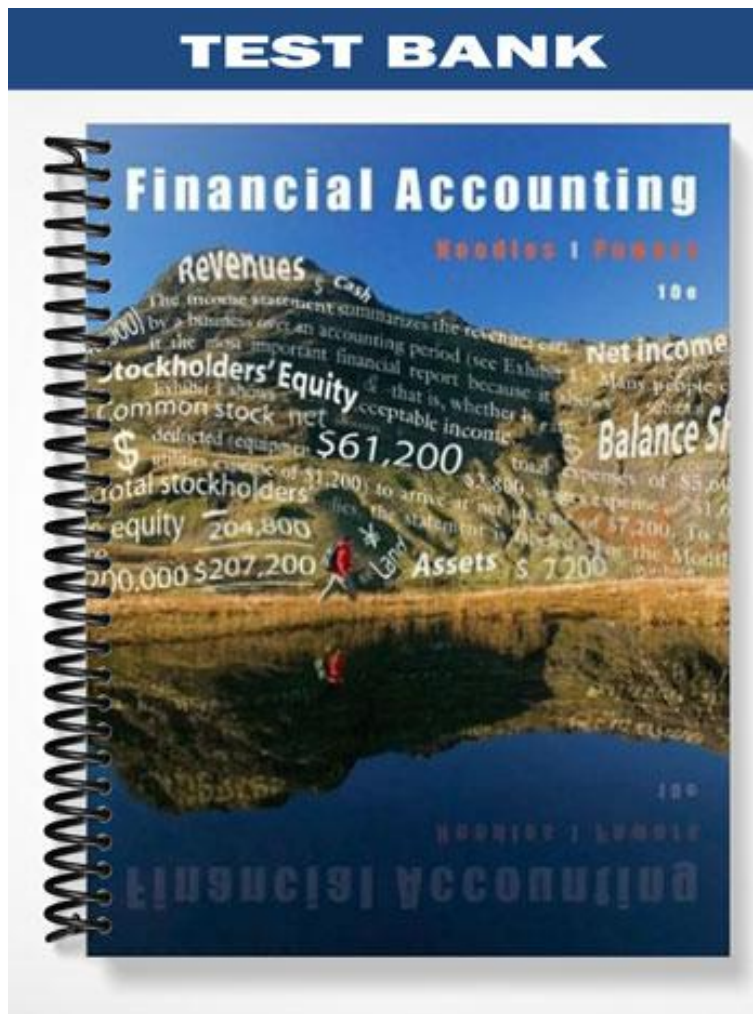


TEST BANK



Chapter 2—Analyzing Business Transactions

TRUE/FALSE

1. When a company receives a product previously ordered, a recordable transaction has occurred.

ANS: T PTS: 1 DIF: 2 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.001

2. When a business hires a new employee, a recordable transaction has occurred.

ANS: F PTS: 1 DIF: 2 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.002

3. The valuation issue deals with how the components of a transaction should be categorized.

ANS: F PTS: 1 DIF: 1 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.003

4. In accounting, *to recognize* means to record a transaction or event.

ANS: T PTS: 1 DIF: 1 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.004

5. Purchase requisitions are recognized in the accounting records.

ANS: F PTS: 1 DIF: 2 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.005

6. When a company purchases goods that it will resell, it must record the goods in an expense account.

ANS: F PTS: 1 DIF: 2 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.006

7. The cost principle is a solution to the recognition issue.

ANS: F PTS: 1 DIF: 2 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.007

8. The recognition issue deals with *when* a user of financial statements should use accounting information.

ANS: F PTS: 1 DIF: 1 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.008

9. The classification issue involves the assignment of accounts to business transactions.

ANS: T PTS: 1 DIF: 1 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.009

10. When a company receives an order, a transaction has occurred.

ANS: F PTS: 1 DIF: 2 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.010

11. Investments that are available for sale appear on the balance sheet at their fair value.

ANS: T PTS: 1 DIF: 1 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.011

12. Generally accepted accounting principles state that fair value is the appropriate value to assign to all business transactions when they occur.

ANS: T PTS: 1 DIF: 1 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.012

13. The same rules are used to apply fair value to all classes of assets.

ANS: F PTS: 1 DIF: 1 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.013

14. A credit means that an account has been increased.

ANS: F PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.014

15. A debit has an unfavorable effect on an account.

ANS: F PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.015

16. For a T account, an account balance is the difference in total dollars between total debit footings and total credit footings.

ANS: T PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.016

17. Column totals are called *footings*.

ANS: T PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.017

18. A decrease in a liability is recorded by a debit.

ANS: T PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.018

19. An increase in an asset is recorded by a debit.

ANS: T PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.019

20. The double-entry system is possible because all business transactions have two equal and opposite aspects.

ANS: T PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.020

21. A decrease in a stockholders' equity account is recorded with a credit.

ANS: F PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.021

22. An increase in revenue is recorded with a credit.

ANS: T PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.022

23. Dividends should appear on the statement of retained earnings.

ANS: T PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.023

24. The Dividends account has a normal credit balance.

ANS: F PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.024

25. Revenues have a normal credit balance.

ANS: T PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.025

26. Retained Earnings has a normal debit balance.

ANS: F PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.026

27. Accounts Payable has a normal credit balance.

ANS: T PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.027

28. All accounting systems are based on the principle of duality.

ANS: T PTS: 1 DIF: 2 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.028

29. Revenues and expenses will increase and decrease, respectively, the Common Stock account.

ANS: F PTS: 1 DIF: 2 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.029

30. When stockholders make an investment, the Common Stock account is debited.
- ANS: F PTS: 1 DIF: 1 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.030
31. When a dividend is declared and paid, the Dividends account is debited and Cash is credited.
- ANS: T PTS: 1 DIF: 1 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.031
32. Liabilities are established with debits and eliminated with credits.
- ANS: F PTS: 1 DIF: 1 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.032
33. Generally, before Accounts Receivable can be debited, it must have been credited.
- ANS: F PTS: 1 DIF: 2 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.033
34. Generally, before Accounts Payable can be debited, it must have been credited.
- ANS: T PTS: 1 DIF: 2 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.034
35. When payment is received for services not yet rendered, no entry is recorded until that service has been rendered.
- ANS: F PTS: 1 DIF: 2 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.035
36. When revenue has been earned, no entry is recorded until the related cash has been collected.
- ANS: F PTS: 1 DIF: 2 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.036
37. A contract is an example of a source document.
- ANS: T PTS: 1 DIF: 1 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.037
38. A basic storage unit for accounting data is the account.
- ANS: T PTS: 1 DIF: 1 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.038
39. Unearned Revenue is classified as a liability.
- ANS: T PTS: 1 DIF: 1 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.039

40. An increase in dividends will also increase total stockholders' equity.

ANS: F PTS: 1 DIF: 2 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.040

41. In a trial balance, all debits are listed before all credits.

ANS: F PTS: 1 DIF: 1 OBJ: LO4
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.041

42. A trial balance is normally prepared at the end of the day.

ANS: F PTS: 1 DIF: 1 OBJ: LO4
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.042

43. When the columns of the trial balance equal each other, it means that no errors have occurred in recording and posting the transactions.

ANS: F PTS: 1 DIF: 2 OBJ: LO4
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.043

44. A transposition error will cause the trial balance to be out of balance by an amount that is evenly divisible by 9.

ANS: T PTS: 1 DIF: 1 OBJ: LO4
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.044

45. Recording an account with a debit balance as a credit, or vice versa, will cause the trial balance to be out of balance by an amount that is evenly divisible by 2.

ANS: T PTS: 1 DIF: 1 OBJ: LO4
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.045

46. The terms *profitability* and *liquidity* mean the same thing.

ANS: F PTS: 1 DIF: 1 OBJ: LO5
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.046

47. One can obtain a clear picture of a company's liquidity by referring to its income statement.

ANS: F PTS: 1 DIF: 1 OBJ: LO5
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.047

48. One can obtain a clear picture of a company's liquidity by referring to its statement of cash flows.

ANS: T PTS: 1 DIF: 1 OBJ: LO5
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.048

49. Revenue should be recorded when it has been earned, not when the related cash has been collected.

ANS: T PTS: 1 DIF: 2 OBJ: LO5
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.049

50. Expenses should be recorded when they are paid, not when they have been incurred.

ANS: F PTS: 1 DIF: 2 OBJ: LO5
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.050

51. A net income of \$100,000 means that the business received \$100,000 more in cash from its customers than it spent to run the business.

ANS: F PTS: 1 DIF: 2 OBJ: LO5
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.051

52. Accounts Receivable and Accounts Payable are used when there is a time delay between a transaction and its related cash flow.

ANS: T PTS: 1 DIF: 1 OBJ: LO5
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.052

53. The journal is a chronological record of all transactions.

ANS: T PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.053

54. Entering transactions into the journal is called *posting*.

ANS: F PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.054

55. In a journal entry, assets are always recorded before liabilities.

ANS: F PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.055

56. In a journal entry, credits are always indented.

ANS: T PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.056

57. In a journal entry, the Post. Ref. column is left blank until the entry has been posted.

ANS: T PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.057

58. It is sometimes correct for a compound entry's debit totals and credit totals to be unequal.

ANS: F PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.058

59. The ledger account form has a Balance column.

ANS: T PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.059

60. One might see "J2" correctly placed in the Post. Ref. column of the journal.
- ANS: F PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.060
61. Despite the advantages of a computer accounting information system, posting still must be done manually.
- ANS: F PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.061
62. Journal entries are typically posted only at the end of the year.
- ANS: F PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.062
63. In a financial report, a double line is placed below the final total(s).
- ANS: T PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.063
64. Another name for the *ledger* is the *book of original entry*.
- ANS: F PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.064
65. The chart of accounts makes finding accounts in the ledger easier.
- ANS: T PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.065
66. All companies use the same standard set of accounts.
- ANS: F PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.066
67. The accounts in a chart of accounts are normally listed in alphabetical order.
- ANS: F PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.067
68. The numbering scheme of a chart of accounts should contain no gaps.
- ANS: F PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.068
69. Wages payable is a type of expense.
- ANS: F PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.069

70. Dividends are classified as an expense.

ANS: F PTS: 1 DIF: 2 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.070

71. Unearned revenues are classified as liabilities on the balance sheet.

ANS: T PTS: 1 DIF: 2 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.071

72. Another word for *expense* is *debt*.

ANS: F PTS: 1 DIF: 2 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.072

73. Office supplies are classified as an expense.

ANS: F PTS: 1 DIF: 2 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.073

74. The Land and Building accounts may be combined into one account.

ANS: F PTS: 1 DIF: 2 OBJ: LO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.074

75. Investments by stockholders are recorded in the Common Stock account, not in the Retained Earnings account.

ANS: T PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.075

76. One measure of profitability is the cash return on assets.

ANS: F PTS: 1 DIF: 2 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.076

MULTIPLE CHOICE

77. When a business records revenue before it has been earned, it has violated the measurement issue of

- a. evaluation.
- b. classification.
- c. valuation.
- d. recognition.

ANS: D PTS: 1 DIF: 2 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.077

78. When a business reports an asset at an inflated dollar amount, it has violated the measurement issue of

- a. recognition.

- b. realization.
- c. valuation.
- d. classification.

ANS: C PTS: 1 DIF: 2 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.078

79. When a business erroneously records expenses as assets, it has violated the measurement issue of
- a. recognition.
 - b. valuation.
 - c. communication.
 - d. classification.

ANS: D PTS: 1 DIF: 2 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.079

80. Which of the following is a business event that is *not* considered a recordable transaction?
- a. A company receives a product previously ordered.
 - b. A company pays an employee for work performed.
 - c. A customer purchases a service.
 - d. A customer inquires about the availability of a service.

ANS: D PTS: 1 DIF: 1 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.080

81. Which of the following is a business event that is also considered a recordable transaction?
- a. A customer purchases merchandise.
 - b. A company orders a product from a supplier.
 - c. A company hires a new employee.
 - d. An employee sends a purchase requisition to the purchasing department.

ANS: A PTS: 1 DIF: 2 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.081

82. A purchase is recognized in the accounting records when
- a. title transfers from the seller to the buyer.
 - b. the buyer receives the seller's bill.
 - c. the purchase requisition is sent to the purchasing department.
 - d. payment is made for the item purchased.

ANS: A PTS: 1 DIF: 2 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.082

83. Which of the following is *not* a measurement issue in accounting?
- a. When to record a business transaction
 - b. How to classify the items of a business transaction
 - c. Where to record a business transaction
 - d. What value to place on a business transaction

ANS: C PTS: 1 DIF: 2 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.083

84. Which of the following is an illustration of the classification issue?

- a. At what point should a bill be paid for the purchase of an item?
- b. Should tools be recorded as an asset or as an expense?
- c. At what point should the purchase of art supplies be recorded?
- d. At what amount should an old machine be shown on the balance sheet?

ANS: B PTS: 1 DIF: 1 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.084

85. The issue of deciding when to record a transaction is solved by

- a. assigning historical cost to the transaction.
- b. analyzing the intent of management.
- c. properly classifying the transaction.
- d. deciding on a point of recognition.

ANS: D PTS: 1 DIF: 1 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.085

86. Which of the following is *not* a measurement issue in accounting?

- a. Classification
- b. Evaluation
- c. Recognition
- d. Valuation

ANS: B PTS: 1 DIF: 1 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.086

87. The cost principle relates most closely to the

- a. classification issue.
- b. recognition issue.
- c. valuation issue.
- d. recognition point.

ANS: C PTS: 1 DIF: 2 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.087

88. Which of the following business events is *not* a transaction?

- a. Receiving goods
- b. Purchasing a service
- c. Signing a contract
- d. Paying wages

ANS: C PTS: 1 DIF: 2 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.088

89. Investments designated as available-for-sale are reported on the balance sheet at their
- original cost.
 - fair value.
 - expected selling price.
 - average cost.

ANS: B PTS: 1 DIF: 1 OBJ: LO1
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.089

90. If Accounts Receivable has debit postings of \$29,000, credit postings of \$22,000, and a normal ending balance of \$24,000, which of the following was its beginning balance?
- \$31,000 Dr.
 - \$17,000 Cr.
 - \$17,000 Dr.
 - \$31,000 Cr.

ANS: C PTS: 1 DIF: 2 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.090

91. To determine the balance of a particular account, one should refer to the
- chart of accounts.
 - book of original entry.
 - ledger.
 - source documents.

ANS: C PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.091

92. Which of the following accounts is increased with a debit?
- Common Stock
 - Dividends
 - Legal Fees Earned
 - Rent Payable

ANS: B PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.092

93. Which of the following accounts is increased with a credit?
- Fees Earned
 - Supplies Expense
 - Dividends
 - Supplies

ANS: A PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.093

94. If Accounts Payable has debit postings of \$17,000, credit postings of \$14,000, and a normal ending balance of \$6,000, what was its beginning balance?
- a. \$9,000 Cr.
 - b. \$3,000 Dr.
 - c. \$3,000 Cr.
 - d. \$9,000 Dr.

ANS: A PTS: 1 DIF: 2 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.094

95. Which pair of accounts follows the rules of debit and credit in the same manner?
- a. Repair Expense and Notes Payable
 - b. Common Stock and Rent Expense
 - c. Prepaid Rent and Advertising Expense
 - d. Revenue from Services and Equipment

ANS: C PTS: 1 DIF: 2 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.095

96. Which pair of accounts follows the rules of debit and credit in the opposite manner?
- a. Prepaid Insurance and Dividends
 - b. Interest Payable and Common Stock
 - c. Advertising Expense and Land
 - d. Dividends and Medical Fees Earned

ANS: D PTS: 1 DIF: 2 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.096

97. Which of the following accounts has a normal credit balance?
- a. Dividends
 - b. Automotive Equipment
 - c. Advertising Fees Earned
 - d. Interest Expense

ANS: C PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.097

98. Which of the following accounts has a normal debit balance?
- a. Common Stock
 - b. Dividends
 - c. Unearned Fees
 - d. Retained Earnings

ANS: B PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.098

99. Which of the following accounts has a normal debit balance?

- a. Prepaid Insurance
- b. Notes Payable
- c. Art Fees Earned
- d. Unearned Art Fees

ANS: A PTS: 1 DIF: 1
TOP: AACSB: Analytic | AICPA: Measurement

OBJ: LO2
MSC: Chapter2.099

100. Which of the following accounts has a normal credit balance?

- a. Common Stock
- b. Wages Expense
- c. Accounts Receivable
- d. Dividends

ANS: A PTS: 1 DIF: 1
TOP: AACSB: Analytic | AICPA: Measurement

OBJ: LO2
MSC: Chapter2.100

101. Which of the following accounts has a normal debit balance?

- a. Wages Payable
- b. Common Stock
- c. Fees Earned
- d. Rent Expense

ANS: D PTS: 1 DIF: 1
TOP: AACSB: Analytic | AICPA: Measurement

OBJ: LO2
MSC: Chapter2.101

102. Which of the following accounts is decreased with a debit?

- a. Notes Payable
- b. Dividends
- c. Cash
- d. Interest Expense

ANS: A PTS: 1 DIF: 1
TOP: AACSB: Analytic | AICPA: Measurement

OBJ: LO2
MSC: Chapter2.102

103. Which of the following accounts is decreased with a credit?

- a. Insurance Expense
- b. Common Stock
- c. Unearned Revenue
- d. Advertising Fees Earned

ANS: A PTS: 1 DIF: 1
TOP: AACSB: Analytic | AICPA: Measurement

OBJ: LO2
MSC: Chapter2.103

104. If Cash has debit postings of \$52,000, credit postings of \$39,000, and a normal ending balance of \$22,000, what was its beginning balance?

- a. \$35,000 Dr.
- b. \$69,000 Dr.
- c. \$35,000 Cr.
- d. \$9,000 Dr.

ANS: D PTS: 1 DIF: 2 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.104

105. All of the following will affect the balance of Retained Earnings, *except*

- a. investments by stockholders.
- b. revenues earned.
- c. dividends declared.
- d. expenses incurred.

ANS: A PTS: 1 DIF: 2 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.105

106. When collection is made on Accounts Receivable,

- a. total assets remain the same.
- b. stockholders' equity increases.
- c. total assets increase.
- d. total assets decrease.

ANS: A PTS: 1 DIF: 2 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.106

107. If office equipment is sold at cost in exchange for a promissory note,

- a. total liabilities increase.
- b. total assets remain the same.
- c. total liabilities and stockholders' equity decrease.
- d. total assets decrease.

ANS: B PTS: 1 DIF: 2 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.107

108. The declaration and payment of a dividend will

- a. decrease net income.
- b. not affect total assets.
- c. decrease stockholders' equity.
- d. increase liabilities.

ANS: C PTS: 1 DIF: 2 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.108

109. Payment on a portion of Accounts Payable will

- a. decrease net income.
- b. increase total liabilities.
- c. not affect stockholders' equity.
- d. not affect total assets.

ANS: C PTS: 1 DIF: 2 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.109

110. A transaction in which six months' rent is paid in advance results in a credit to Cash and a debit to

- a. Rent Revenue.
- b. Rent Receivable.
- c. Rent Expense.
- d. Prepaid Rent.

ANS: D PTS: 1 DIF: 1 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.110

111. Which of the following events does *not* require a journal entry?

- a. Agreement to perform a service at a future date
- b. Purchase of a one-year insurance policy
- c. Performance of a service agreed to at a past date
- d. Payment for a service performed previously

ANS: A PTS: 1 DIF: 1 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.111

112. Which of the following events does *not* result in the recording of an expense?

- a. Purchase of gasoline for fill-up of a company car
- b. Payment of wages
- c. Receipt of a bill from the telephone company
- d. Payment of a dividend

ANS: D PTS: 1 DIF: 2 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.112

113. A company that receives money in advance of performing a service

- a. debits Cash and credits Unearned Revenue.
- b. debits Unearned Revenue and credits Accounts Receivable.
- c. debits Cash and credits Prepaid Fees.
- d. debits Cash and credits Fees Earned.

ANS: A PTS: 1 DIF: 1 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.113

114. When a company has performed a service but has not yet received payment, it

- a. debits Revenue from Services and credits Accounts Receivable.

- b. makes no entry until the cash is received.
- c. debits Revenue from Services and credits Accounts Payable.
- d. debits Accounts Receivable and credits Revenue from Services.

ANS: D PTS: 1 DIF: 2 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.114

115. When a company receives an electric bill but does not pay it right away, it should

- a. make no entry until the bill is paid.
- b. debit Utilities Expense and credit Accounts Receivable.
- c. debit Accounts Payable and credit Utilities Expense.
- d. debit Utilities Expense and credit Accounts Payable.

ANS: D PTS: 1 DIF: 2 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.115

116. When a magazine company receives advance payment for a subscription, it

- a. debits Prepaid Subscriptions and credits Cash.
- b. debits Unearned Subscriptions Revenue and credits Cash.
- c. debits Cash and credits Unearned Subscriptions Revenue.
- d. debits Cash and credits Subscriptions Revenue.

ANS: C PTS: 1 DIF: 1 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.116

117. When a service has been performed, but no cash has been received, which of the following statements is *true*?

- a. No journal entry would be made.
- b. The entry would contain a debit to Accounts Payable.
- c. The entry would contain a debit to Accounts Receivable.
- d. The entry would contain a credit to Unearned Revenue.

ANS: C PTS: 1 DIF: 2 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.117

118. Which of the following transactions decreases both assets and stockholders' equity?

- a. Receipt of a phone bill, to be paid at a later time
- b. Advance payment made for insurance
- c. Payment of a liability
- d. Declaration and payment of a dividend

ANS: D PTS: 1 DIF: 2 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.118

119. A \$4,000 machine is purchased by paying \$1,000 cash and issuing a promissory note for the remainder. The entry should contain a

- a. credit to Notes Payable.
- b. credit to Notes Receivable.

- c. debit to Cash.
- d. credit to Machinery.

ANS: A PTS: 1 DIF: 2 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.119

120. All of the following are examples of source documents *except*

- a. receipts.
- b. checks.
- c. journals.
- d. invoices.

ANS: C PTS: 1 DIF: 1 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.120

121. Which of the following transactions increases both assets and stockholders' equity?

- a. Rendered a service, payment not yet received
- b. Declared and paid a dividend
- c. Received a bank loan
- d. Received payment from a credit customer

ANS: A PTS: 1 DIF: 2 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.121

122. Which of the following accounts will *not* affect stockholders' equity?

- a. Sales
- b. Land
- c. Dividends
- d. Advertising Expense

ANS: B PTS: 1 DIF: 2 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.122

123. A dividend will reduce which of the following accounts?

- a. Common Stock
- b. Accounts Payable
- c. Retained Earnings
- d. Dividends

ANS: C PTS: 1 DIF: 2 OBJ: LO3
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.123

124. An \$80 credit item is accidentally posted as a debit. The trial balance column totals will therefore differ by

- a. \$160.
- b. \$0.
- c. \$80.
- d. \$40.

ANS: A PTS: 1 DIF: 2 OBJ: LO4
 TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.124

125. Which of the following gives the correct sequence of accounting procedures?

- a. Financial statements, trial balance, ledger, journal
- b. Financial statements, journal, ledger, trial balance
- c. Ledger, trial balance, journal, financial statements
- d. Journal, ledger, trial balance, financial statements

ANS: D PTS: 1 DIF: 2 OBJ: LO4
 TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.125

126. Here is the trial balance for McLeary Corporation:

McLeary Corporation Trial Balance January 31, 20x7		
Cash	\$3,000	
Accounts Receivable	2,000	
Art Supplies	3,000	
Office Supplies	5,000	
Prepaid Rent	7,000	
Prepaid Insurance	5,000	
Art Equipment	5,000	
Office Equipment	3,000	
Accounts Payable		\$10,000
Common Stock		5,000
Retained Earnings		5,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	5,000	
Telephone Expense	3,000	
	\$ A	\$ B

If the balance of the Dividends account were \$36,000 and the balance of the Wages Expense account were \$5,000, what would be the amount of B?

- a. \$82,000
- b. \$48,000
- c. \$61,000
- d. \$62,000

ANS: A PTS: 1 DIF: 2 OBJ: LO4
 TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.126

127. Here is the trial balance for McLeary Corporation:

McLeary Corporation Trial Balance January 31, 20x7		
Cash	\$3,000	
Accounts Receivable	2,000	
Art Supplies	3,000	
Office Supplies	5,000	
Prepaid Rent	7,000	
Prepaid Insurance	5,000	
Art Equipment	5,000	
Office Equipment	3,000	
Accounts Payable		\$10,000
Common Stock		5,000
Retained Earnings		5,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	5,000	
Telephone Expense	3,000	
	\$ A	\$ B

If the trial balance showed a balance of \$7,000 in the Dividends account and a balance of \$10,500 in the Wages Expense account, what would be the amount of Advertising Fees Earned for the period?

- a. \$48,500
- b. \$23,500
- c. \$38,500
- d. \$53,500

ANS: C PTS: 1 DIF: 2

OBJ: LO4

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.127

128. Here is the trial balance for McLeary Corporation:

McLeary Corporation Trial Balance January 31, 20x7		
Cash	\$11,000	
Accounts Receivable	2,000	
Art Supplies	3,000	
Office Supplies	5,000	
Prepaid Rent	7,000	
Prepaid Insurance	5,000	
Art Equipment	5,000	
Office Equipment	3,000	
Accounts Payable		\$10,000
Common Stock		5,000
Retained Earnings		5,000
Dividends	?	

Advertising Fees Earned		?
Wages Expense		?
Utilities Expense	5,000	
Telephone Expense	3,000	
	<u>\$ A</u>	<u>\$ B</u>

On the trial balance, total assets equal

- a. \$31,000.
- b. \$49,000.
- c. \$51,000.
- d. \$41,000.

ANS: D PTS: 1 DIF: 2
 TOP: AACSB: Analytic | AICPA: Measurement

OBJ: LO4
 MSC: Chapter2.128

129. Here is the trial balance for McLeary Corporation:

McLeary Corporation Trial Balance January 31, 20x7		
Cash	\$3,000	
Accounts Receivable	2,000	
Art Supplies	3,000	
Office Supplies	5,000	
Prepaid Rent	7,000	
Prepaid Insurance	5,000	
Art Equipment	5,000	
Office Equipment	3,000	
Accounts Payable		\$10,000
Common Stock		5,000
Retained Earnings		5,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	5,000	
Telephone Expense	3,000	
	<u>\$ A</u>	<u>\$ B</u>

If the trial balance showed a balance of \$8,000 in the Wages Expense account and a balance of \$40,500 in the Advertising Fees Earned account, what would be the amount of A?

- a. \$55,500
- b. \$50,500
- c. \$60,500
- d. \$65,500

ANS: C PTS: 1 DIF: 2
 TOP: AACSB: Analytic | AICPA: Measurement

OBJ: LO4
 MSC: Chapter2.129

130. Here is the trial balance for McLeary Corporation:

McLeary Corporation Trial Balance January 31, 20x7		
Cash	\$3,000	
Accounts Receivable	2,000	
Art Supplies	3,000	
Office Supplies	5,000	
Prepaid Rent	7,000	
Prepaid Insurance	5,000	
Art Equipment	5,000	
Office Equipment	3,000	
Accounts Payable		\$10,000
Common Stock		5,000
Retained Earnings		5,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	5,000	
Telephone Expense	3,000	
	\$ A	\$ B

If the trial balance showed a balance of \$4,000 in the Wages Expense account and a balance of \$30,000 in the Advertising Fees Earned account, what would be the amount of Dividends?

- a. \$14,000
- b. \$5,000
- c. \$25,000
- d. \$19,000

ANS: B PTS: 1 DIF: 2 OBJ: LO4
 TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.130

131. Which of the following errors will *not* cause the debit and credit columns of the trial balance to be unequal?

- a. A debit entry was recorded in the wrong account.
- b. The account balance was carried to the wrong column of the trial balance.
- c. The balance of an account was incorrectly computed.
- d. A debit was entered in an account as a credit.

ANS: A PTS: 1 DIF: 2 OBJ: LO4
 TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.131

132. The primary purpose of the trial balance is to test the

- a. recording of transactions.
- b. equality of debit and credit entries in the journal.
- c. analysis of transactions.
- d. equality of debit and credit balances in the ledger.

ANS: D PTS: 1 DIF: 1 OBJ: LO4
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.132

133. A \$120 credit item is posted as a debit. The trial balance column totals therefore will differ by
- \$120.
 - \$240.
 - \$480.
 - \$0.

ANS: B PTS: 1 DIF: 2 OBJ: LO4
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.133

134. Which of the following errors will *not* cause the debit and credit columns of a trial balance to be unequal?
- The trial balance was incorrectly summed.
 - Only part of an entry was posted.
 - A debit was posted to an account as a credit.
 - An entry was posted twice.

ANS: D PTS: 1 DIF: 2 OBJ: LO4
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.134

135. Which of the following errors will cause a trial balance to be out of balance?
- The bookkeeper forgot to record a transaction.
 - A credit was posted to an account as a debit.
 - The bookkeeper forgot to post an entry to the ledger.
 - A debit to Office Equipment was incorrectly debited to Office Supplies.

ANS: B PTS: 1 DIF: 2 OBJ: LO4
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.135

136. Which of the following errors will cause a trial balance to be out of balance?
- Incorrectly recording the purchase of land for cash as a debit to Cash and a credit to Land
 - Placing a debit balance amount into the credit balance column of the ledger
 - Posting a debit to Land as a debit to Machinery
 - Omitting an entire transaction

ANS: B PTS: 1 DIF: 2 OBJ: LO4
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.136

137. Which of the following errors will cause the trial balance to be out of balance?
- The balance of an account was incorrectly computed.
 - A debit entry was entered in the wrong debit account.
 - An entire transaction was omitted from the journal.
 - An entire transaction was entered in the journal as \$27 instead of \$72.

ANS: A PTS: 1 DIF: 2 OBJ: LO4
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.137

138. Transposing two digits when transferring an amount to the trial balance will cause it to be out of balance by an amount that is evenly divisible by
- 2.
 - 5.
 - 9.
 - the sum of the transposed digits.

ANS: C PTS: 1 DIF: 1 OBJ: LO4
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.138

139. Which of the following accounts might be used when there is a time delay between a transaction and its related cash flow?
- Accounts Payable
 - Fees Earned
 - Prepaid Rent
 - Cash

ANS: A PTS: 1 DIF: 1 OBJ: LO5
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.139

140. Which of the following accounts will eventually be followed with an inflow of cash?
- Dividends
 - Unearned Revenue
 - Accounts Receivable
 - Prepaid Insurance

ANS: C PTS: 1 DIF: 1 OBJ: LO5
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.140

141. Which of the following accounts will eventually be followed with an outflow of cash?
- Accounts Payable
 - Notes Receivable
 - Prepaid Rent
 - Design Revenue

ANS: A PTS: 1 DIF: 1 OBJ: LO5
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.141

142. All of the following actions can help a business manage its cash flows, *except*
- convince its creditors to allow payment over a period of time.
 - arrange for a line of credit at the bank, should the funds be needed.
 - be efficient in making collections from its customers.
 - pay for all expenditures immediately.

ANS: D PTS: 1 DIF: 2 OBJ: LO5
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.142

143. The general journal does *not* contain a column titled

- a. Description.
- b. Date.
- c. Account Balance.
- d. Post. Ref.

ANS: C PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.143

144. Which of the following terms does *not* mean the same as the others?

- a. Footing
- b. Folio
- c. Post. Ref.
- d. LP

ANS: A PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.144

145. To find an explanation of a transaction, one should look at the

- a. chart of accounts.
- b. journal.
- c. ledger.
- d. trial balance.

ANS: B PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.145

146. Which of the following accounts might be placed first in a journal entry?

- a. Cash, when it has been decreased
- b. Unearned Revenue, when it has been increased
- c. Bonds Payable, when it has been decreased
- d. Interest Income, when it has been increased

ANS: C PTS: 1 DIF: 2 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.146

147. Which of the following statements is *true* about a journal entry?

- a. The Post. Ref. column is filled in prior to posting.
- b. The name of the month should be repeated for each entry.
- c. An explanation must follow each debit and each credit.
- d. All debits are listed before any credits.

ANS: D PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.147

148. Which of the following statements is *false* about a journal entry?

- a. It may have more than one debit or credit entry.

- b. Credits are always indented.
- c. A space should be skipped between journal entries.
- d. Accounts that are increased are always listed first.

ANS: D PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.148

149. Which of the following accounts should be credited in a journal entry?

- a. Wages Payable, when it has been decreased
- b. Accounts Receivable, when it has been decreased
- c. Wages Expense, when it has been increased
- d. Dividends, when it has been increased

ANS: B PTS: 1 DIF: 2 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.149

150. Which of the following statements is *true* about a journal entry?

- a. A line is skipped between each debit and each credit.
- b. Decreases in liabilities are indented.
- c. Assets are entered before liabilities.
- d. The Post. Ref. column is left blank until entries are posted.

ANS: D PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.150

151. Which of the following statements is *not* necessarily true about a journal entry?

- a. The Post. Ref. column is left blank until after the entry has been posted.
- b. Liabilities are indented.
- c. An explanation follows the journal entry.
- d. All debits must be recorded before any credits.

ANS: B PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.151

152. The process of transferring journal entry information from the journal to the ledger is called

- a. journalizing.
- b. footing.
- c. posting.
- d. analyzing.

ANS: C PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.152

153. The Post. Ref. column in the general journal is used to show that an amount has been posted to the ledger when which of the following is placed in it?

- a. The journal page number
- b. The journal number
- c. The account number

d. An X

ANS: C PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.153

154. The principal purpose of posting is to

- a. help identify errors made in the journal.
- b. obtain updated account balances.
- c. help determine if the financial statements are ready to be prepared.
- d. enter transactions directly into the ledger.

ANS: B PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.154

155. The account most recently posted is determined most efficiently by referring to the

- a. Post. Ref. column of the ledger.
- b. date column of the general journal.
- c. Post. Ref. column of the general journal.
- d. balance column of the ledger.

ANS: C PTS: 1 DIF: 2 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.155

156. Posting is performed by transferring information from the

- a. source documents to the journal.
- b. source documents to the ledger.
- c. ledger to the journal.
- d. journal to the ledger.

ANS: D PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.156

157. The Post. Ref. column in the general ledger shows that an amount has been posted when which of the following is placed in it?

- a. An X
- b. The account number
- c. The journal page number
- d. A check mark

ANS: C PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.157

158. Which of the following bookkeeping techniques generally is *not* acceptable?

- a. A double line after final totals
- b. Commas and periods in ruled columns
- c. A dash in the cents column to indicate zero cents
- d. Dollar signs on financial statements

ANS: B PTS: 1 DIF: 1 OBJ: SO6

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.158

159. The chart of accounts is the starting point for a

- a. journal.
- b. financial statement.
- c. trial balance.
- d. ledger.

ANS: D PTS: 1 DIF: 1
TOP: AACSB: Analytic | AICPA: MeasurementOBJ: SO6
MSC: Chapter2.159

160. Typically, the chart of accounts begins with

- a. asset accounts.
- b. liability accounts.
- c. expense accounts.
- d. revenue accounts.

ANS: A PTS: 1 DIF: 1
TOP: AACSB: Analytic | AICPA: MeasurementOBJ: SO6
MSC: Chapter2.160

161. The purpose of the ledger is to

- a. keep a record of documentation to support each transaction.
- b. record chronologically the day's transactions.
- c. make sure that all assets, liabilities, etc., have credit balances at all times.
- d. maintain a separate account for each asset, liability, etc.

ANS: D PTS: 1 DIF: 1
TOP: AACSB: Analytic | AICPA: MeasurementOBJ: SO6
MSC: Chapter2.161162. Which of the following accounts probably would be listed *before* the others in a chart of accounts?

- a. Insurance Expense
- b. Buildings
- c. Dividends
- d. Notes Payable

ANS: B PTS: 1 DIF: 2
TOP: AACSB: Analytic | AICPA: MeasurementOBJ: SO6
MSC: Chapter2.162163. Which of the following accounts probably would be listed *after* the others in a chart of accounts?

- a. Unearned Art Fees
- b. Retained Earnings
- c. Art Fees Earned
- d. Prepaid Rent

ANS: C PTS: 1 DIF: 2
TOP: AACSB: Analytic | AICPA: MeasurementOBJ: SO6
MSC: Chapter2.163

164. The Office Supplies account is classified as a(n)

- a. stockholders' equity account.
- b. asset.
- c. expense.
- d. liability, if the supplies have not yet been paid for.

ANS: B PTS: 1 DIF: 1
TOP: AACSB: Analytic | AICPA: Measurement

OBJ: SO6
MSC: Chapter2.164

165. The Unearned Fees account is classified as a(n)

- a. liability.
- b. expense.
- c. asset.
- d. revenue.

ANS: A PTS: 1 DIF: 2
TOP: AACSB: Analytic | AICPA: Measurement

OBJ: SO6
MSC: Chapter2.165

166. Which of the following accounts is an asset?

- a. Prepaid Rent
- b. Notes Payable
- c. Supplies Expense
- d. Retained Earnings

ANS: A PTS: 1 DIF: 1
TOP: AACSB: Analytic | AICPA: Measurement

OBJ: SO6
MSC: Chapter2.166

167. Which of the following accounts is a stockholders' equity account?

- a. Retained Earnings
- b. Cash
- c. Prepaid Insurance
- d. Wages Payable

ANS: A PTS: 1 DIF: 1
TOP: AACSB: Analytic | AICPA: Measurement

OBJ: SO6
MSC: Chapter2.167

168. Unearned revenues are recorded by companies that

- a. pay money in advance of the performance of a service.
- b. receive money at the time the performance of a service is complete.
- c. pay money at the time the performance of a service is complete.
- d. receive money in advance of the performance of a service.

ANS: D PTS: 1 DIF: 2
TOP: AACSB: Analytic | AICPA: Measurement

OBJ: SO6
MSC: Chapter2.168

169. Which of the following is *not* considered a type of equipment?

- a. Office supplies

- b. Drill press
- c. Cash register
- d. Filing cabinet

ANS: A PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.169

170. Office supplies become expenses

- a. when they are consumed (used up).
- b. when they are paid for.
- c. when they are purchased.
- d. at no time, since they are an asset.

ANS: A PTS: 1 DIF: 2 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.170

171. Which of the following accounts is classified differently from the others listed?

- a. Prepaid Rent
- b. Cash
- c. Accounts Receivable
- d. Common Stock

ANS: D PTS: 1 DIF: 1 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.171

172. Which of the following accounts is classified differently from the others listed?

- a. Fees Earned
- b. Unearned Revenue
- c. Notes Payable
- d. Accounts Payable

ANS: A PTS: 1 DIF: 2 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.172

173. For which of the following accounts would a related Accumulated Depreciation account be recorded?

- a. Land
- b. Office Supplies
- c. Prepaid Rent
- d. Office Equipment

ANS: D PTS: 1 DIF: 2 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.173

174. The cash return on assets shows how much cash is generated by each dollar of

- a. net income.
- b. total revenue.
- c. assets invested in operations.
- d. land, buildings, and equipment.

ANS: C PTS: 1 DIF: 1 OBJ: Key Ratio
 TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.174

ESSAY

175. Use this journal entry to answer the following question.

Nov. 16	Accounts Payable	685	
	Cash		685
	Recorded payment of a liability		

Explain how the above journal entry relates to the measurement issues of (a) recognition, (b) valuation, and (c) classification.

ANS:

- a. The transaction occurred and was recognized on November 16.
- b. A valuation of \$685 was placed on the transaction.
- c. The accounts involved were determined to be (classified as) Accounts Payable and Cash.

PTS: 1 DIF: 2 OBJ: LO1
 TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.175

176. Explain why the dollar amount of total stockholders' equity probably will *not* equal the dollar amount that would remain if all the assets were sold and all the liabilities were then settled.

ANS:

The valuation of assets on the balance sheet is based primarily on historical cost (exchange price on date of purchase), not on liquidation value. The proceeds from the sale of assets most likely would differ from the amount originally paid.

Thinking

PTS: 1 DIF: 2 OBJ: LO1
 TOP: AACSB: Reflective Thinking | AICPA: Decision Modeling
 MSC: Chapter2.176

177. Amalgamated Campus Stores, Inc. (ACS) employed student representatives to market grooming aids, casual clothes, and other such products on college campuses. The representatives organized parties at which they displayed samples of all the products. Students who bought products paid the representative, who in turn ordered the products and paid ACS for them. When the products arrived, the student representatives delivered them to the buyers. The representatives paid ACS less than they charged the buyers. The difference represented the earnings of the representatives, who were not employees of ACS. Wall Street investors admired ACS because the company had enjoyed several years of rapid growth in sales and earnings.

Last year, the president of ACS predicted further increases in sales of 30 percent. By December, however, it was apparent that the forecasted sales goals would not be met. So during the last two weeks of December, ACS shipped \$23 million of merchandise to the sales representatives to be held for future sales parties. The company billed the student representatives and recorded the shipments as sales. In this way, ACS was able to meet its sales goal for the year.

Were these merchandise shipments properly recorded as sales?

ANS:

The shipments were improperly recorded as sales. The goods had not been ordered by or sold to actual customers, and the student representatives had the right to return all the products unconditionally. In this type of arrangement, to report shipments as legitimate sales is certainly unethical and can be, as in this case, illegal when the intent is to deceive. It may turn out that most of the \$23 million of products will be returned during January and February.

PTS: 1 DIF: 3 OBJ: LO1
TOP: AACSB: Reflective Thinking | AICPA: Decision Modeling
MSC: Chapter2.177

178. Discuss the difference between business events that are transactions and those that are not. Why is the distinction important?

ANS:

Business events become transactions and are recorded when title passes from the seller to the buyer or, in the case of services, when the service is performed. The distinction is important because the recording of a transaction will have an effect on the financial position of the business.

PTS: 1 DIF: 2 OBJ: LO1
TOP: AACSB: Communication | AICPA: Reporting MSC: Chapter2.178

179. For each item below, indicate whether a debit or a credit applies.

- a. Decrease in Accounts Payable
- b. Decrease in Land
- c. Increase in Retained Earnings
- d. Increase in Unearned Revenue
- e. Decrease in Interest Payable
- f. Increase in Prepaid Insurance
- g. Increase in Wages Expense
- h. Decrease in Art Supplies
- i. Increase in Advertising Fees Earned

ANS:

- a. Debit
- b. Credit
- c. Credit
- d. Credit
- e. Debit
- f. Debit
- g. Debit
- h. Credit
- i. Credit

PTS: 1 DIF: 2 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.179

180. For each item below, indicate whether a debit or a credit applies.

- a. Increase in Art Fees Earned
- b. Decrease in Prepaid Rent
- c. Decrease in Unearned Fees
- d. Increase in Common Stock
- e. Increase in Wages Expense
- f. Increase in Interest Receivable
- g. Decrease in Retained Earnings
- h. Increase in Dividends
- i. Increase in Notes Payable

ANS:

- a. Credit
- b. Credit
- c. Debit
- d. Credit
- e. Debit
- f. Debit
- g. Debit
- h. Debit
- i. Credit

PTS: 1 DIF: 2 OBJ: LO2

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.180

181. Why is the Dividends account increased by a debit? Explain in terms of its relationship to stockholders' equity.

ANS:

Dividends represent a decrease in stockholders' equity. According to the rules of debit and credit, a decrease in stockholders' equity is recorded as a debit.

PTS: 1 DIF: 2 OBJ: LO2

TOP: AACSB: Communication | AICPA: Reporting

MSC: Chapter2.181

182. Indicate whether each account below has a normal debit or a normal credit balance.

- a. Automobiles
- b. Accounts Payable
- c. Common Stock
- d. Prepaid Rent
- e. Advertising Expense
- f. Service Revenue
- g. Dividends
- h. Retained Earnings
- i. Land
- j. Interest Payable
- k. Notes Receivable

ANS:

- a. Debit
- b. Credit

- c. Credit
- d. Debit
- e. Debit
- f. Credit
- g. Debit
- h. Credit
- i. Debit
- j. Credit
- k. Debit

PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.182

183. Indicate whether each account below has a normal debit or a normal credit balance.

- a. Cash
- b. Wages Payable
- c. Wages Expense
- d. Unearned Fees
- e. Prepaid Insurance
- f. Notes Payable
- g. Interest Receivable
- h. Store Equipment
- i. Legal Fees Earned
- j. Common Stock
- k. Utilities Expense

ANS:

- a. Debit
- b. Credit
- c. Debit
- d. Credit
- e. Debit
- f. Credit
- g. Debit
- h. Debit
- i. Credit
- j. Credit
- k. Debit

PTS: 1 DIF: 1 OBJ: LO2
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.183

184. Harris Corporation provided monthly waste-removal services for Goble Corporation, which resulted in the following transactions in Harris's records:

Cash	
Sept. 27 2,000	

Accounts Receivable	
Aug. 31 3,000	Sept. 27 2,000

Waste Removal Service Revenue	
	Aug. 31 3,000

Using T accounts, prepare the corresponding entries in Goble's records.

ANS:

Cash	
	Sept. 27 2,000

Accounts Payable	
Sept. 27 2,000	Aug. 31 3,000

Waste Removal Service Expense	
Aug. 31 3,000	

PTS: 1 DIF: 3 OBJ: LO3
 TOP: AACSB: Reflective Thinking | AICPA: Decision Modeling

MSC: Chapter2.184

185. The following accounts are applicable to Pinnacle Painters, Inc:

- 1 Accounts Payable
- 2 Accounts Receivable
- 3 Cash
- 4 Common Stock
- 5 Painting Revenue
- 6 Painting Supplies
- 7 Prepaid Insurance
- 8 Trucks
- 9 Unearned Painting Revenue
- 10 Wages Expense

For each transaction below, indicate with the corresponding numbers which accounts would be debited and credited. Indicate "no entry," if appropriate.

- a. Formed the business by issuing common stock in exchange for cash. Dr. _____ Cr. _____
- b. Paid for six months' insurance in advance. Dr. _____ Cr. _____
- c. Purchased a truck on credit. Dr. _____ Cr. _____
- d. Received payment in advance of painting a house. Dr. _____ Cr. _____
- e. Paid the administrative assistant's wages for the week just ended. Dr. _____ Cr. _____
- f. Paid for the truck purchased in "c" above. Dr. _____ Cr. _____
- g. Painted an apartment building, and was paid upon completion. Dr. _____ Cr. _____
- h. Completed painting a wall, for which payment is expected in two weeks. Dr. _____ Cr. _____
- i. Placed an order for painting supplies; delivery and payment will follow in one week. Dr. _____ Cr. _____
- _____
- j. Received payment for the job completed in "h" above. Dr. _____ Cr. _____

ANS:

- a. 3, 4
- b. 7, 3
- c. 8, 1
- d. 3, 9
- e. 10, 3
- f. 1, 3
- g. 3, 5
- h. 2, 5
- i. no entry
- j. 3, 2

PTS: 1 DIF: 2 OBJ: LO3

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.185

186. The following accounts are applicable to Larry's Lawn Service, Inc:

- 1 Accounts Payable
- 2 Accounts Receivable
- 3 Cash
- 4 Common Stock
- 5 Lawn Equipment

- 6 Prepaid Rent
- 7 Rent Expense
- 8 Revenue from Services
- 9 Unearned Revenue
- 10 Wages Expense

For each transaction below, indicate with the corresponding numbers which accounts would be debited and credited. Indicate "no entry," if appropriate.

- a. Formed the business by issuing common stock in exchange for cash. Dr. _____ Cr. _____
- b. Paid for one year's rent in advance. Dr. _____ Cr. _____
- c. Ordered lawn equipment; delivery and payment will follow in ten days. Dr. _____ Cr. _____
- d. Received payment in advance of performing a service. Dr. _____ Cr. _____
- e. Received the lawn equipment ordered in "c" above. However, payment will not be made for another 30 days. Dr. _____ Cr. _____
- f. Performed lawn services for which payment was immediately received. Dr. _____ Cr. _____
- g. Paid wages for the past week to one of the painters. Dr. _____ Cr. _____
- h. Performed lawn services for which payment will be received in two weeks. Dr. _____ Cr. _____
- i. Paid for the lawn equipment received in "e" above. Dr. _____ Cr. _____
- j. Received payment from the services performed in "h" above. Dr. _____ Cr. _____

ANS:

- a. 3, 4
- b. 6, 3
- c. no entry
- d. 3, 9
- e. 5, 1
- f. 3, 8
- g. 10, 3
- h. 2, 8
- i. 1, 3
- j. 3, 2

PTS: 1 DIF: 2 OBJ: LO3

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.186

187. By what amount, if any, would each of the following errors cause a trial balance to be out of balance?

- a. A purchase of supplies of \$840 was recorded as a debit to Equipment and a credit to Cash for \$840.
- b. An \$890 balance in Prepaid Insurance was copied to the trial balance as a debit of \$980.
- c. A \$600 normal balance in Accounts Payable was copied to the trial balance as a debit of \$600.

ANS:

- a. \$0
- b. \$90
- c. \$1,200

PTS: 1 DIF: 2 OBJ: LO4

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.187

188. If a debit to Supplies were posted as a credit, and a credit of the same amount to Cash were posted as a debit, what would be the effect, if any, on the two accounts and on the trial balance column totals?

ANS:

The Cash account would be overstated, Supplies would be understated, and the trial balance would balance.

PTS: 1 DIF: 2 OBJ: LO4

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.188

189. Record the following transactions, using proper form, in the journal provided.

Mar.	2	Provided services in the amount of \$2,000, receiving \$600 in partial payment.
	12	Received \$800 of the amount owed from March 2.

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit

ANS:

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit
Mar. 2	Cash Accounts Receivable Service Revenue Received cash in partial payment of services rendered		600 1,400	 2,000
12	Cash Accounts Receivable Received payment on account		800	 800

PTS: 1 DIF: 2 OBJ: SO6
 TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.189

190. In the journal provided, prepare entries in proper form, without explanations, for the following transactions. Write "no entry" if none is needed.
- a. Received a \$1,500 invoice for this month's rent. Payment will not be made right away.
 - b. Paid \$1,600 in insurance premiums to cover the next six months.
 - c. A \$350 dividend is declared and paid.
 - d. The rent in "a" above is paid.
 - e. Purchased land for \$60,000. The company paid half in cash and issued a promissory note for the other half.

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit

ANS:

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit
	a. Rent Expense Rent Payable (or Accounts Payable)		1,500	1,500
	b. Prepaid Insurance Cash		1,600	1,600
	c. Dividends Cash		350	350
	d. Rent Payable (or Accounts Payable) Cash		1,500	1,500
	e. Land Cash Notes Payable		60,000	30,000 30,000

PTS: 1 DIF: 2 OBJ: SO6

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.190

191. Provide explanations for the following related journal entries:

a. Cash	6,000	
Common Stock		6,000
<hr/>		
b. Law Library	3,400	
Accounts Payable		3,400
<hr/>		
c. Cash	600	
Accounts Receivable	1,000	
Legal Fees Earned		1,600
<hr/>		
d. Cash	500	
Accounts Receivable		500
<hr/>		
e. Accounts Payable	3,400	
Cash		3,400
<hr/>		

ANS:

- a. Stockholders invested cash into the business.
- b. Purchased a law library, to be paid for at a later time.
- c. Rendered \$1,600 in legal services; \$600 was received in cash, the remainder to be received at a later time.
- d. Received \$500 from “c” above.
- e. Paid for the law library of “b” above.

PTS: 1 DIF: 2 OBJ: SO6

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.191

192. Provide explanations for the following related journal entries:

a. Prepaid Rent	4,000	
Cash		4,000
<hr/>		
b. Trucks and Automobile	36,000	
Notes Payable		36,000
<hr/>		
c. Cash	600	
Accounts Receivable		600
<hr/>		
d. Notes Payable	18,000	
Cash		18,000
<hr/>		
e. Cash	2,500	
Unearned Fees		2,500
<hr/>		

ANS:

- a. Made advance payment of rent.
- b. Issued promissory note for purchase of company vehicle.
- c. Received payment from credit customer.
- d. Paid half of promissory note for purchase of company vehicle in “b” above.
- e. Received cash in advance of performing a service.

PTS: 1 DIF: 2 OBJ: SO6

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.192

193. Given the following ledger account and postings, complete the Balance column. Assume no previous postings in the account.

Unearned Art Fees					Account No. 213	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
20x7						
May	1	J1		2,500		
	7	J1	700			
	8	J2		500		
	12	J2	200			

ANS:

Unearned Art Fees					Account No. 213	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
20x7						
May	1	J1		2,500		2,500
	7	J1	700			1,800
	8	J2		500		2,300
	12	J2	200			2,100

PTS: 1 DIF: 2 OBJ: SO6

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.193

194. Given the following ledger account and postings, complete the Balance column. Assume no previous postings in the account.

Accounts Payable					Account No. 212	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
20x7						
Dec.	1	J1		8,200		
	7	J1	2,800			
	8	J2		600		
	12	J2	800			

ANS:

Accounts Payable					Account No. 212	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
20x7						
Dec.	1	J1		8,200		8,200
	7	J1	2,800			5,400
	8	J2		600		6,000
	12	J2	800			5,200

PTS: 1 DIF: 2 OBJ: SO6

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.194

195. Given the following ledger account and postings, complete the Balance column. Assume no previous postings in the account.

Accounts Receivable					Account No. 113	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
20x7						
Feb.	1	J2	1,820			
	3	J3		320		
	9	J3		700		
	14	J3	410			

ANS:

Accounts Receivable					Account No. 113	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
20x7						
Feb.	1	J2	1,820		1,820	
	3	J3		320	1,500	
	9	J3		700	800	
	14	J3	410		1,210	

PTS: 1 DIF: 2 OBJ: SO6

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.195

196. What two purposes are served by using the Post. Ref. columns of a journal and ledger?

ANS:

The Post. Ref. columns provide cross-referencing between the journal and the ledger. That is, one can determine from what journal page an item was posted and to which account it was posted in the ledger. One also can more easily determine (by use of the Post. Ref. column) the last account posted from the journal.

PTS: 1 DIF: 2 OBJ: SO6
TOP: AACSB: Communication | AICPA: Reporting MSC: Chapter2.196

197. Briefly explain the difference between Unearned Art Fees and Art Fees Earned.

ANS:

Unearned Art Fees appears on the balance sheet as a liability, and represents an obligation to earn the payment that was received in advance. Art Fees Earned appears on the income statement as revenue, based on services rendered or goods delivered.

PTS: 1 DIF: 2 OBJ: SO6
TOP: AACSB: Communication | AICPA: Reporting MSC: Chapter2.197

198. Use the following descriptive phrases to determine the account name that would be used for each. In addition, classify the account as an asset (A), liability (L), stockholders' equity (SE), revenue (R), or expense (E).

- a. Amount due to creditor for merchandise purchased
- b. Coins and currency
- c. Property to be used in the business
- d. An amount paid to stockholders resulting from profits
- e. Income recorded for performance of legal services
- f. Amount due to bank for loan to purchase building
- g. Stationery, pencils, etc., purchased but not yet used
- h. Stationery, pencils, etc., that have been consumed (used)
- i. An insurance premium paid covering the next two years
- j. Representation of stockholders' investments in a business

ANS:

- a. Accounts Payable (L)
- b. Cash (A)
- c. Land (A)
- d. Dividends (SE)
- e. Legal Fees Earned (R)
- f. Mortgage Payable (L)
- g. Office Supplies (A)
- h. Office Supplies Expense (E)
- i. Prepaid Insurance (A)
- j. Common Stock (SE)

PTS: 1 DIF: 2 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.198

199. Briefly discuss the differences between Prepaid Insurance and Insurance Expense.

ANS:

Prepaid Insurance appears on the balance sheet as an asset and represents unexpired insurance coverage. Insurance Expense appears on the income statement and represents insurance that has expired.

PTS: 1 DIF: 2 OBJ: SO6
 TOP: AACSB: Communication | AICPA: Reporting MSC: Chapter2.199

200. Using the following transactions, calculate (a) the ending balance of Cash, (b) the ending balance of Accounts Receivable, (c) total liabilities, and (d) net income for the period.

- a. Opened business by issuing common stock for \$20,000.
- b. Billed customers for services rendered, \$4,000.
- c. Paid for six months' subscription in advance, \$1,000.
- d. Received advertising bill, to be paid next week, \$200.
- e. Dividends of \$1,600 were declared and paid.
- f. Received \$3,000 from customers billed in “b”.
- g. Paid half of advertising bill.
- h. Received \$400 in advance of performing a service.

ANS:

- a. \$20,700 debit ($\$20,000 + \$3,000 + \$400 - \$1,000 - \$1,600 - \100)
- b. \$1,000 debit ($\$4,000 - \$3,000$)
- c. \$500 ($\$200 + \$400 - \100)
- d. \$3,800 ($\$4,000 - \200)

PTS: 1 DIF: 3 OBJ: LO3
 TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.200

201. Using the following transactions, calculate (a) net income for the period, as well as the ending balances of (b) total assets, (c) total liabilities, and (d) Cash.

- a. Opened business by issuing common stock for \$36,000.
- b. Paid one year's insurance in advance, \$2,400.
- c. Billed customers for services rendered, \$6,000.
- d. Received utility bill, to be paid next month, \$400.
- e. Received \$800 in advance of performing a service.
- f. Received \$4,400 from customers billed in “c”.
- g. Paid \$300 on the utility bill of “d”.
- h. Dividends of \$2,000 were declared and paid.

ANS:

- a. \$5,600 ($\$6,000 - \400)
- b. \$40,500 ($\$36,000 + \$6,000 + \$800 - \$300 - \$2,000$)
- c. \$900 ($\$400 + \$800 - \300)
- d. \$36,500 debit ($\$36,000 + \$800 + \$4,400 - \$2,400 - \$300 - \$2,000$)

PTS: 1 DIF: 3 OBJ: LO3
 TOP: AACSB: Analytic | AICPA: Measurement MSC: Chapter2.201

202. Using the T accounts below, record the following transactions. Label each entry with the appropriate letter.

- a. The stockholders contributed cash of \$40,000 and a truck worth \$48,000 into the business in exchange for 8,800 shares of \$10 par value stock.
- b. Paid two months' rent in advance, \$2,400.
- c. Agreed to do a hauling job for a price of \$6,400.
- d. Performed the hauling job. Will get paid later.
- e. Received payment of \$2,000 on the hauling job.
- f. Purchased gasoline on credit, \$40.

Cash	Accounts Payable						
Accounts Receivable	Common Stock						
Prepaid Rent	Hauling Revenue						
Truck	Gasoline Expense						
Cash	Accounts Payable						
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black;">a) 40,000</td> <td style="width: 50%;">b) 2,400</td> </tr> <tr> <td style="border-right: 1px solid black;">e) 2,000</td> <td></td> </tr> </table>	a) 40,000	b) 2,400	e) 2,000		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black;"></td> <td style="width: 50%;">f) 40</td> </tr> </table>		f) 40
a) 40,000	b) 2,400						
e) 2,000							
	f) 40						
Accounts Receivable	Common Stock						
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black;">d) 6,400</td> <td style="width: 50%;">e) 2,000</td> </tr> </table>	d) 6,400	e) 2,000	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black;"></td> <td style="width: 50%;">a) 88,000</td> </tr> </table>		a) 88,000		
d) 6,400	e) 2,000						
	a) 88,000						

ANS:

Prepaid Rent	Hauling Revenue
b) 2,400	d) 6,400
Truck	Gasoline Expense
a) 48,000	f) 40
c) No entry	

PTS: 1 DIF: 2 OBJ: LO3

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.202

203. From the following alphabetical list of account balances, all of which are normal, for Kasper Corporation on July 31, 20x7, prepare a trial balance in proper form (the amount of Dividends must be computed).

Accounts Payable	\$500
Accounts Receivable	200
Cash	80
Common Stock	90
Dividends	?
Equipment	700
Prepaid Advertising	20
Retained Earnings	60
Revenue Earned	400
Wages Expense	70
Wages Payable	50

ANS:

Kasper Corporation Trial Balance July 31, 20x7		
Cash	\$ 80	
Accounts Receivable	200	
Prepaid Advertising	20	
Equipment	700	
Accounts Payable		\$ 500
Wages Payable		50
Common Stock		90
Retained Earnings		60
Dividends	30	
Revenue Earned		400
Wages Expense	70	
	<u>\$1,100</u>	<u>\$1,100</u>

PTS: 1

DIF: 2

OBJ: LO4

204. From the following alphabetical list of account balances, all of which are normal, for Aloha Corporation on September 30, 20x7, prepare a trial balance in proper form (the amount of Dividends must be computed).

Accounts Payable	\$ 780
Accounts Receivable	460
Cash	400
Common Stock	800
Dividends	?
Equipment	1,380
Prepaid Advertising	20
Retained Earnings	400
Revenue Earned	1,000
Wages Expense	60
Wages Payable	20

ANS:

Aloha Corporation Trial Balance September 30, 20x7		
Cash	\$ 400	
Accounts Receivable	460	
Prepaid Advertising	20	
Equipment	1,380	
Accounts Payable		\$ 780
Wages Payable		20
Common Stock		800
Retained Earnings		400
Dividends	680	
Revenue Earned		1,000
Wages Expense	60	
	<u>\$3,000</u>	<u>\$3,000</u>

PTS: 1 DIF: 2 OBJ: LO4

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.204

205. Using the alphabetical list of account balances presented below, all of which are normal, prepare a trial balance for T. and C. Corporation at June 30, 20x7, in proper order. Compute the balance of the Cash account.

Accounts Payable	\$140
Accounts Receivable	280
Cash	?
Common Stock	200
Equipment	400
Office Expense	180
Retained Earnings	240
Service Revenue	300

ANS:

T. and C. Corporation Trial Balance June 30, 20x7		
Cash	\$ 20	
Accounts Receivable	280	
Equipment	400	
Accounts Payable		\$ 140
Common Stock		200
Retained Earnings		240
Service Revenue		300
Office Expense	<u>180</u>	
	<u>\$880</u>	<u>\$880</u>

PTS: 1 DIF: 2 OBJ: LO4

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.205

206. In the journal provided, prepare entries (in good form) for the following transactions. If no entry is required, write "no entry." Omit explanations.

- Apr. 1 Investors opened a dry cleaning service, called Same Day Cleaners, by depositing \$60,000 into a business bank account and receiving 60,000 shares of \$1 par value stock in exchange.
- 3 Paid two years' rent in advance, \$14,400.
- 6 Purchased dry cleaning equipment for \$40,000. Paid \$8,000 in cash, the remainder to be paid in two weeks.
- 9 Hired a part-time worker, to be paid \$300 per week, starting tomorrow.
- 17 Paid the worker's weekly wage.
- 17 Recorded cash received for services performed during the week, \$3,000.
- 20 Paid for the remainder of the equipment purchased on April 6.
- 21 Received \$200 in advance of cleaning and boxing a wedding gown.
- 23 Performed \$500 of dry cleaning services for Asa's Tuxedo Shop. It will remit payment in three days.
- 24 Paid the weekly wages.
- 26 Received payment from Asa's Tuxedo Shop.
- 30 Received a telephone bill for \$100, which will be paid in two weeks.

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit

ANS:

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit
Apr. 1	Cash Common Stock		60,000	60,000
3	Prepaid Rent Cash		14,400	14,400
6	Dry Cleaning Equipment Cash Accounts Payable		40,000	8,000 32,000
9	No entry			
17	Wages Expense Cash		300	300
17	Cash Dry Cleaning Revenue		3,000	3,000
20	Accounts Payable Cash		32,000	32,000
21	Cash Unearned Dry Cleaning Revenue		200	200
23	Accounts Receivable Dry Cleaning Revenue		500	500
24	Wages Expense Cash		300	300
26	Cash Accounts Receivable		500	500
30	Telephone Expense Accounts Payable		100	100

PTS: 1 DIF: 2 OBJ: SO6

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.206

207. In the journal provided, prepare entries (in good form) for the following transactions. If no entry is required, write "no entry." Omit explanations.

- May 1 Investors opened a dry cleaning service, called Junction Cleaners, by depositing \$100,000 into a business bank account and receiving 50,000 shares of \$2 par value stock in exchange.
- 3 Paid two years' rent in advance, \$11,200.
- 6 Purchased dry cleaning equipment for \$36,000. Paid \$14,000 in cash, the remainder to be paid in two weeks.
- 10 Hired a worker, to be paid \$550 per week.
- 17 Paid the worker's weekly wage.
- 17 Recorded cash received for services rendered during the week, \$5,000.
- 20 Paid for the remainder of the equipment purchased on May 6.
- 21 Received \$240 in advance of cleaning and boxing a wedding gown.
- 23 Performed \$390 of dry cleaning services for Tuxedos Unlimited. It will remit payment in three days.
- 24 Paid the weekly wages.
- 26 Received payment from Tuxedos Unlimited.
- 30 Received a telephone bill for \$114, which will be paid in two weeks.

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit

ANS:

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit
May 1	Cash Common Stock		100,000	100,000
3	Prepaid Rent Cash		11,200	11,200
6	Dry Cleaning Equipment Cash Accounts Payable		36,000	14,000 22,000
10	No entry			
17	Wages Expense Cash		550	550
17	Cash Dry Cleaning Revenue		5,000	5,000
20	Accounts Payable Cash		22,000	22,000
21	Cash Unearned Dry Cleaning Revenue		240	240
23	Accounts Receivable Dry Cleaning Revenue		390	390
24	Wages Expense Cash		550	550
26	Cash Accounts Receivable		390	390
30	Telephone Expense Accounts Payable		114	114

PTS: 1 DIF: 2 OBJ: SO6

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.207

208. In the journal provided, prepare entries (in good form) for the following transactions. If no entry is required, write "no entry." Omit explanations.

- Mar. 1 Investors opened a dance school, called Yolonda's Dance Studio, by depositing \$15,000 into a business bank account in exchange for 15,000 shares of \$1 par value stock.
- 2 Paid three months' rent in advance, \$1,800.
- 4 Hired a part-time assistant, to be paid \$250 per week, starting next week.
- 6 Purchased sound equipment for \$2,000. Paid \$400 in cash, the remainder to be paid in installments of \$800 every two weeks.
- 8 Signed up five students, who will begin lessons on March 10, at \$80 per week per student.
- 17 Received the first week's tuition from four students; the fifth student will remit payment in three days.
- 17 Paid the assistant his first week's wages.
- 20 Received payment from the fifth student.
- 21 Paid the first installment on the sound equipment purchased on March 6.
- 23 Received an electric bill of \$100, to be paid April 1.

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit

ANS:

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit
Mar. 1	Cash Common Stock		15,000	15,000
2	Prepaid Rent Cash		1,800	1,800
4	No entry			
6	Sound Equipment Cash Accounts Payable		2,000	400 1,600
8	No entry			
17	Cash Accounts Receivable Tuition Revenue		320 80	400
17	Wages Expense Cash		250	250
20	Cash Accounts Receivable		80	80
21	Accounts Payable Cash		800	800
23	Utilities Expense Accounts Payable		100	100

PTS: 1 DIF: 2 OBJ: SO6

TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.208

209. In the journal provided, prepare entries (in good form) for the following transactions. If no entry is required, write "no entry." Omit explanations.

- Nov. 1 Investors opened a dance school called Olga's Dance Studio by depositing \$24,000 into a business bank account in exchange for 24,000 shares of \$1 par value stock.
- 2 Paid three months' rent in advance, \$2,400.
- 4 Hired a part-time assistant, to be paid \$275 per week.
- 6 Purchased sound equipment for \$4,200. Paid \$600 in cash, the remainder to be paid in installments of \$1,200 every two weeks.
- 8 Signed up ten students, who will begin lessons on November 10, at \$100 per week per student.
- 17 Received the first week's tuition from nine students; the tenth student will remit payment in three days.
- 17 Paid the assistant his first week's wages.
- 20 Received payment from the tenth student.
- 20 Paid the next installment on the sound equipment purchased on November 6.
- 23 Received an electric bill of \$150, to be paid on December 1.

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit

ANS:

General Journal				Page 1
Date	Description	Post. Ref.	Debit	Credit
Nov. 1	Cash Common Stock		24,000	24,000
2	Prepaid Rent Cash		2,400	2,400
4	No entry			
6	Sound Equipment Cash Accounts Payable		4,200	600 3,600
8	No entry			
17	Cash Accounts Receivable Tuition Revenue		900 100	1,000
17	Wages Expense Cash		275	275
20	Cash Accounts Receivable		100	100
20	Accounts Payable Cash		1,200	1,200
23	Utilities Expense Accounts Payable		150	150

PTS: 1 DIF: 2 OBJ: SO6
 TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.209

210. Post the following transaction.

General Journal				Page 14
Date	Description	Post. Ref.	Debit	Credit
20x7 July 20	Accounts Receivable Commissions Earned Commission earned on sale of painting		415	415

Accounts Receivable					Account No. 112	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
20x7						

Commissions Earned					Account No. 411	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
20x7						

ANS:

General Journal				Page 14	
Date	Description	Post. Ref.	Debit	Credit	
20x7 July 20	Accounts Receivable	112	415		
	Commissions Earned	411		415	
	Commission earned on sale of painting				

Accounts Receivable					Account No. 112	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
20x7 July 20		J14	415		415	

Commissions Earned					Account No. 411	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
20x7 July 20		J14		415		415

PTS: 1 DIF: 2 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.210

211. Post the following transaction.

General Journal				Page 8	
Date	Description	Post. Ref.	Debit	Credit	
20x7 May 12	Land Notes Payable Issued note for purchase of land		5,000	5,000	

Land					Account No. 141	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
20x7						

Notes Payable					Account No. 211	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
20x7						

ANS:

General Journal				Page 8	
Date	Description	Post. Ref.	Debit	Credit	
20x7 May 12	Land	141	5,000		
	Notes Payable	211		5,000	
	Issued note for purchase of land				

Land					Account No. 141	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
20x7 May 12		J8	5,000		5,000	

Notes Payable					Account No. 211	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
20x7 May 12		J8		5,000		5,000

PTS: 1 DIF: 2 OBJ: SO6
TOP: AACSB: Analytic | AICPA: Measurement

MSC: Chapter2.211