C. Expenses, dividends, and stockholders' equity.
- D.** Assets, dividends, and expenses.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 3*

87. A sale on account would be recorded with a:

- A. Debit to revenues.
- B. Credit to assets.
- C. Credit to liabilities.
- D.** Debit to assets.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 4*

## Chapter 002 The Accounting Information System **Key**

88. Xenon Corporation borrows \$75,000 from First Bank. Xenon Corporation records this transaction with a:

- A. Debit to investments.
- B. Credit to retained earnings.
- C. Credit to liabilities.**
- D. Credit to expenses.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*

89. Childers Service Company provides services to customers totaling \$3,000, for which it billed the customers. How would the transaction be recorded?

- A. Debit cash \$3,000, credit service revenue \$3,000.
- B. Debit accounts receivable \$3,000, credit service revenue \$3,000.**
- C. Debit accounts receivable \$3,000, credit cash \$3,000.
- D. Debit service revenue \$3,000, credit accounts receivable \$3,000.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*

90. A company received a bill for newspaper advertising services received, \$400. The bill will be paid in 10 days. How would the transaction be recorded today?

- A. Debit advertising expense \$400, credit accounts payable \$400.**
- B. Debit accounts payable \$400, credit advertising expense \$400.
- C. Debit accounts payable \$400, credit cash \$400.
- D. Debit advertising expense \$400, credit cash \$400.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*



## Chapter 002 The Accounting Information System **Key**

91. When a company pays utilities of \$1,800 in cash, the transaction is recorded as:
- A. Debit utilities expense \$1,800, credit utilities payable \$1,800.
  - B. Debit utilities payable \$1,800, credit cash \$1,800.
  - C. Debit cash \$1,800, credit utilities expense \$1,800.
  - D.** Debit utilities expense \$1,800, credit cash \$1,800.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*

92. Assume that cash is paid for rent to cover the next year. The appropriate debit and credit are:
- A. Debit rent expense, credit cash.
  - B. Debit prepaid rent, credit rent expense.
  - C.** Debit prepaid rent, credit cash.
  - D. Debit cash, credit prepaid rent.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*

## Chapter 002 The Accounting Information System **Key**

93. Summer Leasing received \$12,000 for 24 months rent in advance. How should Summer record this transaction?

- |           |                  |        |        |
|-----------|------------------|--------|--------|
| A.        | Prepaid Rent     | 12,000 |        |
|           | Rent expense     |        | 12,000 |
| <b>B.</b> | Cash             | 12,000 |        |
|           | Unearned revenue |        | 12,000 |
| C.        | Cash             | 12,000 |        |
|           | Rent revenue     |        | 12,000 |
| D.        | Rent expense     | 12,000 |        |
|           | Cash             |        | 12,000 |

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*

94. Styleson Inc. performed cleaning services for their customers for cash. These transactions would be recorded as:

- A. Debit service revenue, credit cash.
- B. Debit cash, credit service revenue.**
- C. Debit cash, credit accounts receivable.
- D. Debit accounts receivable, credit service revenue.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*

## Chapter 002 The Accounting Information System **Key**

95. Assume that \$18,000 cash is paid for insurance to cover the next year. The appropriate debit and credit are:

- A. Debit insurance expense \$18,000, credit prepaid insurance \$18,000.
- B. Debit prepaid insurance \$18,000, credit insurance expense \$18,000.
- C.** Debit prepaid insurance \$18,000, credit cash \$18,000.
- D. Debit cash \$18,000, credit prepaid insurance \$18,000.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 4*

96. Schooner Inc. purchased a wagon by signing a note payable. This transaction would be recorded as:

- A. Debit wagon, credit cash.
- B. Debit cash, credit notes payable.
- C. Debit notes payable, credit wagon.
- D.** Debit wagon, credit notes payable.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 4*

## Chapter 002 The Accounting Information System **Key**

97. When a company pays \$2,500 dividends to its stockholders, the transaction should be recorded as:

- A.      Cash                      2,500  
          Dividends                2,500
- B.      Retained Earnings 2,500  
          Dividends                2,500
- C.**      Dividends                    2,500  
          Cash                        2,500
- D.      Dividends                    2,500  
          Accounts Payable        2,500

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*

98. Daniel Dino Restaurants owes workers' salaries of \$15,000. This would be recorded as:

- A. Debit salaries expense, credit cash.  
B. Debit salaries payable, credit cash.  
**C.** Debit salaries expense, credit salaries payable.  
D. Debit salaries payable, credit wages expense.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*

## Chapter 002 The Accounting Information System **Key**

99. Jerome purchased a building for his business by signing a note to pay the amount due over the next ten years. Which of the following correctly describes how to record this transaction?

- A.** Debit assets, credit liabilities.
- B. Debit assets, credit stockholders' equity.
- C. Debit liabilities, credit assets.
- D. Debit expenses, credit liabilities.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*

100. Incurring an expense for advertising on account would be recorded by:

- A. Debiting liabilities.
- B. Crediting assets.
- C.** Debiting an expense.
- D. Debiting assets.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 4*

101. Tyler Incorporated receives \$150,000 from investors for issuing them shares of its common stock. Tyler Incorporated records this transaction with a:

- A. Debit to investments.
- B. Credit to retained earnings.
- C.** Credit to common stock.
- D. Credit to revenue.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*

## Chapter 002 The Accounting Information System **Key**

102. The owner of an office building should report rent collected in advance as a debit to cash and a credit to:

- A.** A liability.
- B. An asset other than cash.
- C. A revenue.
- D. An owners' equity.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*

103. Clement Company paid an account payable related to a previous utility bill of \$1,000.

This transaction should be recorded as follows on the payment date:

- A.** Debit accounts payable \$1,000, credit cash \$1,000.
- B. Debit cash \$1,000, credit accounts payable \$1,000.
- C. Debit utilities expense \$1,000, credit cash \$1,000.
- D. Debit cash \$1,000, credit utilities expense \$1,000.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*

104. On July 7, 2010, Saints Inc. received \$10,000 in cash from a customer for services to be provided on October 10, 2010. Which of the following describes how the transaction should be recorded on July 7, 2010?

- A. Debit cash \$10,000, credit service revenue \$10,000.
- B. Debit accounts receivable \$10,000, credit service revenue \$10,000.
- C.** Debit cash \$10,000, credit unearned revenue \$10,000.
- D. Debit unearned revenue \$10,000, credit cash \$10,000.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*

## Chapter 002 The Accounting Information System **Key**

105. On December 1, 2010, Bears Inc. signed a contract with a retailer to supply stuffed animal toys for the next calendar year. How should this transaction be recorded on December 1, 2010?

- A. Debit cash, credit sales revenue.
- B. Debit cash, credit accounts receivable.
- C. Debit accounts receivable, credit sales revenue.
- D.** No transaction should be recorded on December 1, 2010.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Hard*  
*Learning Objective: 4*

106. The accounts payable account has a beginning balance of \$12,000 and the company purchased \$50,000 of supplies on account during the month. The ending balance was \$10,000. How much did the company pay to creditors during the month?

- A. \$50,000.
- B.** \$52,000.
- C. \$60,000.
- D. \$62,000.

$$\$12,000 + \$50,000 - \$10,000 = \$52,000.$$

*AACSB: Analytical*  
*AICPA: Reporting*  
*Bloom's: Analysis*  
*Difficulty: Hard*  
*Learning Objective: 5*

## Chapter 002 The Accounting Information System **Key**

107. On March 3, Cobra Inc. purchased a desk for \$450 on account. On March 22, Cobra purchased another desk for \$500 also on account, and then on March 24, Cobra paid \$400 on account. At the end of March, what amount should Cobra report for desks (assuming these two desks were the only desks they had)?

- A. \$50.
- B. \$450.
- C. \$500.
- D. \$950.**

*AACSB: Analytical  
AICPA: Reporting  
Bloom's: Analysis  
Difficulty: Medium  
Learning Objective: 5*

### **Essay Questions**

108. Below are the steps in the measurement process of external transactions. Arrange them from first (1) to last (6).

- \_\_\_\_\_ (a) Post the transaction to the T-accounts in the general ledger.
- \_\_\_\_\_ (b) Assess whether the impact of the transaction results in a debit or credit to the account balance.
- \_\_\_\_\_ (c) Use source documents to identify accounts affected by external transactions.
- \_\_\_\_\_ (d) Analyze the impact of the transaction on the accounting equation.
- \_\_\_\_\_ (e) Prepare a trial balance.
- \_\_\_\_\_ (f) Record transactions using debits and credits.

(a) 5; (b) 3; (c) 1; (d) 2; (e) 6; (f) 4

*AACSB: Reflective Thinking  
AICPA: Critical Thinking  
Bloom's: Comprehension  
Difficulty: Medium  
Learning Objective: 1*



## Chapter 002 The Accounting Information System **Key**

109. A company received a utility bill of \$600 but did not pay it. Indicate the amount of increases and decreases in the accounting equation.

Assets	=	Liabilities	+	Stockholders' Equity
\$0	=	\$600	+	-\$600

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 2*

110. A company purchases supplies on account for \$1,700. Indicate the amount of increases and decreases in the accounting equation.

Assets	=	Liabilities	+	Stockholders' Equity
\$1,700	=	\$1,700	+	\$0

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 2*

111. A company provides services to customers on account for \$2,400. Indicate the amount of increases and decreases in the accounting equation.

Assets	=	Liabilities	+	Stockholders' Equity
\$2,400	=	\$0	+	\$2,400

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 2*

## Chapter 002 The Accounting Information System **Key**

112. A company pays \$800 dividends to stockholders. Indicate the amount of increases and decreases in the accounting equation.

Assets	=	Liabilities	+	Stockholders' Equity
-\$800	=	\$0	+	-\$800

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 2*

113. A company pays \$1,300 on account for supplies previously purchased on account. Indicate the amount of increases and decreases in the accounting equation.

Assets	=	Liabilities	+	Stockholders' Equity
-\$1,300	=	-\$1,300	+	\$0

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 2*

## Chapter 002 The Accounting Information System Key

114. The following transactions occur for the Hamilton Manufacturers.

- (a) Provide services to customers on account for \$4,500.
- (b) Purchase equipment by signing a note with the bank for \$10,000.
- (c) Pay advertising of \$1,500 for the current month.

Analyze each transaction and indicate the amount of increases and decreases in the accounting equation.

	Assets	=	Liabilities	+	Stockholders' Equity
(a)	+\$4,500	=	\$0	+	+\$4,500
(b)	+\$10,000	=	+\$10,000	+	\$0
(c)	-\$1,500	=	\$0	+	-\$1,500

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 2*

115. Using the notion that the accounting equation (Assets = Liabilities + Stockholders' Equity) must remain in balance, indicate whether each of the following transactions is possible.

- (a) Cash decreases; Accounts Payable decreases.
- (b) Salaries expense increases; Salaries Payable decreases.
- (c) Accounts receivable decreases; Service revenue increases.

(a) Yes; (b) No; (c) No

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 2*

Chapter 002 The Accounting Information System **Key**

116. Suppose a company has the following balance sheet accounts:

<b>Accounts</b>	<b>Balances</b>
Land	\$ 9,000
Building	?
Salaries payable	3,700
Common stock	?
Accounts payable	2,600
Cash	5,300
Retained earnings	11,600
Supplies	3,200
Machinery	4,500

Calculate the missing amounts assuming the company has total assets of \$40,000.

Building = \$18,000; Common stock = \$22,100.

*AACSB: Analytical*  
*AICPA: Measurement*  
*Bloom's: Analysis*  
*Difficulty: Hard*  
*Learning Objective: 2*

## Chapter 002 The Accounting Information System **Key**

117. For each of the following accounts, indicate whether a debit or credit is used to increase (+) or decrease (–) the balance of the account.

<b>Account</b>	<b>Debit</b>	<b>Credit</b>
(a) Common Stock		
(b) Liability		
(c) Asset		
(d) Revenue		
(e) Dividend		
(f) Retained Earnings		
(g) Expense		

(a) -, +; (b) -, +; (c) +, - ; (d) -, +; (e) +, - ; (f) -, +; (g) +, -

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 3*

118. For each of the following accounts, indicate whether we use a debit or a credit to increase the balance of the account.

- (a) Accounts receivable
- (b) Accounts payable
- (c) Salaries expense
- (d) Service revenue
- (e) Office supplies
- (f) Common stock
- (g) Advertising expense
- (h) Dividends

(a) debit; (b) credit; (c) debit; (d) credit; (e) debit; (f) credit; (g) debit; (h) debit

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 3*

## Chapter 002 The Accounting Information System **Key**

119. For each of the following accounts, indicate whether we use a debit or a credit to decrease the balance of the account.

- (a) Accounts receivable
- (b) Accounts payable
- (c) Salaries expense
- (d) Service revenue
- (e) Office supplies
- (f) Common stock
- (g) Advertising expense
- (h) Dividends

(a) credit; (b) debit; (c) credit; (d) debit; (e) credit; (f) debit; (g) credit; (h) credit

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 3*

120. A company sells common stock for \$20,000 cash. Record the transaction.

Cash	20,000	
Common Stock		20,000

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*

## Chapter 002 The Accounting Information System **Key**

121. A company purchases a building for \$100,000, paying \$20,000 cash and signing a note payable for the remainder. Record the transaction.

Building	100,000	
Cash		20,000
Notes Payable		80,000

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*

122. A company purchases machinery for \$15,000 cash. Record the transaction.

Machinery	15,000	
Cash		15,000

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 4*

123. A company purchases office supplies on account for \$7,500. Record the transaction.

Office Supplies	7,500	
Accounts Payable		7,500

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 4*

## Chapter 002 The Accounting Information System **Key**

124. A company provides services to customers on account, \$3,500. Record the transaction.

Accounts Receivable	3,500	
Service Revenue		3,500

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 4*

125. A company provides services to customers for \$2,400 cash. Record the transaction.

Cash	2,400	
Service Revenue		2,400

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 4*

126. A company incurs employee salaries of \$4,200 but does not pay them. Record the transaction.

Salaries Expense	4,200	
Salaries Payable		4,200

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*



## Chapter 002 The Accounting Information System **Key**

127. A company pays \$2,000 dividends to its stockholders. Record the transaction.

Dividends	2,000	
Cash		2,000

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 4*

128. A company collects \$4,000 cash from customers for services previously provided on account. Record the transaction.

Cash	4,000	
Accounts Receivable		4,000

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*

129. A company receives \$6,500 cash in advance from customers for services to be provided next year. Record the transaction.

Cash	6,500	
Unearned Revenue		6,500

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 4*

## Chapter 002 The Accounting Information System **Key**

130. A company pays \$5,400 for maintenance in the current period. Record the transaction.

Maintenance Expense	5,400	
Cash		5,400

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 4*

131. A company pays \$12,000 to purchase a one-year insurance policy. Record the transaction.

Prepaid Insurance	12,000	
Cash		12,000

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 4*

## Chapter 002 The Accounting Information System **Key**

132. Record the following transactions for Acme Builders:

- (a) Purchase office supplies on account, \$1,200.
- (b) Provide services to customers for cash, \$2,500.
- (c) Pay \$1,100 in salaries for the current month.

	Debit	Credit
(a)		
Office Supplies	1,200	
Accounts Payable		1,200
(b)		
Cash	2,500	
Service Revenue		2,500
(c)		
Salaries Expense	1,100	
Cash		1,100

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 4*

## Chapter 002 The Accounting Information System Key

133. Record the following transactions for the Stroud Music Store:

- (a) Provide music lessons to students for \$12,000 on account.
- (b) Purchase music supplies on account, \$1,500.
- (c) Pay rent for the current month, \$2,000.
- (d) Receive \$10,000 cash from students in (a) above.

	Debit	Credit
(a)		
Accounts Receivable	12,000	
Service Revenue		12,000
(b)		
Music Supplies	1,500	
Accounts Payable		1,500
(c)		
Rent Expense	2,000	
Cash		2,000
(d)		
Cash	10,000	
Accounts Receivable		10,000

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 4*

Chapter 002 The Accounting Information System **Key**

134. Rite Shoes was involved in the transactions described below. Record each transaction. If an entry is not required, state "No Entry."

- (a) Purchased \$8,200 of supplies on account.
- (b) Paid weekly salaries, \$920.
- (c) Provide services to customers: Cash: \$7,100; On account: \$5,300.
- (d) Paid for supplies purchased in (a) above.
- (e) Placed an order for \$6,200 of supplies.

(a.)	Supplies	8,200	
	Accounts Payable		8,200
(b.)	Salaries expense	920	
	Cash		920
(c.)	Cash	7,100	
	Accounts Receivable	5,300	
	Service Revenue		12,400
(d.)	Accounts Payable	8,200	
	Cash		8,200
(e.)	No Entry.		

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Hard*  
*Learning Objective: 4*

## Chapter 002 The Accounting Information System Key

135. Record the following transactions. If an entry is not required, state "No Entry."

- (a) Started business by issuing 10,000 shares of common stock for \$20,000.
- (b) Hire Rebecca as an administrative assistant, promising to pay her \$2,000 every two week.
- (c) Rented a building for three years at \$500 per month and paid six months' rent in advance.
- (d) Purchased equipment for \$5,400 cash.
- (e) Purchased \$1,800 of supplies on account.
- (f) Provided services to customers for \$7,800 cash.
- (g) Paid employee salaries, \$5,200.
- (h) Paid for supplies purchased in item (e).
- (i) Paid \$800 for current advertising in a local newspaper.
- (j) Paid utility bill of \$1,300 for the current month.

(a)	Cash	20,000	
	Common Stock		20,000
(b)	No Entry.		
(c)	Prepaid Rent	3,000	
	Cash		3,000
(d)	Equipment	5,400	
	Cash		5,400
(e)	Supplies	1,800	
	Accounts Payable		1,800
(f)	Cash	7,800	
	Service Revenue		7,800
(g)	Salaries Expense	5,200	
	Cash		5,200
(h)	Accounts Payable	1,800	
	Cash		1,800
(i)	Advertising Expense	800	
	Cash		800
(j)	Utilities Expense	1,300	
	Cash		1,300

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Hard*  
*Learning Objective: 4*

136. Consider the following T-account for accounts payable.

<b>Accounts Payable</b>	
	10,200
8,800	4,500

1. Compute the balance of the accounts payable account.
2. Give an example of a transaction that would have resulted in the \$8,800 posting to the account.
3. Give an example of a transaction that would have resulted in the \$4,500 posting to the account.

1.  $\$10,200 - \$8,800 + \$4,500 = \$5,900$ .
2. Postings on the left side (or debit side) of the accounts payable T-account represent decreases to accounts payable, such as making a payment on the account.
3. Postings on the right side (or credit side) of the accounts payable T-account represent increases to accounts payable, such as purchasing office supplies on account.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Knowledge*  
*Difficulty: Hard*  
*Learning Objective: 5*

## Chapter 002 The Accounting Information System **Key**

137. Consider the following transactions for Mittel Corporation:

- a. Sell common stock for \$10,000.
- b. Purchase equipment for \$11,500 cash
- c. Pay employee salaries of \$3,700.
- e. Provides services to customers for \$6,200 cash.

1. Post these transaction to the cash T-account. Assume the balance of cash before these transaction is \$4,200.

2. Calculate the ending balance of cash.

<b>Cash</b>	
4,200	
10,000	11,500
6,200	3,700
5,200	

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 5*



Chapter 002 The Accounting Information System **Key**

138. Use the following information to prepare a trial balance.

Cash	\$6,200	Dividends	\$ 1,200
Unearned revenue	1,200	Salaries expense	2,200
Prepaid insurance	1,200	Accounts receivable	3,400
Accounts payable	1,900	Common stock	6,200
Retained earnings	1,600	Service revenue	7,100
Utilities expense	3,000	Maintenance expense	800

<b>Trial Balance</b>		
	<u>Debit</u>	<u>Credit</u>
Cash	\$6,200	
Accounts receivable	3,400	
Prepaid insurance	1,200	
Accounts payable		\$1,900
Unearned revenue		1,200
Common stock		6,200
Retained earnings		1,600
Dividends	1,200	
Service revenue		7,100
Salaries expense	2,200	
Utilities expense	3,000	
Maintenance expense	800	
Total	<u>\$18,000</u>	<u>\$18,000</u>

AACSB: Reflective Thinking  
 AICPA: Measurement  
 Bloom's: Knowledge  
 Difficulty: Hard  
 Learning Objective: 6

## Chapter 002 The Accounting Information System **Key**

139. Describe the difference between external events and internal events and give two examples of each.

External events involve an exchange between the company and a separate economic entity. Examples include purchasing office supplies on account or borrowing money from a bank. Internal events directly affect the financial position of the company but do not involve exchange transactions with another entity. Examples include depreciation of equipment or use of supplies.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Synthesis*  
*Difficulty: Medium*  
*Learning Objective: 1*

140. Describe the six steps in the measurement process of external transactions.

The six steps include: (1) Use source documents to identify accounts affected by external transactions, (2) analyze the impact of the transaction on the accounting equation, (3) assess whether the impact of the transaction results in a debit or credit to the account balance, (4) record transactions using debits and credits, (5) post the transaction to the T-accounts in the general ledger, and (6) prepare a trial balance.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Synthesis*  
*Difficulty: Medium*  
*Learning Objective: 1*

141. Explain what it means that external transactions have a dual effect.

Dual effect refers to each transaction having at least two effects on the accounting equation. If an economic event increases (decreases) one side of the equation, then it also increases (decreases) the other side of the equation by the same amount. Or the economic event increases one element and decreases another element by an equal amount, both on the same side of the accounting equation.

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Synthesis*  
*Difficulty: Medium*  
*Learning Objective: 2*

## Chapter 002 The Accounting Information System **Key**

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

**Terms:**

- a. Assets
- b. Debit
- c. Journal entry
- d. Liabilities
- e. Revenues
- f. Expenses
- g. Credit
- h. General ledger
- i. Trial balance
- j. Dividends

142. \_\_\_\_ Refers to the right side of an account.

g

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Learning Objective: 3*  
*Learning Objective: 4*  
*Learning Objective: 6*

143. \_\_\_\_ Convention used to record transactions of a company.

c

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Learning Objective: 3*  
*Learning Objective: 4*  
*Learning Objective: 6*

## Chapter 002 The Accounting Information System **Key**

144. \_\_\_\_ Resources earned by providing goods and services to customers.

e

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Learning Objective: 3*  
*Learning Objective: 4*  
*Learning Objective: 6*

145. \_\_\_\_ Resources owned by a company.

a

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Learning Objective: 3*  
*Learning Objective: 4*  
*Learning Objective: 6*

146. \_\_\_\_ List of all accounts and their balances after external transactions are recorded.

i

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Learning Objective: 3*  
*Learning Objective: 4*  
*Learning Objective: 6*

## Chapter 002 The Accounting Information System **Key**

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

**Terms:**

- a. Assets
- b. Debit
- c. Journal entry
- d. Liabilities
- e. Revenues
- f. Expenses
- g. Credit
- h. General ledger
- i. Trial balance
- j. Dividends

147. \_\_\_\_ Asset and expense accounts normally have this type of balance.

b

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Learning Objective: 3*  
*Learning Objective: 5*

148. \_\_\_\_ Contains all the accounts of a company.

h

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Learning Objective: 3*  
*Learning Objective: 5*

## Chapter 002 The Accounting Information System **Key**

149. \_\_\_\_ Costs to generate revenues.

f

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Learning Objective: 3*  
*Learning Objective: 5*

150. \_\_\_\_ Resources owed by a company.

d

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Learning Objective: 3*  
*Learning Objective: 5*

151. \_\_\_\_ Payments to stockholders.

j

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Learning Objective: 3*  
*Learning Objective: 5*