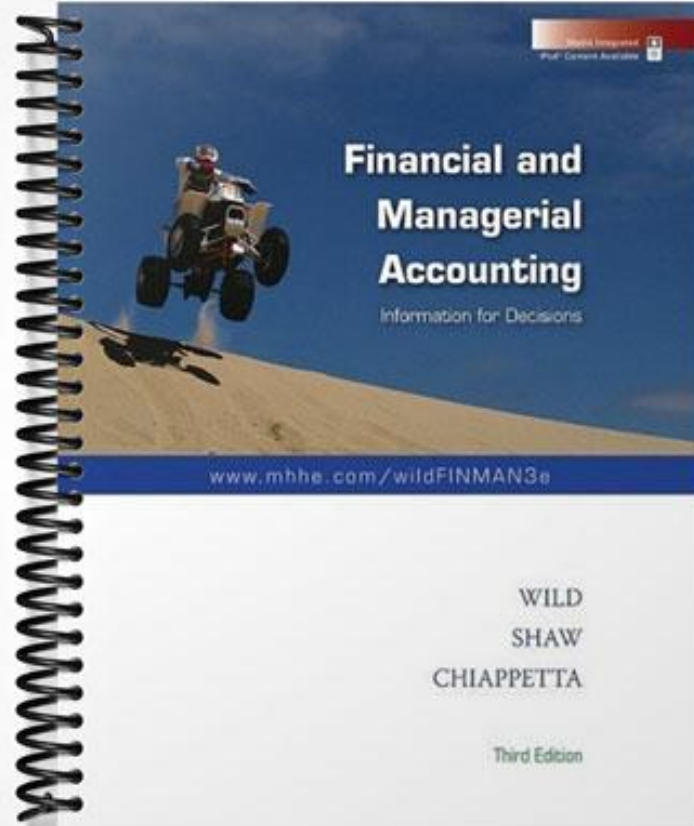


TEST BANK



Media Integrated
with Content Available

Financial and Managerial Accounting

Information for Decisions

www.mhhe.com/wildFINMAN3e

WILD
SHAW
CHIAPPETTA

Third Edition

Chapter 002 Analyzing and Recording Transactions

Summary of Questions by Difficulty Level (DL) and Learning Objective (LO)

True/False

Item	DL	LO	Item	DL	LO	Item	DL	LO
1.	Easy	C1	21.	Med	C5	41.	Med	A2
2.	Easy	C1	22.	Med	C5	42.	Hard	A2
3.	Easy	C1	23.	Med	C5	43.	Hard	A2
4.	Easy	C2	24.	Med	C5	44.	Easy	P1
5.	Easy	C2	25.	Med	C5	45.	Easy	P1
6.	Easy	C3	26.	Med	C5	46.	Easy	P1
7.	Easy	C3	27.	Med	C5	47.	Easy	P1
8.	Easy	C3	28.	Med	C5	48.	Easy	P1
9.	Med	C3	29.	Hard	C5	49.	Hard	P1
10.	Med	C3	30.	Hard	C5	50.	Easy	P2
11.	Med	C3	31.	Hard	C5	51.	Easy	P2
12.	Med	C3	32.	Med	A1	52.	Med	P2
13.	Med	C3	33.	Med	A1	53.	Med	P2
14.	Hard	C3	34.	Med	A1	54.	Med	P2
15.	Easy	C4	35.	Hard	A1	55.	Med	P2
16.	Easy	C5	36.	Hard	A1	56.	Med	P3
17.	Easy	C5	37.	Easy	A2	57.	Med	P3
18.	Easy	C5	38.	Med	A2	58.	Med	P3
19.	Easy	C5	39.	Med	A2	59.	Med	P3
20.	Easy	C5	40.	Med	A2			

Chapter 002 Analyzing and Recording Transactions

Multiple Choice

Item	DL	LO	Item	DL	LO	Item	DL	LO
60.	Easy	C1	86.	Med	C5	112.	Hard	A2
61.	Hard	C1	87.	Med	C5	113.	Hard	A2
62.	Easy	C2	88.	Med	C5	114.	Easy	P1
63.	Med	C2	89.	Hard	C5	115.	Easy	P1
64.	Med	C2	90.	Hard	C5	116.	Easy	P1
65.	Med	C2	91.	Easy	A1	117.	Easy	P1
66.	Hard	C2	92.	Easy	A1	118.	Med	P1
67.	Easy	C3	93.	Med	A1	119.	Med	P1
68.	Med	C3	94.	Med	A1	120.	Med	P1
69.	Med	C3	95.	Med	A1	121.	Hard	P1,P2
70.	Med	C3	96.	Hard	A1	122.	Hard	P1
71.	Med	C3	97.	Hard	A1	123.	Easy	P2
72.	Med	C3	98.	Hard	A1	124.	Easy	P2
73.	Med	C3	99.	Hard	A1	125.	Med	P2
74.	Med	C3	100.	Hard	A1	126.	Med	P2
75.	Med	C3	101.	Hard	A1	127.	Med	P2
76.	Hard	C3	102.	Hard	A1	128.	Med	P2
77.	Med	C4	103.	Hard	A1	129.	Med	P2
78.	Hard	C4	104.	Hard	A1	130.	Med	P2
79.	Easy	C5	105.	Hard	A1	131.	Hard	P2
80.	Easy	C5	106.	Hard	A1	132.	Hard	P2
81.	Easy	C5	107.	Med	A2	133.	Hard	P2
82.	Med	C5	108.	Med	A2	134.	Hard	P2
83.	Easy	C5	109.	Med	A2	135.	Med	P3
84.	Easy	C5	110.	Med	A2	136.	Hard	P3
85.	Med	C5	111.	Med	A2			

Chapter 002 Analyzing and Recording Transactions

Matching

Item	DL	LO	Item	DL	LO	Item	DL	LO
137.	Med	C1-C5,P1	139.	Med	C1-C5,P1	141.	Med	C3
138.	Med	C1-C5 P1-P2,A2	140.	Easy	C3			

Short Essay

Item	DL	LO	Item	DL	LO	Item	DL	LO
142.	Med	A1	147.	Med	C3	150.	Med	P1
143.	Hard	A1	148.	Med	C4	151.	Med	P2
144.	Med	C1	149.	Hard	C5	152.	Med	A1
145.	Med	C2	150.	Med	A2			

Problems

Item	DL	LO	Item	DL	LO	Item	DL	LO
153.	Easy	C2	162.	Med	A1	171.	Med	A2
154.	Med	C5	163.	Med	A1	172.	Easy	P1
155.	Med	C5	164.	Hard	A1	173.	Med	P2
156.	Easy	A1	165.	Med	A1,P2	174.	Med	P2
157.	Med	A1	166.	Hard	A1,P3	175.	Med	P2
158.	Med	A1	167.	Hard	A1,P3	176.	Hard	P2
159.	Med	A1	168.	Hard	A1,P3	177.	Hard	P2
160.	Med	A1	169.	Hard	A1,P3	178.	Med	P3
161.	Med	A1	170.	Med	A2	179.	Med	P3

Completion Problems

Item	DL	LO	Item	DL	LO	Item	DL	LO
180.	Med	C1	187.	Easy	C3	194.	Med	C5
181.	Med	C1	188.	Med	C3	195.	Hard	A1
182.	Med	C1	189.	Med	C3	196.	Med	A2
183.	Med	C2	190.	Med	C4	197.	Easy	P1
184.	Easy	C3	191.	Med	C5	198.	Easy	P1
185.	Easy	C3	192.	Easy	C5	199.	Med	P1
186.	Easy	C3	193.	Easy	C5	200.	Med	P1

Chapter 002 Analyzing and Recording Transactions

Chapter 002 Analyzing and Recording Transactions

True / False Questions

1. Accounting records are also referred to as the books.

True False

2. The first step in the analyzing and recording process is to analyze each transaction and event from source documents.

True False

3. Preparation of a trial balance is the first step in the analyzing and recording process.

True False

4. Source documents provide evidence of business transactions and are the basis for accounting entries.

True False

5. Items such as sales slips, invoices, checks and purchase orders are source documents.

True False

6. An account is a record of increases and decreases in a specific asset, liability, equity, revenue or expense item.

True False

7. A customer's promise to pay is called an account payable to the seller.

True False

Chapter 002 Analyzing and Recording Transactions

8. Dividends are a form of business expense.
True False

Chapter 002 Analyzing and Recording Transactions

9. As prepaid expenses are used up, the costs of these assets become expenses.

True False

10. Land and buildings are generally recorded in the same ledger account.

True False

11. It is not necessary to keep separate accounts for all items of importance for business decisions.

True False

12. Unearned revenues are liabilities.

True False

13. Cash dividends should be treated as an expense of the business.

True False

14. When a company provides services for which cash will not be received until some future date, the company should record an unearned revenue for the amount charged to the customer.

True False

15. The chart of accounts is a list of all the accounts used by a company and includes an identification number assigned to each account.

True False

16. An account balance is the difference between the debits and credits for an account including any beginning balance.

True False

Chapter 002 Analyzing and Recording Transactions

17. Debit means the right-hand side of any account.

True False

18. In a double-entry accounting system, total amount debited must always equal total amount credited.

True False

19. Increases in liability accounts are recorded as debits.

True False

20. Debits increase asset and expense accounts.

True False

21. Credits always increase account balances.

True False

22. Crediting an expense account decreases it.

True False

23. Double entry accounting requires that each transaction affects and be recorded in, at least two accounts.

True False

24. A revenue account normally has a debit balance.

True False

Chapter 002 Analyzing and Recording Transactions

25. Accounts are normally decreased by debits.

True False

26. The dividends account normally has a credit balance since it is an equity account.

True False

27. Asset accounts normally have credit balances and expense accounts normally have debit balances.

True False

28. Common Stock normally has a debit balance.

True False

29. A debit entry is always favorable.

True False

30. A transaction that decreases an asset account and increases a liability account must also affect one or more other accounts.

True False

31. A transaction that increases an asset and decreases a liability must also affect one or more other accounts.

True False

32. If insurance coverage for the next three years is paid for in advance, the amount of the payment is debited to an asset account called Prepaid Insurance.

True False

Chapter 002 Analyzing and Recording Transactions

33. The purchase of supplies on credit should be recorded with a debit to Supplies and a credit to Accounts Payable.

True False

34. If a company pays cash to purchase land, the journal entry to record this transaction will include a debit to Cash.

True False

35. If a company provides services to a customer on credit the service provider company should credit Accounts Receivable.

True False

36. When a company bills a customer for \$600 for services rendered, the journal entry to record this transaction will include a \$600 debit to Services Revenue.

True False

37. The debt ratio reflects the risk of a company to both its owners and creditors.

True False

38. The higher the debt ratio the higher risk of a company not being able to meet its obligations.

True False

39. The debt ratio is calculated by dividing total assets by total liabilities.

True False

Chapter 002 Analyzing and Recording Transactions

40. A company that finances a relatively large portion of its assets with liabilities is said to have a high degree of financial leverage.

True False

41. If a company is highly leveraged, this means that it has relatively low risk of not being able to repay its debt.

True False

42. Hamilton Industries has liabilities of \$105 million and total assets of \$350 million. Its debt ratio is 33.3%.

True False

43. High financial leverage is always bad for a company's owners.

True False

44. A compound journal entry affects no more than two accounts.

True False

45. Posting is the transfer of journal entry information to the ledger.

True False

46. Transactions are first recorded in the ledger.

True False

47. The journal is known as a book of original entry.

True False

Chapter 002 Analyzing and Recording Transactions

48. A journal gives a complete record of each transaction in one place and shows the debits and credits for each transaction.

True False

49. The journal is known as the book of final entry because financial statements are prepared from it.

True False

50. A trial balance that balances is not proof of complete accuracy in recording transactions.

True False

51. The trial balance is a list of all accounts and their balances from the ledger.

True False

52. Generally, the ordering of accounts in a trial balance typically follows their identification number from the chart of accounts: assets, liabilities, equity, revenues and expenses.

True False

53. The trial balance can serve as a replacement for the balance sheet, since debits must balance with credits.

True False

54. A trial balance that is in balance is proof that no errors were made in journalizing the transactions, posting to the ledger and preparing the trial balance.

True False

Chapter 002 Analyzing and Recording Transactions

55. If cash was incorrectly debited for \$100 instead of correctly credited for \$100, the cash account is out of balance by \$100.

True False

56. The balance sheet provides a link between beginning and ending income statements.

True False

57. The heading on each financial statement lists the three W's - Who (the name of the organization), What (the name of the statement) and Where (the organization's address)

True False

58. Other names for the income statement are the earnings statement, statement of operations or a profit and loss statement.

True False

59. Another name for the balance sheet is the statement of financial position.

True False

Multiple Choice Questions

60. The accounting process begins with:

- A. Analysis of business transactions and events
- B. Preparing financial statements and other reports
- C. Summarizing the recorded effect of business transactions
- D. Presentation of financial information to decision-makers
- E. Preparation of the trial balance

Chapter 002 Analyzing and Recording Transactions

61. Which of the following list of events properly reflects the early steps taken in the accounting process?
- A. Record relevant transactions, Post journal information to ledger accounts Analyze each transaction, Prepare and analyze the trial balance
 - B. Post journal information to ledger accounts, Analyze each transaction, Post journal information to ledger accounts, Prepare and analyze the trial balance
 - C. Prepare and analyze the trial balance, Analyze each transaction, Post journal information to ledger accounts, Record relevant transactions
 - D. Analyze each transaction, Post journal information to ledger accounts, Record relevant transactions, Prepare and analyze the trial balance
 - E. Analyze each transaction, Record relevant transactions, Post journal information to ledger accounts, Prepare and analyze the trial balance
62. A sales invoice:
- A. Is a type of source document
 - B. Is used by sellers for recording purposes
 - C. Is used by buyers for recording purchases
 - D. Gives rise to an entry in the accounting process
 - E. All of the above
63. Source documents include all of the following *except*:
- A. Sales tickets
 - B. Ledgers
 - C. Checks
 - D. Purchase orders
 - E. Bank statements
64. Source documents:
- A. Include the ledger
 - B. Are the sources of accounting information
 - C. Must be in electronic form
 - D. Are based on accounting entries
 - E. Include the chart of accounts

Chapter 002 Analyzing and Recording Transactions

65. Various types of documents and other papers that companies use when they conduct their business:

- A. Are called source documents
- B. Can include sales tickets
- C. Are the source of information for recording accounting entries
- D. Can be in electronic form
- E. All of the above

66. For what reason do most sellers require customers to have their receipts to exchange or return purchased items?

- A. The receipt contains coded information which the seller needs to prepare and analyze the trial balance
- B. Sellers wish to ensure that the sale in question was rung up on the register in the first place
- C. This is a legal requirement mandated by a federal law
- D. The receipt is serving as a promissory note
- E. Both B and C are reasons the seller requires customers to have receipts for all exchanges

67. A record of the increases and decreases in a specific asset, liability, equity, revenue or expense is a(n):

- A. Journal
- B. Posting
- C. Trial balance
- D. Account
- E. Chart of accounts

68. An account used to record the owner's investments in the business is called:

- A. Dividends
- B. Common Stock
- C. Revenue
- D. Expense
- E. Liability

Chapter 002 Analyzing and Recording Transactions

69. The account used to record the transfers of assets from a business to its stockholders is:

- A. A revenue account
- B. The retained earnings account
- C. Common stock account
- D. An expense account
- E. A liability account

70. Which of the following statements is correct?

- A. When a future expense is paid in advance, the payment is normally recorded in a liability account called Prepaid Expense
- B. Promises of future payment are called accounts payable
- C. Increases and decreases in cash are always recorded in the retained earnings account
- D. An account called Land is commonly used to record increases and decreases in both the land and buildings owned by a business
- E. Accrued liabilities include accounts receivable

71. Unearned revenues are:

- A. Revenues that have been earned and received in cash
- B. Revenues that have been earned but not yet collected in cash
- C. Liabilities created when a customer pays in advance for products or services before the revenue is earned
- D. Recorded as an asset in the accounting records
- E. Increases to retained earnings

72. Prepaid expenses are:

- A. Payments made for products and services that do not ever expire
- B. Classified as liabilities on the balance sheet
- C. Decreases in retained earnings
- D. Assets that represent prepayments of future expenses
- E. Promises of payments by customers

Chapter 002 Analyzing and Recording Transactions

73. A written promise to pay a definite sum of money on a specific future date is a(n):
- A. Unearned revenue
 - B. Prepaid expense
 - C. Credit account
 - D. Note payable
 - E. Account receivable
74. A collection of all accounts (with account balances) used by a business is called a:
- A. Journal
 - B. Book of original entry
 - C. General Journal
 - D. Balance column journal
 - E. Ledger
75. A ledger is:
- A. A record containing increases and decreases in a specific asset, liability, equity, revenue or expense item
 - B. A journal in which transactions are first recorded
 - C. A collection of documents that describe transactions and events entering the accounting process
 - D. A list of all accounts with their debit balances at a point in time
 - E. A list of all accounts a company uses and includes an identification number assigned to each account
76. Which of the following statements about the Cash account are true?
- A. Because most companies earn their fees in cash, the cash account is categorized as revenue
 - B. For any given transaction Accounts Receivable and Cash can be used interchangeably because both accounts are measured in terms of cash
 - C. The cash account includes the value of any medium of exchange that a bank accepts for deposit
 - D. Both A and B are true statements
 - E. Both B and C are true statements

Chapter 002 Analyzing and Recording Transactions

77. A list of all accounts used by a company and the identification number assigned to each account is called a:

- A. Ledger
- B. Journal
- C. Trial balance
- D. Chart of accounts
- E. General Journal

78. The general ledger of a business

- A. Is a collection of all accounts used in a company's information system
- B. Must be kept in a computer file
- C. A and B
- D. Is a set standard not affected by a company's size and diversity
- E. A, B and D

79. A debit is:

- A. An increase in an account
- B. The right-hand side of a T-account
- C. A decrease in an account
- D. The left-hand side of a T-account
- E. An increase to a liability account

80. The right side of a T-account is a(n):

- A. Debit
- B. Increase
- C. Credit
- D. Decrease
- E. Account balance

Chapter 002 Analyzing and Recording Transactions

81. Which of the following statements is incorrect?

- A. The normal balance of accounts receivable is a debit
- B. The normal balance of dividends is a debit
- C. The normal balance of unearned revenues is a credit
- D. The normal balance of an expense account is a credit
- E. The normal balance of common stock is a credit

82. A credit is used to record:

- A. A decrease in an expense account
- B. A decrease in an asset account
- C. An increase in an unearned revenue account
- D. An increase in a revenue account
- E. All of the above

83. A simple account form widely used in accounting to illustrate how debits and credits work is called a:

- A. Dividend account
- B. Common stock account
- C. Drawing account
- D. T-account
- E. Balance column sheet

84. Which of the following statements is correct?

- A. The left side of a T-account is the credit side
- B. Debits decrease asset and expense accounts and increase liability, equity and revenue accounts
- C. The left side of a T-account is the debit side
- D. Credits increase asset and expense accounts and decrease liability, equity and revenue accounts
- E. In certain circumstances the total amount debited need not equal the total amount credited for a particular transaction

Chapter 002 Analyzing and Recording Transactions

85. An account balance is:

- A. The total of the credit side of the account
- B. The total of the debit side of the account
- C. The difference between the total debits and total credits for an account including the beginning balance
- D. $\text{Assets} = \text{liabilities} + \text{equity}$
- E. Always a credit

86. Of the following accounts, the one that normally has a credit balance is:

- A. Cash
- B. Office Equipment
- C. Sales Salaries Payable
- D. Dividends
- E. Sales Salaries Expense

87. A debit is used to record:

- A. A decrease in an asset account
- B. A decrease in an expense account
- C. An increase in a revenue account
- D. An increase in the balance of common stock
- E. A decrease in the balance of retained earnings

88. A credit entry:

- A. Increases asset and expense accounts and decreases liability, common stock and revenue accounts
- B. Is always a decrease in an account
- C. Decreases asset and expense accounts and increases liability, common stock and revenue accounts
- D. Is recorded on the left side of a T-account
- E. Is always an increase in an account

Chapter 002 Analyzing and Recording Transactions

89. Double-entry accounting is an accounting system:
- A. That records each transaction twice
 - B. That records the effects of transactions and other events in at least two accounts with equal debits and credits
 - C. In which each transaction affects and is recorded in two or more accounts but that could include two debits and no credits
 - D. That may only be used if T-accounts are used
 - E. That insures that errors never occur
90. Which of the following is a true statement regarding debits and credits?
- A. If a company earned a profit, debits will not equal credits
 - B. For a business, debits are better than credits
 - C. A company's books are not in balance if they have a current period loss
 - D. Assets and expenses are both increased with a debit
 - E. Liabilities and equity are both increased with a debit
91. Rocky Industries received its telephone bill in the amount of \$300 and immediately paid it. Rocky's general journal entry to record this transaction will include a
- A. Debit to Telephone Expense for \$300
 - B. Credit to Accounts Payable for \$300
 - C. Debit to Cash for \$300
 - D. Credit to Telephone Expense for \$300
 - E. Debit to Accounts Payable for \$300
92. Management Services, Inc. provides services to clients. On May 1, a client prepaid Management Services \$60,000 for 6-months contract in advance. Management Services' general journal entry to record this transaction will include a
- A. Debit to Unearned Management Fees for \$60,000
 - B. Credit to Management Fees Earned for \$60,000
 - C. Credit to Cash for \$60,000
 - D. Credit to Unearned Management Fees for \$60,000
 - E. Debit to Management Fees Earned for \$60,000

Chapter 002 Analyzing and Recording Transactions

93. Wisconsin Rentals purchased office supplies on credit. The general journal entry made by Wisconsin Rentals will include a:

- A. Debit to Accounts Payable
- B. Debit to Accounts Receivable
- C. Credit to Cash
- D. Credit to Accounts Payable
- E. Credit to Retained Earnings

94. An asset created by prepayment of an expense is:

- A. Recorded as a debit to an unearned revenue account
- B. Recorded as a debit to a prepaid expense account
- C. Recorded as a credit to an unearned revenue account
- D. Recorded as a credit to a prepaid expense account
- E. Not recorded in the accounting records until the earnings process is complete

95. Robert Haddon contributed \$70,000 in cash and some land worth \$130,000 to open a new business, RH Consulting. Which of the following general journal entries will RH Consulting make to record this transaction?

	Assets	200,000	
A.	Common Stock		200,000
	Cash and Land	200,000	
B.	Common Stock		200,000
	Cash	70,000	
	Land	130,000	
C.	Common Stock		200,000
	Common Stock	200,000	
	Cash		70,000
D.	Land		130,000
	Common Stock	200,000	
E.	Assets		200,000

Chapter 002 Analyzing and Recording Transactions

96. A liability created by the receipt of cash from customers in payment for products or services that have not yet been delivered to the customers is:
- A. Recorded as a debit to an unearned revenue account
 - B. Recorded as a debit to a prepaid expense account
 - C. Recorded as a credit to an unearned revenue account
 - D. Recorded as a credit to a prepaid expense account
 - E. Not recorded in the accounting records until the earnings process is complete
97. On September 30, the Cash account of Value Company had a normal balance of \$5,000. During September, the account was debited for a total of \$12,200 and credited for a total of \$11,500. What was the balance in the Cash account at the beginning of September?
- A. A \$0 balance
 - B. A \$4,300 debit balance
 - C. A \$4,300 credit balance
 - D. A \$5,700 debit balance
 - E. A \$5,700 credit balance
98. On October 31, a company's Cash account had a normal balance of \$7,000. During October, the account was debited for a total of \$4,250 and credited for a total of \$5,340. What was the balance in the Cash account at the beginning of October?
- A. \$0 balance
 - B. \$1,090 debit balance
 - C. \$2,590 credit balance
 - D. \$8,090 debit balance
 - E. \$9,590 credit balance
99. On April 30, Holden Company had an Accounts Receivable balance of \$18,000. During the month of May, total credits to Accounts Receivable were \$52,000 from customer payments. The May 31 Accounts Receivable balance was \$13,000. What was the amount of credit sales during May?
- A. \$5,000
 - B. \$47,000
 - C. \$52,000
 - D. \$57,000
 - E. \$32,000

Chapter 002 Analyzing and Recording Transactions

100. On November 30, a company had Accounts Receivable of \$5,100. During the month of December, total credits to Accounts Receivable were \$76,000 from customer payments. The December 31 Accounts Receivable balance was \$43,000. What was the amount of credit sales during December?

- A. \$8,100
- B. \$27,900
- C. \$70,900
- D. \$76,000
- E. \$113,900

101. The Fireside Country Inn is a very popular destination for tourists. The Inn requires guests to make reservations at least two months in advance of their stay. A twenty percent down payment is required at the time the reservation is made. When should this inn recognize room rental revenue?

- A. On the date the reservation is received
- B. On the date the money for the reservation is received
- C. On the date the guests stay in the inn
- D. On the date the guests pay the remaining eighty percent due
- E. Once all cash has been received

102. During the month of February, Hoffer Company had cash receipts of \$7,500 and cash disbursements of \$8,600. The February 28 cash balance was \$1,800. What was the January 31 beginning cash balance?

- A. \$700
- B. \$1,100
- C. \$2,900
- D. \$0
- E. \$4,300

103. During March, a company had cash receipts of \$2,300 and cash disbursements of \$6,600. The March 31 cash balance was \$2,780. What was the March 1 beginning cash balance?

- A. \$1,520
- B. \$7,080
- C. \$4,300
- D. \$8,900
- E. \$11,680

Chapter 002 Analyzing and Recording Transactions

104. The following transactions occurred during July:

1. Received \$900 cash for services provided to a customer during July.
2. Received \$2,200 cash investment from Barbara Hanson, the owner of the business.
3. Received \$750 from a customer in partial payment of his account receivable which arose from sales in June.
4. Provided services to a customer on credit, \$375.
5. Borrowed \$6,000 from the bank by signing a promissory note.
6. Received \$1,250 cash from a customer for services to be rendered next year.

What was the amount of revenue for July?

- A. \$900
- B. \$1,275
- C. \$2,525
- D. \$3,275
- E. \$11,100

105. If Jones Hardware, Inc. pays a cash dividend of \$6,000, the entry to record this transaction is to:

- A. Debit Cash, Credit Retained Earnings
- B. Debit Dividends, Credit Cash
- C. Debit Common Stock, Credit Cash
- D. Debit Cash, Credit Common Stock
- E. Debit Cash, Credit Dividend Income

106. These transactions were completed by the art gallery opened by Zed Bennett.

1. Started the gallery, Artery, by investing \$40,000 cash and equipment valued at \$18,000 in exchange for common stock.
2. Purchased \$70 of office supplies on credit.
3. Paid \$1,200 cash for the receptionist's salary.
4. Sold a painting for an artist and collected a \$4,500 cash commission on the sale.
5. Completed an art appraisal and billed the client \$200.

What was the balance of the cash account after these transactions were posted?

- A. \$12,230
- B. \$12,430
- C. \$43,300
- D. \$43,430
- E. \$61,430

Chapter 002 Analyzing and Recording Transactions

107. The debt ratio is used:

- A. To measure the relation of equity to expenses
- B. To reflect the risk associated with a company's debts
- C. Only by banks when a business applies for a loan
- D. To determine how much debt a firm should pay off
- E. All of the above

108. Which of the following is the formula used to calculate the debt ratio?

- A. Total Equity/Total Liabilities
- B. Total Liabilities/Total Equity
- C. Total Liabilities/Total Assets
- D. Total Assets/Total Liabilities
- E. Total Equity/Total Assets

109. Which of the following statements is *incorrect*?

- A. Higher financial leverage involves higher risk
- B. Risk is higher if a company has more liabilities
- C. Risk is higher if a company has higher assets
- D. The debt ratio is one measure of financial risk
- E. Lower financial leverage involves lower risk

110. Stride Rite has total assets of \$425 million. Its total liabilities are \$110 million. Its equity is \$315 million. Calculate the debt ratio.

- A. 38.6%
- B. 13.4%
- C. 34.9%
- D. 25.9%
- E. 14.9%

Chapter 002 Analyzing and Recording Transactions

111. A company has total assets of \$385 million. Its total liabilities are \$100 million and its equity is \$285 million. Calculate its debt ratio.

- A. 35.1%
- B. 26.0%
- C. 38.5%
- D. 28.5%
- E. 58.8%

112. A company has total liabilities of \$550 million and total equity of \$300 million. Calculate this company's debt ratio.

- A. 64.7%
- B. 100%
- C. 54.5%
- D. 1.83 to 1
- E. The debt ratio cannot be determined without additional information

113. Which of the following statements is *false* with regard to the debt ratio?

- A. It is of use to both internal and external users of accounting information
- B. A relatively high ratio is always desirable
- C. The dividing line for a high and low ratio varies from industry to industry
- D. Many factors such as the company's age, stability, profitability and cash flow influence the determination of what would be interpreted as a high versus a low ratio
- E. The ratio might be used to help determine if a company is capable of increasing its income by obtaining further debt

114. The process of transferring general journal information to the ledger is:

- A. Double-entry accounting
- B. Posting
- C. Balancing an account
- D. Journalizing
- E. Not required unless debits do not equal credits

Chapter 002 Analyzing and Recording Transactions

115. A column in journals and ledger accounts used to cross reference journal and ledger entries is the:

- A. Account balance column
- B. Debit column
- C. Posting reference column
- D. Credit column
- E. Description column

116. The record in which transactions are first recorded is the:

- A. Account balance
- B. Ledger
- C. Journal
- D. Trial balance
- E. Cash account

117. The general journal provides a place for recording:

- A. The transaction date
- B. The names of the accounts involved
- C. The amount of each debit and credit
- D. An explanation of the transaction
- E. All of the above

118. A balance column ledger account is:

- A. An account entered on the balance sheet
- B. An account with debit and credit columns for posting entries and another column for showing the balance of the account after each entry is posted
- C. Another name for the retained earnings account
- D. An account used to record the transfers of assets from a business to its stockholders
- E. A simple form of account that is widely used in accounting to illustrate the debits and credits required in recording a transaction

Chapter 002 Analyzing and Recording Transactions

119. A general journal is:

- A. A ledger in which amounts are posted from a balance column account
- B. Not required if T-accounts are used
- C. A complete record of each transaction in the place from which transaction amounts are posted to the ledger accounts
- D. Not necessary in electronic accounting systems
- E. A book of final entry because financial statements are prepared from it

120. A record in which the effects of transactions are first recorded and from which transaction amounts are posted to the ledger is a(n):

- A. Account
- B. Trial balance
- C. Journal
- D. T-account
- E. Balance column account

121. A company had the following account balances at year-end:

Cash.....	\$30,000
Accounts receivable	32,000
Accounts payable.....	20,000
Fees earned.....	65,000
Rent expense	15,000
Insurance expense.....	4,800
Supplies	5,000
Common Stock	5,000
Retained Earnings.....	14,800
Dividends	18,000

If all of the accounts have normal balances, what are the totals for the trial balance?

- A. \$45,200
- B. \$67,000
- C. \$104,800
- D. \$209,600
- E. \$186,600

Chapter 002 Analyzing and Recording Transactions

122. Listed below are two pieces of information. Where is the best place to locate this information, in the journal or the ledger?

1. Details of a transaction which took place on October 3rd
2. All of the sales activity which took place during the current month

1. Journal 2. Journal
1. Journal 2. Ledger
1. Ledger 2. Ledger
1. Ledger 2. Journal
- This information is only available on the financial statements

123. A report that lists accounts and their balances, in which the total debit balances should equal the total credit balances is called a(n):

- Account balance
- Trial balance
- Ledger
- Chart of accounts
- General Journal

124. Which of the following statements are *true*?

- If the trial balance is in balance, it proves that no errors have been made in recording and posting transactions
- The trial balance is a book of original entry
- Another name for trial balance is chart of accounts
- The trial balance is a list of all accounts from the ledger with their balances at a point in time
- The trial balance is another name for the balance sheet as long as debits balance with credits

125. A company failed to post a \$50 debit to the Office Supplies account. The effect of this error will be that:

- The Office Supplies account balance will be overstated
- The trial balance will not balance
- The error will overstate the debits listed in the journal
- The total debits in the trial balance will be larger than the total credits
- All of the above effects will be caused by the error

Chapter 002 Analyzing and Recording Transactions

126. A \$15 credit to Sales was posted as a \$150 credit. By what amount is Sales in error?

- A. \$150 understated
- B. \$135 overstated
- C. \$150 overstated
- D. \$15 understated
- E. \$135 understated

127. A trial balance taken at year-end showed total credits exceeding total debits by \$4,950. This discrepancy could have been caused by:

- A. An error in the general journal where a \$4,950 increase in Accounts Receivable was recorded as an increase in Cash
- B. A net income of \$4,950
- C. The balance of \$49,500 in Accounts Payable being entered in the trial balance as \$4,950
- D. The balance of \$5,500 in the Office Equipment account being entered on the trial balance as a debit of \$550
- E. An error in the general journal where a \$4,950 increase in Accounts Payable was recorded as a decrease in Accounts Payable

128. In which of the following situations would the trial balance not balance?

- A. A \$1,000 collection of an account receivable was erroneously posted as a debit to Accounts Receivable and a credit to Cash
- B. The purchase of office supplies on account for \$3,250 was erroneously recorded in the journal as \$2,350 debit to Office Supplies and credit to Accounts Payable
- C. A \$50 cash receipt for the performance of a service was not recorded at all
- D. The purchase of office equipment for \$1,200 was posted as a debit to Office Supplies and a credit to Cash for \$1,200
- E. The cash payment of a \$750 account payable was posted as a debit to Accounts Payable and a debit to Cash for \$750

Chapter 002 Analyzing and Recording Transactions

129. The credit purchase of a delivery truck for \$4,700 was posted to Delivery Trucks as a \$4,700 debit and to Accounts Payable as a \$4,700 debit. What effect would this error have on the trial balance?

- A. The total of the Debit column of the trial balance will exceed the total of the Credit column by \$4,700
- B. The total of the Credit column of the trial balance will exceed the total of the Debit column by \$4,700
- C. The total of the Debit column of the trial balance will exceed the total of the Credit column by \$9,400
- D. The total of the Credit column of the trial balance will exceed the total of the Debit column by \$9,400
- E. The total of the Debit column of the trial balance will equal the total of the Credit column

130. If the Debit and Credit column totals of a trial balance are equal, then:

- A. All transactions have been recorded correctly
- B. All entries from the journal have been posted to the ledger correctly
- C. All ledger account balances are correct
- D. The total debit entries and total credit entries are equal
- E. The balance sheet would be correct

131. Accountants at Amalgamated Corporation incorrectly journalized a \$50,000 equipment purchase as a debit to Buildings. This error was not discovered before the journal entry was posted. What is the correcting entry?

- A. Debit Buildings and Credit Equipment for \$50,000 each
- B. Debit Equipment and Credit Buildings for \$50,000 each
- C. Debit Buildings and Credit Equipment for \$100,000 each
- D. Debit Equipment and Credit Buildings for \$100,000 each
- E. Debit Equipment for \$100,000 and Credit Buildings for \$50,000

Chapter 002 Analyzing and Recording Transactions

132. A \$72,000 receipt of cash from a customer paying on their account was recorded as a \$72,000 debit to Accounts Receivable. Assuming this journal entry was posted, what correcting entry (if any) is needed?

- A. Debit Cash and Credit Accounts Receivable for \$72,000 each
- B. Debit Cash and Credit Accounts Receivable for \$144,000 each
- C. Credit Cash and Debit Accounts Receivable for \$72,000 each
- D. Credit Cash and Debit Accounts Receivable for \$144,000 each
- E. No correcting entry is needed for this transaction

133. Of the following errors, which one by itself will cause the trial balance to be out of balance?

- A. A \$200 cash salary payment posted as a \$200 debit to Cash and a \$200 credit to Salaries Expense
- B. A \$100 cash receipt from a customer in payment of his account posted as a \$100 debit to Cash and a \$10 credit to Accounts Receivable
- C. A \$75 cash receipt from a customer in payment of his account posted as a \$75 debit to Cash and a \$75 credit to Cash
- D. A \$50 cash purchase of office supplies posted as a \$50 debit to Office Equipment and a \$50 credit to Cash
- E. An \$800 prepayment from a customer for services to be rendered in the future was posted as an \$800 debit to Unearned Revenue and an \$800 credit to Cash

134. A \$130 credit to Office Equipment was credited to Fees Earned by mistake. By what amounts are the accounts under or overstated as a result of this error?

- A. Office Equipment, understated \$130; Fees Earned, overstated \$130
- B. Office Equipment, understated \$260; Fees Earned, overstated \$130
- C. Office Equipment, overstated \$130; Fees Earned, overstated \$130
- D. Office Equipment, overstated \$130; Fees Earned, understated \$130
- E. Office Equipment, overstated \$260; Fees Earned, understated \$130

135. Which of the following groups of accounts are not balance sheet accounts?

- A. Assets
- B. Liabilities
- C. Revenues
- D. Equity accounts
- E. All of the above are balance sheet accounts

Chapter 002 Analyzing and Recording Transactions

136. Which of the following is a TRUE statement concerning a company's financial statements?

- A. Balance Sheet and Income Statement data combined contain the complete financial picture of a given company
- B. A Trial Balance is another name for a Balance Sheet
- C. Another name for the Income Statement is the Earnings Statement
- D. Dividends paid to a company's shareholders are shown on the Income Statement
- E. The Balance Sheet shows the financial position of a company for a period of time

Matching Questions

137. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

- | | | |
|----------------------------|---|-------|
| 1. Ledger | The sources of accounting information. | _____ |
| | An increase in an asset, dividend and expense account and decrease in a liability, common stock and revenue account; recorded on the left side of a T-account | |
| 2. Source documents | | _____ |
| | The process of transferring journal entry information to the ledger | |
| 3. T-account | | _____ |
| | An accounting system where each transaction affects and is recorded in at least two accounts; the sum of the debits for each entry must equal its credits | |
| 4. Debit | | _____ |
| | A file containing all accounts of a company and their balances | |
| 5. Credit | | _____ |
| 6. Double-entry accounting | A company's record of each transaction in one place that shows debits and credits for each transaction | _____ |
| | A record of the increases and decreases in a specific asset, liability, equity, revenue or expense item | |
| 7. Account | | _____ |
| | Decrease in an asset, dividend and expense account and increase in a liability, common stock and revenue account; recorded on the right side of a T-account | |
| 8. Posting | | _____ |
| | A simple account form used as a helpful tool in showing the effects of transactions and events on specific accounts | |
| 9. Journal | | _____ |
| 10. Accounting records | Another name for the accounting books or simply the books | _____ |

Chapter 002 Analyzing and Recording Transactions

138. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

- | | | |
|---------------------------|--|-------|
| 1. Account balance | An increase in an asset, dividend and expense account and a decrease in a liability, common stock and revenue account; recorded on the left side of a T-account | _____ |
| 2. Debt ratio | A written promise to pay a definite sum of money on a specified future date | _____ |
| 3. Debit | A file containing all accounts of a company and their balances | _____ |
| 4. Ledger | A complete record of each transaction in one place that shows debits and credits for each transaction | _____ |
| 5. Note payable | The ratio of total liabilities to total assets; used to reflect the risk associated with the company's debts | _____ |
| 6. Chart of accounts | A list of all accounts used by a company and the identification number assigned to each account | _____ |
| 7. Journal | A list of accounts and their balances at a point in time; the total debit balances should equal the total credit balances | _____ |
| 8. Trial balance | A decrease in an asset, dividend and expense account and an increase in a liability, common stock and revenue account; recorded on the right side of a T-account | _____ |
| 9. Balance column account | The difference between total debits and total credits for an account including the beginning balance | _____ |
| 10. Credit | An account with debit and credit columns for recording entries and a third column for showing the balance of the account after each entry | _____ |

Chapter 002 Analyzing and Recording Transactions

139. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

- | | | |
|-----------------------------|--|-------|
| 1. Account | The most flexible type of journal, it can be used to record any kind of transaction | _____ |
| 2. Unearned revenues | A list of all accounts used by a company and the identification number assigned to each account | _____ |
| 3. T-account | A written promise from a customer to pay a definite sum of money on a specified future date | _____ |
| 4. Note receivable | A simple form used as a helpful tool in understanding the effect of transactions and events on specific accounts | _____ |
| 5. Chart of accounts | Liabilities created when customers pay in advance for products or services; satisfied by delivering the products or services in the future | _____ |
| 6. Posting reference column | A journal entry that affects at least three accounts | _____ |
| 7. Posting | A column in journals where individual account numbers are entered when entries are posted to ledger accounts | _____ |
| 8. General journal | The process of transferring journal entry information to the ledger | _____ |
| 9. Compound journal entry | A record of the increases and decreases in a specific asset, liability, equity, revenue or expense item | _____ |
| 10. Trial Balance | A list of accounts and their balances at a point in time; the total debit balances should equal the total credit balances | _____ |

140. Identify each of the following accounts as a revenue (R), expense (E), asset (A), liability (L) or equity (OE) by placing initials (R, E, A, L or OE) in the blanks.

- | | | |
|-------------------------|------------------|-------|
| 1. Accounts Receivable | Expense | _____ |
| 2. Prepaid Insurance | Asset | _____ |
| 3. Common Stock | Asset | _____ |
| 4. Retained Earnings | Placing Initials | _____ |
| 5. Cash | Revenue | _____ |
| 6. Unearned Fee Revenue | Asset | _____ |
| 7. Fees Revenue | Liability | _____ |
| 8. Accounts Payable | Placing Initials | _____ |
| 9. Dividends | Asset | _____ |
| 10. Supplies | Liability | _____ |
| 11. Salary Expense | Asset | _____ |
| 12. Equipment | Placing Initials | _____ |

Chapter 002 Analyzing and Recording Transactions

141. The following accounts appear on either the Income Statement (IS) or Balance Sheet (BS). In the space provided next to each account write the letters IS or BS, that identify the statement on which the account appears.

- | | | |
|---------------------------|------------------|-------|
| 1. Wages Payable | Balance Sheet | _____ |
| 2. Notes Receivable | Income Statement | _____ |
| 3. Office Equipment | Balance Sheet | _____ |
| 4. Cash | Income Statement | _____ |
| 5. Common Stock | Balance Sheet | _____ |
| 6. Fees Revenue | Balance Sheet | _____ |
| 7. Accounts Payable | Income Statement | _____ |
| 8. Rent Expense | Balance Sheet | _____ |
| 9. Unearned Fees Revenues | Balance Sheet | _____ |
| 10. Rent Expense | Balance Sheet | _____ |

Chapter 002 Analyzing and Recording Transactions

Short Answer Questions

142. Vicki Lake is a computer consultant. Shown below are (a) several accounts in her ledger with each account preceded by an identification number and (b) several transactions completed by Lake. Indicate the accounts debited and credited when recording each transaction by placing the proper account identification numbers to the right of each transaction.

- | | |
|----------------------------|-----------------------------|
| 1. Accounts Payable | 7. Telephone Expense |
| 2. Accounts Receivable | 8. Unearned Consulting Fees |
| 3. Cash | 9. Common Stock |
| 4. Consulting Fees Earned | 10. Dividends |
| 5. Office Supplies | 11. Insurance Expense |
| 6. Office Supplies Expense | 12. Prepaid Insurance |

		Debit	Credit
	Example:		
	Completed consulting work for a client who will pay at a later date.	2	4
A.	Received cash in advance from a customer for designing a software package.		
B.	Purchased office supplies on credit.		
C.	Paid for the supplies purchased in B		
D.	Received the telephone bill of the business and immediately paid it.		
E.	Paid for a 3-year insurance policy		

Chapter 002 Analyzing and Recording Transactions

143. David Roberts is a real estate appraiser. Shown below are (a) several accounts in his ledger with each account preceded by an identification number and (b) several transactions completed by Roberts. Indicate the accounts debited and credited when recording each transaction by placing the proper account identification numbers to the right of each transaction.

- | | |
|--------------------------|-----------------------------|
| 1. Accounts Payable | 8. Office Supplies Expense |
| 2. Accounts Receivable | 9. Prepaid Insurance |
| 3. Appraisal Fees Earned | 10. Salaries Expense |
| 4. Cash | 11. Telephone Expense |
| 5. Insurance Expense | 12. Unearned Appraisal Fees |
| 6. Office Equipment | 13. Common Stock |
| 7. Office Supplies | 14. Dividends |

	Debit	Credit
Example:		
Completed an appraisal for a client who promised to pay at a later date.	2	3
A. Received cash in advance for appraising an office building.		
B. Purchased office supplies on credit		
C. Paid a cash dividend		
D. Received the telephone bill of the business and immediately paid it.		
E. Paid the salary of the office assistant.		
F. Paid for the supplies purchased in transaction B.		
G. Completed an appraisal for a client and immediately collected cash for the work done.		

Chapter 002 Analyzing and Recording Transactions

144. List the steps in processing transactions.

145. Describe source documents and their purpose.

146. Explain how accounts are used in recording information about transactions.

147. Explain the difference between a ledger and a chart of accounts.

Chapter 002 Analyzing and Recording Transactions

148. Explain debits and credits and their role in the accounting system.
149. Explain the debt ratio and its use in analyzing a company's financial condition.
150. Explain the recording and posting processes.
151. What is a trial balance? What is its purpose?

Chapter 002 Analyzing and Recording Transactions

152. Sara Blakely founded the Bottom Line. What are some accounting challenges she faced when starting her business?

Problems

153. Identify which of the following items would likely serve as a source document by marking an X in the appropriate column. The first one is done as an example

		Yes	No
Ex.	Credit card		X
a.	Credit card receipt		
b.	Purchase order		
c.	Invoice		
d.	Balance sheet		
e.	Bank statement		
f.	Journal entry		
g.	Electric power bill		
h.	Employee earnings record		

Chapter 002 Analyzing and Recording Transactions

154. Indicate whether a debit or credit entry would be made to record the following changes in each account.

- a. To decrease Cash
- b. To increase Common Stock
- c. To decrease Accounts Payable
- d. To increase Salaries Expense
- e. To decrease Supplies
- f. To increase Revenue.
- g. To decrease Accounts Receivable
- h. To increase Retained Earnings

Chapter 002 Analyzing and Recording Transactions

155. The following is a list of accounts and identification letters A through J for Shannon Management Co.:

A. Common Stock	F. Prepaid Rent
B. Interest Payable	G. Advertising Expense
C. Land	H. Unearned Rent Revenue
D. Dividends	I. Commissions Earned
E. Fees Earned	J. Notes Receivable

Use the form below to identify the type of account and its normal balance. The first item is filled in as an example.

	Type of Account			Normal Balance	
	Asset	Liability	Equity	Debit	Credit
A			X		X
B					
C					
D					
E					
F					
G					
H					
I					
J					

Chapter 002 Analyzing and Recording Transactions

156. Dolly Barton began Barton Office Services in October and during that month completed these transactions:

- a. Invested \$10,000 cash and \$15,000 of computer equipment in exchange for common stock
- b. Paid \$500 cash for an insurance premium covering the next 12 months
- c. Completed a word processing assignment for a customer and collected \$1,000 cash
- d. Paid \$200 cash for office supplies
- e. Paid \$2,000 for October's rent.

Prepare journal entries to record the above transactions. Explanations are unnecessary.

157. A company sends a \$1,500 bill to a customer for delivery services rendered. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.

Chapter 002 Analyzing and Recording Transactions

158. A company paid \$2,500 cash to satisfy a previously recorded account payable. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.

159. A business paid a \$100 cash dividend. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.

160. On December 3, the Matador Company paid \$5,400 cash in salaries to office personnel. Prepare the general journal entry to record this transaction.

Chapter 002 Analyzing and Recording Transactions

161. On February 5, Textron Stores purchased a van that cost \$35,000. The firm made a down payment of \$5,000 cash and signed a long-term note payable for the balance. Show the general journal entry to record this transaction.

162. Krenz Car Care, owned and operated by Karl Krenz, began business as a corporation in September of the current year. Karl, a master mechanic, had no experience with keeping a set of books. As a result, Karl entered all of September's transactions directly to the ledger accounts. When he tried to locate a particular entry he found it confusing and time consuming. He has hired you to improve his accounting procedures. The accounts in his General Ledger follow:

Cash			Equipment		
9/01	(a) 4,200	9/4 (b) 550	9/1	(a) 800	
9/11	(d) 150		9/4	(b) 2,550	
9/15	(e) 190				

Common Stock		Notes Payable	
	9/1 (a) 5,000		9/4 (b) 2,000

Accounts Receivable		Repair Revenue	
9/9	(c) 275	9/15 (e) 190	9/9 (c) 275
			9/11 (d) 150

Prepare the general journal entries, in chronological order (a) through (e), from the T-account entries shown. Include a brief description of the probable nature of each transaction.

Chapter 002 Analyzing and Recording Transactions

163. Flora Accounting Services completed these transactions in February:

- a. Purchased office supplies on account, \$300
 - b. Completed work for a client on credit, \$500
 - c. Paid cash for the office supplies purchased in (a)
 - d. Completed work for a client and received \$800 cash
 - e. Received \$500 cash for the work described in (b).
 - f. Received \$1,000 from a client for accounting services to be performed in March.
- Prepare journal entries to record the above transactions. Explanations are not necessary.

164. Leonard Matson completed these transactions during December of the current year:

Dec.	1	Began a financial services practice by investing \$15,000 cash and office equipment having a \$5,000 value in exchange for common stock.
	2	Purchased \$1,200 of office equipment on credit.
	3	Purchased \$300 of office supplies on credit
	4	Completed work for a client and immediately received a payment of \$900 cash.
	8	Completed work for Acme Loan Co. on credit, \$1,700.
	10	Paid for the supplies purchased on December 3.
	14	Paid for the annual \$960 premium on an insurance policy.
	18	Received payment in full from Acme Loan Co. for the work completed on December 8.
	27	Paid a \$650 cash dividend.
	30	Paid \$175 cash for the December utility bills.
	30	Received \$2,000 from a client for financial services to be rendered next year.

Prepare general journal entries to record these transactions.

Chapter 002 Analyzing and Recording Transactions

165. Maria Sanchez began business as Sanchez Law Firm on November 1. Record the following November transactions by making entries directly to the T-accounts provided. Then, prepare a trial balance, as of November 30.

- a. Sanchez invested \$15,000 cash and a law library valued at \$6,000 in exchange for common stock.
- b. Purchased \$7,500 of office equipment from Johnson Bros. on credit.
- c. Completed legal work for a client and received \$1,500 cash in full payment.
- d. Paid Johnson Bros. \$3,500 cash in partial settlement of the amount owed.
- e. Completed \$4,000 of legal work for a client on credit.
- f. Paid a \$2,000 cash dividend.
- g. Received \$2,500 cash as partial payment for the legal work completed for the client in (e).
- h. Paid \$2,500 cash for the legal secretary's salary.

	Cash		Office Equipment			Dividends

	Accounts Receivable		Accounts Payable			Legal Fees Earned

	Law Library		Common Stock			Salaries Expense

Chapter 002 Analyzing and Recording Transactions

166. Josephine's Bakery had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	\$114,000	\$68,000
End of the year	135,000	73,000

If the owners made no investments in the business and no dividends were paid during the year, what was the amount of net income earned by Josephine's Bakery during the current year?

167. Josephine's Bakery had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	\$114,000	\$68,000
End of the year	135,000	73,000

If the owners invested an additional \$12,000 in the business during the year, but no dividends were paid, what was the amount of net income earned by Josephine's Bakery during the current year?

Chapter 002 Analyzing and Recording Transactions

168. Josephine's Bakery had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	\$114,000	\$68,000
End of the year	135,000	73,000

If the owners made no investments and dividends of \$5,000 were paid during the year, what was the amount of net income earned by Josephine's Bakery during the current year?

169. Josephine's Bakery had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	\$114,000	\$68,000
End of the year	135,000	73,000

If the owners invested an additional \$12,000 in the business and dividends of \$5,000 were paid during the year, what was the amount of net income earned by Josephine's Bakery during the current year?

170. A company had total assets of \$350,000; total liabilities of \$101,500; and total equity of \$248,500. Calculate its debt ratio.

Chapter 002 Analyzing and Recording Transactions

171. Montgomery Marketing Co. had assets of \$475,000; liabilities of \$275,500; and equity of \$199,500. Calculate its debt ratio.

172. List the steps in recording transactions.

173. For each of the following errors, indicate on the table below the amount by which the trial balance will be out of balance and which trial balance column (debit or credit) will have the larger total as a result of the error.

- a. \$100 debit to Cash was debited to the Cash account twice
- b. \$1,900 credit to Sales was posted as a \$190 credit
- c. \$5,000 debit to Office Equipment was debited to Office Supplies
- d. \$625 debit to Prepaid Insurance was posted as a \$62.50 debit
- e. \$520 credit to Accounts Payable was not posted

Error	Amount Out of Balance	Column Having Larger Total
a.	_____	_____
b.	_____	_____
c.	_____	_____
d.	_____	_____
e.	_____	_____

Chapter 002 Analyzing and Recording Transactions

174. After preparing an (unadjusted) trial balance at year-end, G. Chu of Chu Design Company discovered the following errors:

1. Cash payment of the \$225 telephone bill for December was recorded twice.
2. Cash payment of a note payable was recorded as a debit to Cash and a debit to Notes Payable for \$1,000.
3. A \$900 cash dividend was recorded to the correct accounts as \$90.
4. An additional investment of \$5,000 cash by the owner was recorded as a debit to Common Stock and a credit to Cash.
5. A credit purchase of office equipment for \$1,800 was recorded as a debit to the Office Equipment account with no offsetting credit entry.

Using the form below, indicate whether the error would cause the trial balance to be out of balance by placing an X in either the yes or no column.

Would the error cause the trial balance to be out of balance?

Error	Yes	No
1.	_____	_____
2.	_____	_____
3.	_____	_____
4.	_____	_____
5.	_____	_____

Chapter 002 Analyzing and Recording Transactions

175. The balances for the accounts of Mike's Maintenance, Inc. for the year ended December 31 are shown below. Each account shown had a normal balance.

Accounts payable	\$ 6,500	Wages expense	\$36,000
Accounts receivable	7,000	Rent expense	6,000
Cash	?	Retained Earnings	68,700
Maintenance supplies	1,200		
Building	125,000	Land	50,000
Supplies expense	21,500	Unearned maintenance	
Common Stock	50,000	fees	4,000
Maintenance revenue	175,000	Dividends	48,000

Calculate the correct balance for Cash and prepare a trial balance.

Chapter 002 Analyzing and Recording Transactions

176. At year-end, Harris Cleaning Service noted the following errors in its trial balance:

1. It understated the total debits to the Cash account by \$500 when computing the account balance.
2. A credit sale for \$311 was recorded as a credit to the revenue account, but the offsetting debit was not posted.
3. A cash payment to a creditor for \$2,600 was never recorded.
4. The \$680 balance of the Prepaid Insurance account was listed in the credit column of the trial balance.
5. A \$24,900 truck purchase for cash was recorded as a \$24,090 debit to Vehicles and a \$24,090 credit to Notes Payable.
6. A purchase of office supplies for \$150 was recorded as a debit to Office Equipment. The offsetting credit entry was correct.
7. An additional investment of \$4,000 by Del Harris was recorded as a debit to Common Stock and as a credit to Cash.
8. The cash payment of the \$510 utility bill for December was recorded (but not paid) twice.
9. A revenue account balance of \$79,817 was listed on the trial balance as \$97,817.
10. A \$1,000 cash dividend was recorded as a \$100 debit to Dividends and \$100 credit to cash.

Using the form below, indicate whether each error would cause the trial balance to be out of balance, the amount of any imbalance and whether a correcting journal entry is required.

Error	Would the error cause the trial balance to be out of balance?		Amount of Imbalance	Correcting Journal Entry Required	
	Yes	No		Yes	No
1.					
2.					
3.					
4.					
5.					
6.					
7.					
8.					
9.					
10.					

Chapter 002 Analyzing and Recording Transactions

177. The following trial balance was prepared from the general ledger of Hal's Auto Repair.

HAL'S AUTO REPAIR Trial Balance October 31		
	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 975	
Accounts receivable.....	3,800	
Supplies.....	500	
Repair equipment.....	13,000	
Office equipment.....	6,600	
Accounts payable.....		\$ 4,510
Common stock.....		10,000
Retained earnings.....		13,000
Dividends.....	4,200	
Repair fees earned.....		10,875
Supplies expense.....	8,600	
Totals.....	<u>\$37,675</u>	<u>\$38,385</u>

Because the trial balance did not balance, you decided to examine the accounting records.

You found that the following errors had been made:

1. A purchase of supplies on account for \$245 was posted as a debit to Supplies and as a debit to Accounts Payable.
2. An investment of \$500 cash by the owner was debited to Common Stock and credited to Cash.
3. In computing the balance of the Accounts Receivable account, a debit of \$600 was omitted from the computation.
4. One debit of \$300 to the Dividends account was posted as a credit.
5. Office equipment purchased for \$800 was posted to the Repair Equipment account.
6. One entire entry was not posted to the general ledger. The transaction involved the receipt of \$125 cash at the time repair services were performed.

Prepare a corrected trial balance for the Hal's Auto Repair as of October 31.

Chapter 002 Analyzing and Recording Transactions

178. The following are all of the accounts of Flaherty Company that have a balance at the end of August. All accounts have normal balances:

Accounts receivable	\$36,000	Cash	\$27,000
Equipment	59,000	Advertising expense	5,000
Service revenues earned ...	75,000	Accounts payable	31,000
Rent expense	3,600	Dividends	24,000
Office supplies	1,500	Salaries expense	30,000
Notes payable	22,000	Common stock	20,000
		Retained earnings	58,100

- a. Calculate net income
- b. Determine the amount of retained earnings to be shown on the August 31 balance sheet.

Chapter 002 Analyzing and Recording Transactions

179. Based on the following trial balance for Sal's Beauty Shop, prepare an income statement, statement of retained earnings and a balance sheet. Sal made no additional investments in the company during the year.

Sal's Beauty Shop Trial Balance December 31		
Cash	\$ 6,500	
Accounts receivable	475	
Beauty supplies	2,500	
Beauty shop equipment	17,000	
Accounts payable		\$ 745
Common stock		10,000
Retained earnings		11,155
Dividends	36,000	
Revenue earned		72,000
Beauty supplies expense	3,425	
Rent expense	6,000	
Wages expense	<u>22,000</u>	
Totals	<u>\$93,900</u>	<u>\$93,900</u>

Fill in the Blank Questions

180. _____ and _____ are the starting points for the analyzing and recording process.

181. The second step in the analyzing and recording process is to record the transactions and events in the _____.

Chapter 002 Analyzing and Recording Transactions

182. The third step in the analyzing and recording process is to post the information to

_____.

183. _____ identifies and describes transactions and events and provides objective evidence and amounts for recording.

184. Revenues and expenses are two categories of _____ accounts.

185. The _____ is a record containing all accounts (with balances) used by a company.

186. The three general categories of accounts in a general ledger are _____, _____ and _____.

187. _____ is promises of payment from customers to sellers.

188. Unearned revenue is classified as _____ that is satisfied by delivering products or services in the future.

Chapter 002 Analyzing and Recording Transactions

189. The four categories of equity accounts are _____,
_____, _____ and _____.

190. A _____ is a list of all the accounts used by a company and their identification codes.

191. A _____ is a record containing all accounts for a company along with their balances.

192. _____ requires that each transaction affect and be recorded in, at least two accounts. It also means that total amounts debited must equal total amounts credited for each transaction.

193. The difference between total debits and total credits for an account, including any beginning balance is the _____.

194. Increases in assets are _____, while increases in liabilities are _____.

195. FastForward purchased \$25,000 of equipment for cash. The Equipment asset account is _____ for \$25,000 and the cash account is _____ for \$25,000.

Chapter 002 Analyzing and Recording Transactions

196. Stride Rite had total liabilities of \$130 million and total assets of \$375 million. Its debt ratio was _____.

197. _____ is the process of transferring journal entry information to the ledger.

198. A _____ gives a complete record of each transaction in one place and shows debits and credits for each transaction.

199. An account format that is similar to a T-account in that it has columns for debits and credits, but that is different in that it has columns for transaction date, explanation and the account balance is the _____.

200. The posting process is the link between the _____ and the _____.

True / False Questions

1. Accounting records are also referred to as the books.

TRUE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C1*

2. The first step in the analyzing and recording process is to analyze each transaction and event from source documents.

TRUE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C1*

3. Preparation of a trial balance is the first step in the analyzing and recording process.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C1*

Chapter 002 Analyzing and Recording Transactions **Key**

4. Source documents provide evidence of business transactions and are the basis for accounting entries.

TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C2

5. Items such as sales slips, invoices, checks and purchase orders are source documents.

TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C2

6. An account is a record of increases and decreases in a specific asset, liability, equity, revenue or expense item.

TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C3

Chapter 002 Analyzing and Recording Transactions **Key**

7. A customer's promise to pay is called an account payable to the seller.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C3*

8. Dividends are a form of business expense.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C3*

9. As prepaid expenses are used up, the costs of these assets become expenses.

TRUE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C3*

Chapter 002 Analyzing and Recording Transactions **Key**

10. Land and buildings are generally recorded in the same ledger account.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C3*

11. It is not necessary to keep separate accounts for all items of importance for business decisions.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C3*

12. Unearned revenues are liabilities.

TRUE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C3*

Chapter 002 Analyzing and Recording Transactions **Key**

13. Cash dividends should be treated as an expense of the business.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C3*

14. When a company provides services for which cash will not be received until some future date, the company should record an unearned revenue for the amount charged to the customer.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: C3*

15. The chart of accounts is a list of all the accounts used by a company and includes an identification number assigned to each account.

TRUE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C4*

Chapter 002 Analyzing and Recording Transactions **Key**

16. An account balance is the difference between the debits and credits for an account including any beginning balance.

TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C5

17. Debit means the right-hand side of any account.

FALSE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C5

18. In a double-entry accounting system, total amount debited must always equal total amount credited.

TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C5

Chapter 002 Analyzing and Recording Transactions **Key**

19. Increases in liability accounts are recorded as debits.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C5*

20. Debits increase asset and expense accounts.

TRUE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C5*

21. Credits always increase account balances.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C5*

Chapter 002 Analyzing and Recording Transactions **Key**

22. Crediting an expense account decreases it.

TRUE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C5*

23. Double entry accounting requires that each transaction affects and be recorded in, at least two accounts.

TRUE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C5*

24. A revenue account normally has a debit balance.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C5*

25. Accounts are normally decreased by debits.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C5*

26. The dividends account normally has a credit balance since it is an equity account.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C5*

27. Asset accounts normally have credit balances and expense accounts normally have debit balances.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C5*

Chapter 002 Analyzing and Recording Transactions **Key**

28. Common Stock normally has a debit balance.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C5*

29. A debit entry is always favorable.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: C5*

30. A transaction that decreases an asset account and increases a liability account must also affect one or more other accounts.

TRUE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: C5*

Chapter 002 Analyzing and Recording Transactions **Key**

31. A transaction that increases an asset and decreases a liability must also affect one or more other accounts.

TRUE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: C5*

32. If insurance coverage for the next three years is paid for in advance, the amount of the payment is debited to an asset account called Prepaid Insurance.

TRUE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A1*

33. The purchase of supplies on credit should be recorded with a debit to Supplies and a credit to Accounts Payable.

TRUE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A1*

Chapter 002 Analyzing and Recording Transactions **Key**

34. If a company pays cash to purchase land, the journal entry to record this transaction will include a debit to Cash.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A1*

35. If a company provides services to a customer on credit the service provider company should credit Accounts Receivable.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A1*

36. When a company bills a customer for \$600 for services rendered, the journal entry to record this transaction will include a \$600 debit to Services Revenue.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A1*

Chapter 002 Analyzing and Recording Transactions **Key**

37. The debt ratio reflects the risk of a company to both its owners and creditors.

TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: A2

38. The higher the debt ratio the higher risk of a company not being able to meet its obligations.

TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A2

39. The debt ratio is calculated by dividing total assets by total liabilities.

FALSE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A2

Chapter 002 Analyzing and Recording Transactions **Key**

40. A company that finances a relatively large portion of its assets with liabilities is said to have a high degree of financial leverage.

TRUE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A2*

41. If a company is highly leveraged, this means that it has relatively low risk of not being able to repay its debt.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A2*

42. Hamilton Industries has liabilities of \$105 million and total assets of \$350 million. Its debt ratio is 33.3%.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A2*

Chapter 002 Analyzing and Recording Transactions **Key**

43. High financial leverage is always bad for a company's owners.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A2*

44. A compound journal entry affects no more than two accounts.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: P1*

45. Posting is the transfer of journal entry information to the ledger.

TRUE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: P1*

Chapter 002 Analyzing and Recording Transactions **Key**

46. Transactions are first recorded in the ledger.

FALSE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: P1

47. The journal is known as a book of original entry.

TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: P1

48. A journal gives a complete record of each transaction in one place and shows the debits and credits for each transaction.

TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: P1

Chapter 002 Analyzing and Recording Transactions **Key**

49. The journal is known as the book of final entry because financial statements are prepared from it.

FALSE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: P1

50. A trial balance that balances is not proof of complete accuracy in recording transactions.

TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: P2

51. The trial balance is a list of all accounts and their balances from the ledger.

TRUE

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: P2

Chapter 002 Analyzing and Recording Transactions **Key**

52. Generally, the ordering of accounts in a trial balance typically follows their identification number from the chart of accounts: assets, liabilities, equity, revenues and expenses.

TRUE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P2*

53. The trial balance can serve as a replacement for the balance sheet, since debits must balance with credits.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P2*

54. A trial balance that is in balance is proof that no errors were made in journalizing the transactions, posting to the ledger and preparing the trial balance.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P2*

Chapter 002 Analyzing and Recording Transactions **Key**

55. If cash was incorrectly debited for \$100 instead of correctly credited for \$100, the cash account is out of balance by \$100.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P2*

56. The balance sheet provides a link between beginning and ending income statements.

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P3*

57. The heading on each financial statement lists the three W's - Who (the name of the organization), What (the name of the statement) and Where (the organization's address)

FALSE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P3*

Chapter 002 Analyzing and Recording Transactions **Key**

58. Other names for the income statement are the earnings statement, statement of operations or a profit and loss statement.

TRUE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P3*

59. Another name for the balance sheet is the statement of financial position.

TRUE

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P3*

Multiple Choice Questions

60. The accounting process begins with:

- A.** Analysis of business transactions and events
- B. Preparing financial statements and other reports
- C. Summarizing the recorded effect of business transactions
- D. Presentation of financial information to decision-makers
- E. Preparation of the trial balance

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C1*

Chapter 002 Analyzing and Recording Transactions **Key**

61. Which of the following list of events properly reflects the early steps taken in the accounting process?
- A. Record relevant transactions, Post journal information to ledger accounts Analyze each transaction, Prepare and analyze the trial balance
 - B. Post journal information to ledger accounts, Analyze each transaction, Post journal information to ledger accounts, Prepare and analyze the trial balance
 - C. Prepare and analyze the trial balance, Analyze each transaction, Post journal information to ledger accounts, Record relevant transactions
 - D. Analyze each transaction, Post journal information to ledger accounts, Record relevant transactions, Prepare and analyze the trial balance
 - E.** Analyze each transaction, Record relevant transactions, Post journal information to ledger accounts, Prepare and analyze the trial balance

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: C1

62. A sales invoice:
- A. Is a type of source document
 - B. Is used by sellers for recording purposes
 - C. Is used by buyers for recording purchases
 - D. Gives rise to an entry in the accounting process
 - E.** All of the above

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C2

Chapter 002 Analyzing and Recording Transactions **Key**

63. Source documents include all of the following *except*:

- A. Sales tickets
- B. Ledgers**
- C. Checks
- D. Purchase orders
- E. Bank statements

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C2

64. Source documents:

- A. Include the ledger
- B. Are the sources of accounting information**
- C. Must be in electronic form
- D. Are based on accounting entries
- E. Include the chart of accounts

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C2

Chapter 002 Analyzing and Recording Transactions **Key**

65. Various types of documents and other papers that companies use when they conduct their business:

- A. Are called source documents
- B. Can include sales tickets
- C. Are the source of information for recording accounting entries
- D. Can be in electronic form
- E.** All of the above

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C2

66. For what reason do most sellers require customers to have their receipts to exchange or return purchased items?

- A. The receipt contains coded information which the seller needs to prepare and analyze the trial balance
- B.** Sellers wish to ensure that the sale in question was rung up on the register in the first place
- C. This is a legal requirement mandated by a federal law
- D. The receipt is serving as a promissory note
- E. Both B and C are reasons the seller requires customers to have receipts for all exchanges

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: C2

Chapter 002 Analyzing and Recording Transactions **Key**

67. A record of the increases and decreases in a specific asset, liability, equity, revenue or expense is a(n):

- A. Journal
- B. Posting
- C. Trial balance
- D. Account**
- E. Chart of accounts

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C3

68. An account used to record the owner's investments in the business is called:

- A. Dividends
- B. Common Stock**
- C. Revenue
- D. Expense
- E. Liability

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C3

Chapter 002 Analyzing and Recording Transactions **Key**

69. The account used to record the transfers of assets from a business to its stockholders is:

- A. A revenue account
- B. The retained earnings account**
- C. Common stock account
- D. An expense account
- E. A liability account

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C3

70. Which of the following statements is correct?

- A. When a future expense is paid in advance, the payment is normally recorded in a liability account called Prepaid Expense
- B. Promises of future payment are called accounts payable**
- C. Increases and decreases in cash are always recorded in the retained earnings account
- D. An account called Land is commonly used to record increases and decreases in both the land and buildings owned by a business
- E. Accrued liabilities include accounts receivable

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C3

Chapter 002 Analyzing and Recording Transactions **Key**

71. Unearned revenues are:

- A. Revenues that have been earned and received in cash
- B. Revenues that have been earned but not yet collected in cash
- C.** Liabilities created when a customer pays in advance for products or services before the revenue is earned
- D. Recorded as an asset in the accounting records
- E. Increases to retained earnings

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C3

72. Prepaid expenses are:

- A. Payments made for products and services that do not ever expire
- B. Classified as liabilities on the balance sheet
- C. Decreases in retained earnings
- D.** Assets that represent prepayments of future expenses
- E. Promises of payments by customers

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C3

Chapter 002 Analyzing and Recording Transactions **Key**

73. A written promise to pay a definite sum of money on a specific future date is a(n):

- A. Unearned revenue
- B. Prepaid expense
- C. Credit account
- D.** Note payable
- E. Account receivable

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C3

74. A collection of all accounts (with account balances) used by a business is called a:

- A. Journal
- B. Book of original entry
- C. General Journal
- D. Balance column journal
- E.** Ledger

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C3

Chapter 002 Analyzing and Recording Transactions **Key**

75. A ledger is:

- A.** A record containing increases and decreases in a specific asset, liability, equity, revenue or expense item
- B. A journal in which transactions are first recorded
- C. A collection of documents that describe transactions and events entering the accounting process
- D. A list of all accounts with their debit balances at a point in time
- E. A list of all accounts a company uses and includes an identification number assigned to each account

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C3*

76. Which of the following statements about the Cash account are true?

- A. Because most companies earn their fees in cash, the cash account is categorized as revenue
- B. For any given transaction Accounts Receivable and Cash can be used interchangeably because both accounts are measured in terms of cash
- C.** The cash account includes the value of any medium of exchange that a bank accepts for deposit
- D. Both A and B are true statements
- E. Both B and C are true statements

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: C3*

Chapter 002 Analyzing and Recording Transactions **Key**

77. A list of all accounts used by a company and the identification number assigned to each account is called a:

- A. Ledger
- B. Journal
- C. Trial balance
- D.** Chart of accounts
- E. General Journal

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C4

78. The general ledger of a business

- A.** Is a collection of all accounts used in a company's information system
- B. Must be kept in a computer file
- C. A and B
- D. Is a set standard not affected by a company's size and diversity
- E. A, B and D

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: C4

Chapter 002 Analyzing and Recording Transactions **Key**

79. A debit is:

- A. An increase in an account
- B. The right-hand side of a T-account
- C. A decrease in an account
- D.** The left-hand side of a T-account
- E. An increase to a liability account

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C5

80. The right side of a T-account is a(n):

- A. Debit
- B. Increase
- C.** Credit
- D. Decrease
- E. Account balance

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C5

Chapter 002 Analyzing and Recording Transactions **Key**

81. Which of the following statements is incorrect?
- A. The normal balance of accounts receivable is a debit
 - B. The normal balance of dividends is a debit
 - C. The normal balance of unearned revenues is a credit
 - D.** The normal balance of an expense account is a credit
 - E. The normal balance of common stock is a credit

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C5

82. A credit is used to record:
- A. A decrease in an expense account
 - B. A decrease in an asset account
 - C. An increase in an unearned revenue account
 - D. An increase in a revenue account
 - E.** All of the above

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C5

Chapter 002 Analyzing and Recording Transactions **Key**

83. A simple account form widely used in accounting to illustrate how debits and credits work is called a:

- A. Dividend account
- B. Common stock account
- C. Drawing account
- D.** T-account
- E. Balance column sheet

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C5

84. Which of the following statements is correct?

- A. The left side of a T-account is the credit side
- B. Debits decrease asset and expense accounts and increase liability, equity and revenue accounts
- C.** The left side of a T-account is the debit side
- D. Credits increase asset and expense accounts and decrease liability, equity and revenue accounts
- E. In certain circumstances the total amount debited need not equal the total amount credited for a particular transaction

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C5

Chapter 002 Analyzing and Recording Transactions **Key**

85. An account balance is:

- A. The total of the credit side of the account
- B. The total of the debit side of the account
- C.** The difference between the total debits and total credits for an account including the beginning balance
- D. $\text{Assets} = \text{liabilities} + \text{equity}$
- E. Always a credit

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C5

86. Of the following accounts, the one that normally has a credit balance is:

- A. Cash
- B. Office Equipment
- C.** Sales Salaries Payable
- D. Dividends
- E. Sales Salaries Expense

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C5

Chapter 002 Analyzing and Recording Transactions **Key**

87. A debit is used to record:

- A. A decrease in an asset account
- B. A decrease in an expense account
- C. An increase in a revenue account
- D. An increase in the balance of common stock
- E.** A decrease in the balance of retained earnings

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C5

88. A credit entry:

- A. Increases asset and expense accounts and decreases liability, common stock and revenue accounts
- B. Is always a decrease in an account
- C.** Decreases asset and expense accounts and increases liability, common stock and revenue accounts
- D. Is recorded on the left side of a T-account
- E. Is always an increase in an account

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C5

Chapter 002 Analyzing and Recording Transactions **Key**

89. Double-entry accounting is an accounting system:

- A. That records each transaction twice
- B.** That records the effects of transactions and other events in at least two accounts with equal debits and credits
- C. In which each transaction affects and is recorded in two or more accounts but that could include two debits and no credits
- D. That may only be used if T-accounts are used
- E. That insures that errors never occur

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: C5

90. Which of the following is a true statement regarding debits and credits?

- A. If a company earned a profit, debits will not equal credits
- B. For a business, debits are better than credits
- C. A company's books are not in balance if they have a current period loss
- D.** Assets and expenses are both increased with a debit
- E. Liabilities and equity are both increased with a debit

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: C5

Chapter 002 Analyzing and Recording Transactions **Key**

91. Rocky Industries received its telephone bill in the amount of \$300 and immediately paid it. Rocky's general journal entry to record this transaction will include a

- A.** Debit to Telephone Expense for \$300
- B. Credit to Accounts Payable for \$300
- C. Debit to Cash for \$300
- D. Credit to Telephone Expense for \$300
- E. Debit to Accounts Payable for \$300

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: A1

92. Management Services, Inc. provides services to clients. On May 1, a client prepaid Management Services \$60,000 for 6-months contract in advance. Management Services' general journal entry to record this transaction will include a

- A. Debit to Unearned Management Fees for \$60,000
- B. Credit to Management Fees Earned for \$60,000
- C. Credit to Cash for \$60,000
- D.** Credit to Unearned Management Fees for \$60,000
- E. Debit to Management Fees Earned for \$60,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: A1

Chapter 002 Analyzing and Recording Transactions **Key**

93. Wisconsin Rentals purchased office supplies on credit. The general journal entry made by Wisconsin Rentals will include a:

- A. Debit to Accounts Payable
- B. Debit to Accounts Receivable
- C. Credit to Cash
- D.** Credit to Accounts Payable
- E. Credit to Retained Earnings

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A1

94. An asset created by prepayment of an expense is:

- A. Recorded as a debit to an unearned revenue account
- B.** Recorded as a debit to a prepaid expense account
- C. Recorded as a credit to an unearned revenue account
- D. Recorded as a credit to a prepaid expense account
- E. Not recorded in the accounting records until the earnings process is complete

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A1

Chapter 002 Analyzing and Recording Transactions Key

95. Robert Haddon contributed \$70,000 in cash and some land worth \$130,000 to open a new business, RH Consulting. Which of the following general journal entries will RH Consulting make to record this transaction?

- | | | | |
|----|--------------|---------|---------|
| | Assets | 200,000 | |
| A. | Common Stock | | 200,000 |
-
- | | | | |
|----|---------------|---------|---------|
| | Cash and Land | 200,000 | |
| B. | Common Stock | | 200,000 |
-
- | | | | |
|-----------|--------------|---------|---------|
| | Cash | 70,000 | |
| | Land | 130,000 | |
| C. | Common Stock | | 200,000 |
-
- | | | | |
|----|--------------|---------|---------|
| | Common Stock | 200,000 | |
| | Cash | | 70,000 |
| | Land | | 130,000 |
| D. | | | |
-
- | | | | |
|----|--------------|---------|---------|
| | Common Stock | 200,000 | |
| E. | Assets | | 200,000 |

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A1

96. A liability created by the receipt of cash from customers in payment for products or services that have not yet been delivered to the customers is:

- A. Recorded as a debit to an unearned revenue account
- B. Recorded as a debit to a prepaid expense account
- C. Recorded as a credit to an unearned revenue account**
- D. Recorded as a credit to a prepaid expense account
- E. Not recorded in the accounting records until the earnings process is complete

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A1

Chapter 002 Analyzing and Recording Transactions **Key**

97. On September 30, the Cash account of Value Company had a normal balance of \$5,000. During September, the account was debited for a total of \$12,200 and credited for a total of \$11,500. What was the balance in the Cash account at the beginning of September?

- A. A \$0 balance
- B.** A \$4,300 debit balance
- C. A \$4,300 credit balance
- D. A \$5,700 debit balance
- E. A \$5,700 credit balance

Normal balance = debit

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A1

98. On October 31, a company's Cash account had a normal balance of \$7,000. During October, the account was debited for a total of \$4,250 and credited for a total of \$5,340. What was the balance in the Cash account at the beginning of October?

- A. \$0 balance
- B. \$1,090 debit balance
- C. \$2,590 credit balance
- D.** \$8,090 debit balance
- E. \$9,590 credit balance

Normal balance = debit

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A1

Chapter 002 Analyzing and Recording Transactions **Key**

99. On April 30, Holden Company had an Accounts Receivable balance of \$18,000. During the month of May, total credits to Accounts Receivable were \$52,000 from customer payments. The May 31 Accounts Receivable balance was \$13,000. What was the amount of credit sales during May?

- A. \$5,000
- B.** \$47,000
- C. \$52,000
- D. \$57,000
- E. \$32,000

Normal balance = debit

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A1

100. On November 30, a company had Accounts Receivable of \$5,100. During the month of December, total credits to Accounts Receivable were \$76,000 from customer payments. The December 31 Accounts Receivable balance was \$43,000. What was the amount of credit sales during December?

- A. \$8,100
- B. \$27,900
- C. \$70,900
- D. \$76,000
- E.** \$113,900

Normal balance = debit

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A1

Chapter 002 Analyzing and Recording Transactions **Key**

101. The Fireside Country Inn is a very popular destination for tourists. The Inn requires guests to make reservations at least two months in advance of their stay. A twenty percent down payment is required at the time the reservation is made. When should this inn recognize room rental revenue?

- A. On the date the reservation is received
- B. On the date the money for the reservation is received
- C. On the date the guests stay in the inn**
- D. On the date the guests pay the remaining eighty percent due
- E. Once all cash has been received

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A1

102. During the month of February, Hoffer Company had cash receipts of \$7,500 and cash disbursements of \$8,600. The February 28 cash balance was \$1,800. What was the January 31 beginning cash balance?

- A. \$700
- B. \$1,100
- C. \$2,900**
- D. \$0
- E. \$4,300

$$X + \$7,500 - \$8,600 = \$1,800$$

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A1

Chapter 002 Analyzing and Recording Transactions **Key**

103. During March, a company had cash receipts of \$2,300 and cash disbursements of \$6,600. The March 31 cash balance was \$2,780. What was the March 1 beginning cash balance?

- A. \$1,520
- B. \$7,080**
- C. \$4,300
- D. \$8,900
- E. \$11,680

$$X + \$2,300 - \$6,600 = \$2,780$$

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A1

104. The following transactions occurred during July:

1. Received \$900 cash for services provided to a customer during July.
2. Received \$2,200 cash investment from Barbara Hanson, the owner of the business.
3. Received \$750 from a customer in partial payment of his account receivable which arose from sales in June.
4. Provided services to a customer on credit, \$375.
5. Borrowed \$6,000 from the bank by signing a promissory note.
6. Received \$1,250 cash from a customer for services to be rendered next year.

What was the amount of revenue for July?

- A. \$900
- B. \$1,275**
- C. \$2,525
- D. \$3,275
- E. \$11,100

$$900 + 375 = 1,275$$

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A1

Chapter 002 Analyzing and Recording Transactions **Key**

105. If Jones Hardware, Inc. pays a cash dividend of \$6,000, the entry to record this transaction is to:

- A. Debit Cash, Credit Retained Earnings
- B. Debit Dividends, Credit Cash**
- C. Debit Common Stock, Credit Cash
- D. Debit Cash, Credit Common Stock
- E. Debit Cash, Credit Dividend Income

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A1

106. These transactions were completed by the art gallery opened by Zed Bennett.

1. Started the gallery, Artery, by investing \$40,000 cash and equipment valued at \$18,000 in exchange for common stock.
2. Purchased \$70 of office supplies on credit.
3. Paid \$1,200 cash for the receptionist's salary.
4. Sold a painting for an artist and collected a \$4,500 cash commission on the sale.
5. Completed an art appraisal and billed the client \$200.

What was the balance of the cash account after these transactions were posted?

- A. \$12,230
- B. \$12,430
- C. \$43,300**
- D. \$43,430
- E. \$61,430

$$\$40,000 - \$1,200 + \$4,500 = \underline{\$43,300}$$

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A1

Chapter 002 Analyzing and Recording Transactions **Key**

107. The debt ratio is used:

- A. To measure the relation of equity to expenses
- B.** To reflect the risk associated with a company's debts
- C. Only by banks when a business applies for a loan
- D. To determine how much debt a firm should pay off
- E. All of the above

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A2

108. Which of the following is the formula used to calculate the debt ratio?

- A. Total Equity/Total Liabilities
- B. Total Liabilities/Total Equity
- C.** Total Liabilities/Total Assets
- D. Total Assets/Total Liabilities
- E. Total Equity/Total Assets

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A2

Chapter 002 Analyzing and Recording Transactions **Key**

109. Which of the following statements is *incorrect*?

- A. Higher financial leverage involves higher risk
- B. Risk is higher if a company has more liabilities
- C.** Risk is higher if a company has higher assets
- D. The debt ratio is one measure of financial risk
- E. Lower financial leverage involves lower risk

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A2

110. Stride Rite has total assets of \$425 million. Its total liabilities are \$110 million. Its equity is \$315 million. Calculate the debt ratio.

- A. 38.6%
- B. 13.4%
- C. 34.9%
- D.** 25.9%
- E. 14.9%

$$\$110/\$425 = \underline{25.9\%}$$

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A2

Chapter 002 Analyzing and Recording Transactions **Key**

111. A company has total assets of \$385 million. Its total liabilities are \$100 million and its equity is \$285 million. Calculate its debt ratio.

- A. 35.1%
- B. 26.0%**
- C. 38.5%
- D. 28.5%
- E. 58.8%

$$\$100/\$385 = \underline{26.0\%}$$

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A2

112. A company has total liabilities of \$550 million and total equity of \$300 million. Calculate this company's debt ratio.

- A. 64.7%**
- B. 100%
- C. 54.5%
- D. 1.83 to 1
- E. The debt ratio cannot be determined without additional information

$$\$550/(\$550 + \$300) = \underline{64.7\%}$$

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A2

Chapter 002 Analyzing and Recording Transactions **Key**

113. Which of the following statements is *false* with regard to the debt ratio?

- A. It is of use to both internal and external users of accounting information
- B. A relatively high ratio is always desirable**
- C. The dividing line for a high and low ratio varies from industry to industry
- D. Many factors such as the company's age, stability, profitability and cash flow influence the determination of what would be interpreted as a high versus a low ratio
- E. The ratio might be used to help determine if a company is capable of increasing its income by obtaining further debt

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A2

114. The process of transferring general journal information to the ledger is:

- A. Double-entry accounting
- B. Posting**
- C. Balancing an account
- D. Journalizing
- E. Not required unless debits do not equal credits

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: P1

Chapter 002 Analyzing and Recording Transactions **Key**

115. A column in journals and ledger accounts used to cross reference journal and ledger entries is the:

- A. Account balance column
- B. Debit column
- C. Posting reference column**
- D. Credit column
- E. Description column

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: P1

116. The record in which transactions are first recorded is the:

- A. Account balance
- B. Ledger
- C. Journal**
- D. Trial balance
- E. Cash account

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: P1

Chapter 002 Analyzing and Recording Transactions **Key**

117. The general journal provides a place for recording:

- A. The transaction date
- B. The names of the accounts involved
- C. The amount of each debit and credit
- D. An explanation of the transaction
- E.** All of the above

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: P1

118. A balance column ledger account is:

- A. An account entered on the balance sheet
- B.** An account with debit and credit columns for posting entries and another column for showing the balance of the account after each entry is posted
- C. Another name for the retained earnings account
- D. An account used to record the transfers of assets from a business to its stockholders
- E. A simple form of account that is widely used in accounting to illustrate the debits and credits required in recording a transaction

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P1

Chapter 002 Analyzing and Recording Transactions **Key**

119. A general journal is:

- A. A ledger in which amounts are posted from a balance column account
- B. Not required if T-accounts are used
- C.** A complete record of each transaction in the place from which transaction amounts are posted to the ledger accounts
- D. Not necessary in electronic accounting systems
- E. A book of final entry because financial statements are prepared from it

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P1

120. A record in which the effects of transactions are first recorded and from which transaction amounts are posted to the ledger is a(n):

- A. Account
- B. Trial balance
- C.** Journal
- D. T-account
- E. Balance column account

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P1

Chapter 002 Analyzing and Recording Transactions Key

121. A company had the following account balances at year-end:

Cash.....	\$30,000
Accounts receivable	32,000
Accounts payable.....	20,000
Fees earned.....	65,000
Rent expense	15,000
Insurance expense.....	4,800
Supplies	5,000
Common Stock	5,000
Retained Earnings.....	14,800
Dividends	18,000

If all of the accounts have normal balances, what are the totals for the trial balance?

- A. \$45,200
- B. \$67,000
- C. \$104,800**
- D. \$209,600
- E. \$186,600

Debits		Credits	
Cash	\$ 30,000	Accounts payable	\$ 20,000
Accounts receivable	32,000	Fees earned	65,000
Rent expense	15,000	Common stock	5,000
Insurance expense	4,800	Retained earnings	<u>14,800</u>
Supplies	5,000		<u>\$104,800</u>
Dividends	<u>18,000</u>		
	<u>\$104,800</u>		

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: P1
Learning Objective: P2

Chapter 002 Analyzing and Recording Transactions **Key**

122. Listed below are two pieces of information. Where is the best place to locate this information, in the journal or the ledger?

1. Details of a transaction which took place on October 3rd
2. All of the sales activity which took place during the current month

A. 1. Journal 2. Journal

B. 1. Journal 2. Ledger

C. 1. Ledger 2. Ledger

D. 1. Ledger 2. Journal

E. This information is only available on the financial statements

AACSB: Analytic

AACSB: Communications

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: P1

123. A report that lists accounts and their balances, in which the total debit balances should equal the total credit balances is called a(n):

A. Account balance

B. Trial balance

C. Ledger

D. Chart of accounts

E. General Journal

AACSB: Analytic

AACSB: Communications

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Easy

Learning Objective: P2

Chapter 002 Analyzing and Recording Transactions **Key**

124. Which of the following statements are *true*?

- A. If the trial balance is in balance, it proves that no errors have been made in recording and posting transactions
- B. The trial balance is a book of original entry
- C. Another name for trial balance is chart of accounts
- D.** The trial balance is a list of all accounts from the ledger with their balances at a point in time
- E. The trial balance is another name for the balance sheet as long as debits balance with credits

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: P2

125. A company failed to post a \$50 debit to the Office Supplies account. The effect of this error will be that:

- A. The Office Supplies account balance will be overstated
- B.** The trial balance will not balance
- C. The error will overstate the debits listed in the journal
- D. The total debits in the trial balance will be larger than the total credits
- E. All of the above effects will be caused by the error

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P2

Chapter 002 Analyzing and Recording Transactions **Key**

126. A \$15 credit to Sales was posted as a \$150 credit. By what amount is Sales in error?

- A. \$150 understated
- B. \$135 overstated**
- C. \$150 overstated
- D. \$15 understated
- E. \$135 understated

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P2

127. A trial balance taken at year-end showed total credits exceeding total debits by \$4,950. This discrepancy could have been caused by:

- A. An error in the general journal where a \$4,950 increase in Accounts Receivable was recorded as an increase in Cash
- B. A net income of \$4,950
- C. The balance of \$49,500 in Accounts Payable being entered in the trial balance as \$4,950
- D. The balance of \$5,500 in the Office Equipment account being entered on the trial balance as a debit of \$550**
- E. An error in the general journal where a \$4,950 increase in Accounts Payable was recorded as a decrease in Accounts Payable

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P2

Chapter 002 Analyzing and Recording Transactions **Key**

128. In which of the following situations would the trial balance not balance?
- A. A \$1,000 collection of an account receivable was erroneously posted as a debit to Accounts Receivable and a credit to Cash
 - B. The purchase of office supplies on account for \$3,250 was erroneously recorded in the journal as \$2,350 debit to Office Supplies and credit to Accounts Payable
 - C. A \$50 cash receipt for the performance of a service was not recorded at all
 - D. The purchase of office equipment for \$1,200 was posted as a debit to Office Supplies and a credit to Cash for \$1,200
 - E.** The cash payment of a \$750 account payable was posted as a debit to Accounts Payable and a debit to Cash for \$750

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Decision Making
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P2

129. The credit purchase of a delivery truck for \$4,700 was posted to Delivery Trucks as a \$4,700 debit and to Accounts Payable as a \$4,700 debit. What effect would this error have on the trial balance?
- A. The total of the Debit column of the trial balance will exceed the total of the Credit column by \$4,700
 - B. The total of the Credit column of the trial balance will exceed the total of the Debit column by \$4,700
 - C.** The total of the Debit column of the trial balance will exceed the total of the Credit column by \$9,400
 - D. The total of the Credit column of the trial balance will exceed the total of the Debit column by \$9,400
 - E. The total of the Debit column of the trial balance will equal the total of the Credit column

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Decision Making
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P2

Chapter 002 Analyzing and Recording Transactions **Key**

130. If the Debit and Credit column totals of a trial balance are equal, then:

- A. All transactions have been recorded correctly
- B. All entries from the journal have been posted to the ledger correctly
- C. All ledger account balances are correct
- D.** The total debit entries and total credit entries are equal
- E. The balance sheet would be correct

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P2

131. Accountants at Amalgamated Corporation incorrectly journalized a \$50,000 equipment purchase as a debit to Buildings. This error was not discovered before the journal entry was posted. What is the correcting entry?

- A. Debit Buildings and Credit Equipment for \$50,000 each
- B.** Debit Equipment and Credit Buildings for \$50,000 each
- C. Debit Buildings and Credit Equipment for \$100,000 each
- D. Debit Equipment and Credit Buildings for \$100,000 each
- E. Debit Equipment for \$100,000 and Credit Buildings for \$50,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: P2

Chapter 002 Analyzing and Recording Transactions **Key**

132. A \$72,000 receipt of cash from a customer paying on their account was recorded as a \$72,000 debit to Accounts Receivable. Assuming this journal entry was posted, what correcting entry (if any) is needed?

- A.** Debit Cash and Credit Accounts Receivable for \$72,000 each
- B. Debit Cash and Credit Accounts Receivable for \$144,000 each
- C. Credit Cash and Debit Accounts Receivable for \$72,000 each
- D. Credit Cash and Debit Accounts Receivable for \$144,000 each
- E. No correcting entry is needed for this transaction

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: P2

133. Of the following errors, which one by itself will cause the trial balance to be out of balance?

- A. A \$200 cash salary payment posted as a \$200 debit to Cash and a \$200 credit to Salaries Expense
- B.** A \$100 cash receipt from a customer in payment of his account posted as a \$100 debit to Cash and a \$10 credit to Accounts Receivable
- C. A \$75 cash receipt from a customer in payment of his account posted as a \$75 debit to Cash and a \$75 credit to Cash
- D. A \$50 cash purchase of office supplies posted as a \$50 debit to Office Equipment and a \$50 credit to Cash
- E. An \$800 prepayment from a customer for services to be rendered in the future was posted as an \$800 debit to Unearned Revenue and an \$800 credit to Cash

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Decision Making
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: P2

Chapter 002 Analyzing and Recording Transactions **Key**

134. A \$130 credit to Office Equipment was credited to Fees Earned by mistake. By what amounts are the accounts under or overstated as a result of this error?

- A. Office Equipment, understated \$130; Fees Earned, overstated \$130
- B. Office Equipment, understated \$260; Fees Earned, overstated \$130
- C.** Office Equipment, overstated \$130; Fees Earned, overstated \$130
- D. Office Equipment, overstated \$130; Fees Earned, understated \$130
- E. Office Equipment, overstated \$260; Fees Earned, understated \$130

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: P2

135. Which of the following groups of accounts are not balance sheet accounts?

- A. Assets
- B. Liabilities
- C.** Revenues
- D. Equity accounts
- E. All of the above are balance sheet accounts

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P3

Chapter 002 Analyzing and Recording Transactions **Key**

136. Which of the following is a TRUE statement concerning a company's financial statements?

- A. Balance Sheet and Income Statement data combined contain the complete financial picture of a given company
- B. A Trial Balance is another name for a Balance Sheet
- C. Another name for the Income Statement is the Earnings Statement**
- D. Dividends paid to a company's shareholders are shown on the Income Statement
- E. The Balance Sheet shows the financial position of a company for a period of time

AACSB: Analytic

AACSB: Communications

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: P3

Chapter 002 Analyzing and Recording Transactions **Key**

Matching Questions

137. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

- | | | |
|----------------------------|---|-----------|
| 1. Ledger | The sources of accounting information. | <u>2</u> |
| 2. Source documents | An increase in an asset, dividend and expense account and decrease in a liability, common stock and revenue account; recorded on the left side of a T-account | <u>4</u> |
| 3. T-account | The process of transferring journal entry information to the ledger | <u>8</u> |
| 4. Debit | An accounting system where each transaction affects and is recorded in at least two accounts; the sum of the debits for each entry must equal its credits | <u>6</u> |
| 5. Credit | A file containing all accounts of a company and their balances | <u>1</u> |
| 6. Double-entry accounting | A company's record of each transaction in one place that shows debits and credits for each transaction | <u>9</u> |
| 7. Account | A record of the increases and decreases in a specific asset, liability, equity, revenue or expense item | <u>7</u> |
| 8. Posting | Decrease in an asset, dividend and expense account and increase in a liability, common stock and revenue account; recorded on the right side of a T-account | <u>5</u> |
| 9. Journal | A simple account form used as a helpful tool in showing the effects of transactions and events on specific accounts | <u>3</u> |
| 10. Accounting records | Another name for the accounting books or simply the books | <u>10</u> |

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C1-C5
Learning Objective: P1

Chapter 002 Analyzing and Recording Transactions Key

138. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

- | | | |
|---------------------------|--|-----------|
| 1. Account balance | An increase in an asset, dividend and expense account and a decrease in a liability, common stock and revenue account; recorded on the left side of a T-account | <u>3</u> |
| 2. Debt ratio | A written promise to pay a definite sum of money on a specified future date | <u>5</u> |
| 3. Debit | A file containing all accounts of a company and their balances | <u>4</u> |
| 4. Ledger | A complete record of each transaction in one place that shows debits and credits for each transaction | <u>7</u> |
| 5. Note payable | The ratio of total liabilities to total assets; used to reflect the risk associated with the company's debts | <u>2</u> |
| 6. Chart of accounts | A list of all accounts used by a company and the identification number assigned to each account | <u>6</u> |
| 7. Journal | A list of accounts and their balances at a point in time; the total debit balances should equal the total credit balances | <u>8</u> |
| 8. Trial balance | A decrease in an asset, dividend and expense account and an increase in a liability, common stock and revenue account; recorded on the right side of a T-account | <u>10</u> |
| 9. Balance column account | The difference between total debits and total credits for an account including the beginning balance | <u>1</u> |
| 10. Credit | An account with debit and credit columns for recording entries and a third column for showing the balance of the account after each entry | <u>9</u> |

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A2
Learning Objective: C1-C5
Learning Objective: P1
Learning Objective: P2

Chapter 002 Analyzing and Recording Transactions **Key**

139. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

1. Account	The most flexible type of journal, it can be used to record any kind of transaction	<u>8</u>
2. Unearned revenues	A list of all accounts used by a company and the identification number assigned to each account	<u>5</u>
3. T-account	A written promise from a customer to pay a definite sum of money on a specified future date	<u>4</u>
4. Note receivable	A simple form used as a helpful tool in understanding the effect of transactions and events on specific accounts	<u>3</u>
5. Chart of accounts	Liabilities created when customers pay in advance for products or services; satisfied by delivering the products or services in the future	<u>2</u>
6. Posting reference column	A journal entry that affects at least three accounts	<u>9</u>
7. Posting	A column in journals where individual account numbers are entered when entries are posted to ledger accounts	<u>6</u>
8. General journal	The process of transferring journal entry information to the ledger	<u>7</u>
9. Compound journal entry	A record of the increases and decreases in a specific asset, liability, equity, revenue or expense item	<u>1</u>
10. Trial Balance	A list of accounts and their balances at a point in time; the total debit balances should equal the total credit balances	<u>10</u>

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C1-C5
Learning Objective: P1

Chapter 002 Analyzing and Recording Transactions **Key**

140. Identify each of the following accounts as a revenue (R), expense (E), asset (A), liability (L) or equity (OE) by placing initials (R, E, A, L or OE) in the blanks.

1. Accounts Receivable	Expense	<u>11</u>
2. Prepaid Insurance	Asset	<u>5</u>
3. Common Stock	Asset	<u>12</u>
4. Retained Earnings	Placing Initials	<u>3</u>
5. Cash	Revenue	<u>7</u>
6. Unearned Fee Revenue	Asset	<u>1</u>
7. Fees Revenue	Liability	<u>8</u>
8. Accounts Payable	Placing Initials	<u>9</u>
9. Dividends	Asset	<u>10</u>
10. Supplies	Liability	<u>6</u>
11. Salary Expense	Asset	<u>2</u>
12. Equipment	Placing Initials	<u>4</u>

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C3

Chapter 002 Analyzing and Recording Transactions **Key**

141. The following accounts appear on either the Income Statement (IS) or Balance Sheet (BS). In the space provided next to each account write the letters IS or BS, that identify the statement on which the account appears.

1. Wages Payable	Balance Sheet	<u>3</u>
2. Notes Receivable	Income Statement	<u>8</u>
3. Office Equipment	Balance Sheet	<u>9</u>
4. Cash	Income Statement	<u>8</u>
5. Common Stock	Balance Sheet	<u>7</u>
6. Fees Revenue	Balance Sheet	<u>5</u>
7. Accounts Payable	Income Statement	<u>6</u>
8. Rent Expense	Balance Sheet	<u>4</u>
9. Unearned Fees Revenues	Balance Sheet	<u>2</u>
10. Rent Expense	Balance Sheet	<u>1</u>

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C3

Chapter 002 Analyzing and Recording Transactions Key

Short Answer Questions

142. Vicki Lake is a computer consultant. Shown below are (a) several accounts in her ledger with each account preceded by an identification number and (b) several transactions completed by Lake. Indicate the accounts debited and credited when recording each transaction by placing the proper account identification numbers to the right of each transaction.

- | | |
|----------------------------|-----------------------------|
| 1. Accounts Payable | 7. Telephone Expense |
| 2. Accounts Receivable | 8. Unearned Consulting Fees |
| 3. Cash | 9. Common Stock |
| 4. Consulting Fees Earned | 10. Dividends |
| 5. Office Supplies | 11. Insurance Expense |
| 6. Office Supplies Expense | 12. Prepaid Insurance |

		Debit	Credit
	Example:		
	Completed consulting work for a client who will pay at a later date.	2	4
A.	Received cash in advance from a customer for designing a software package.		
B.	Purchased office supplies on credit.		
C.	Paid for the supplies purchased in B		
D.	Received the telephone bill of the business and immediately paid it.		
E.	Paid for a 3-year insurance policy		

Chapter 002 Analyzing and Recording Transactions **Key**

	Debit	Credit
A	3	8
B	5	1
C	1	3
D	7	3
E	12	3

AACSB: Analytic

AACSB: Communications

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Medium

Learning Objective: A1

Chapter 002 Analyzing and Recording Transactions Key

143. David Roberts is a real estate appraiser. Shown below are (a) several accounts in his ledger with each account preceded by an identification number and (b) several transactions completed by Roberts. Indicate the accounts debited and credited when recording each transaction by placing the proper account identification numbers to the right of each transaction.

- | | |
|--------------------------|-----------------------------|
| 1. Accounts Payable | 8. Office Supplies Expense |
| 2. Accounts Receivable | 9. Prepaid Insurance |
| 3. Appraisal Fees Earned | 10. Salaries Expense |
| 4. Cash | 11. Telephone Expense |
| 5. Insurance Expense | 12. Unearned Appraisal Fees |
| 6. Office Equipment | 13. Common Stock |
| 7. Office Supplies | 14. Dividends |

	Debit	Credit
Example:		
Completed an appraisal for a client who promised to pay at a later date.	2	3
A. Received cash in advance for appraising an office building.		
B. Purchased office supplies on credit		
C. Paid a cash dividend		
D. Received the telephone bill of the business and immediately paid it.		
E. Paid the salary of the office assistant.		
F. Paid for the supplies purchased in transaction B.		
G. Completed an appraisal for a client and immediately collected cash for the work done.		

Chapter 002 Analyzing and Recording Transactions **Key**

	Debit	Credit
A	4	12
B	7	1
C	14	4
D	11	4
E	10	4
F	1	4
G	4	3

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A1

144. List the steps in processing transactions.

Business transactions and events are the starting point. Source documents are analyzed for the effects of the transactions and events on the accounting records. The information is recorded into the journal. The information is then posted to the accounts and a trial balance is prepared. The final step is the preparation of financial statements and reports for decision makers.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C1

Chapter 002 Analyzing and Recording Transactions **Key**

145. Describe source documents and their purpose.

Source documents are the sources of information that identify and describe transactions and events. They provide objective and reliable evidence about transactions and their amounts. Examples of source documents include checks, invoices, sales receipts, credit card statements and bank statements. They can be in hard copy or electronic form.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C2

146. Explain how accounts are used in recording information about transactions.

Accounts are classified into three general categories: assets, liabilities and equity. Accounts are records of increases and decreases of specific items in these categories. The accounts serve as the information resource for financial statements and reports.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Decision Making
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C3

Chapter 002 Analyzing and Recording Transactions **Key**

147. Explain the difference between a ledger and a chart of accounts.

A ledger is a record containing all of the accounts of a business and their balances. The chart of accounts is a list of all of the accounts in the ledger that includes an identification number for the accounts.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C4

148. Explain debits and credits and their role in the accounting system.

Debit refers to the left side of an account and credit refers to the right side of an account. Debits and credits are part of the double-entry accounting system. This system is based on the concept that all transactions and events affect at least two accounts. The double entry system is organized around the accounting equation which states that $\text{assets} = \text{liabilities} + \text{equity}$. Assets, expenses and dividends have normal debit balances and liabilities, common stock and revenues have normal credit balances

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: C5

Chapter 002 Analyzing and Recording Transactions **Key**

149. Explain the debt ratio and its use in analyzing a company's financial condition.

The debt ratio is calculated by dividing total liabilities by total assets. It reveals the percentage of the company's assets that are financed by creditors. The higher the ratio, the more risk a company has in trying to repay the debt with interest.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A2

150. Explain the recording and posting processes.

Information from business transactions and events is recorded in the journal in the form of journal entries. The journal entries include the date, the account titles and debit and credit amounts. Journal entries may also include a further description of the transaction. During the posting process the debit and credit amounts recorded in the journal are transferred to the individual accounts in the ledger.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P1

Chapter 002 Analyzing and Recording Transactions **Key**

151. What is a trial balance? What is its purpose?

The trial balance is a list of all of the accounts in the ledger with balances at a point in time. The list is organized by debit and credit balances. The purpose of the trial balance is to summarize the account totals and to verify the accuracy of the total debits and credits. If the total debits and credits are not equal, then the trial balance is out of balance which indicates an error in the accounting records. However, even if debits do equal credits this is no guarantee that no errors were made in recording and posting transactions.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P2

152. Sara Blakely founded the Bottom Line. What are some accounting challenges she faced when starting her business?

Sara had to account for many activities such as product costs, office expenses, supplier payments and patent fees. She also expanded sales and struggled to be profitable.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Decision Making
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A1

Chapter 002 Analyzing and Recording Transactions Key

Problems

153. Identify which of the following items would likely serve as a source document by marking an X in the appropriate column. The first one is done as an example

		Yes	No
Ex.	Credit card		X
a.	Credit card receipt		
b.	Purchase order		
c.	Invoice		
d.	Balance sheet		
e.	Bank statement		
f.	Journal entry		
g.	Electric power bill		
h.	Employee earnings record		

		Yes	No
Ex.	Credit card		X
a.	Credit card receipt	X	
b.	Purchase order	X	
c.	Invoice	X	
d.	Balance sheet		X
e.	Bank statement	X	
f.	Journal entry		X
g.	Electric power bill	X	
h.	Employee earnings record	X	

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C2

Chapter 002 Analyzing and Recording Transactions **Key**

154. Indicate whether a debit or credit entry would be made to record the following changes in each account.

- a. To decrease Cash
- b. To increase Common Stock
- c. To decrease Accounts Payable
- d. To increase Salaries Expense
- e. To decrease Supplies
- f. To increase Revenue.
- g. To decrease Accounts Receivable
- h. To increase Retained Earnings

a. Credit, b. Credit, c. Debit, d. Debit, e. Credit, f. Credit, g. Credit, h. Credit

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C5

Chapter 002 Analyzing and Recording Transactions Key

155. The following is a list of accounts and identification letters A through J for Shannon Management Co.:

A. Common Stock	F. Prepaid Rent
B. Interest Payable	G. Advertising Expense
C. Land	H. Unearned Rent Revenue
D. Dividends	I. Commissions Earned
E. Fees Earned	J. Notes Receivable

Use the form below to identify the type of account and its normal balance. The first item is filled in as an example.

	Type of Account			Normal Balance	
	Asset	Liability	Equity	Debit	Credit
A			X		X
B					
C					
D					
E					
F					
G					
H					
I					
J					

	Type of Account			Normal Balance	
	Asset	Liability	Equity	Debit	Credit
A			X		X
B		X			X
C	X			X	
D			X	X	
E			X		X
F	X			X	
G			X	X	
H		X			X
I			X		X
J	X			X	

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C5

Chapter 002 Analyzing and Recording Transactions Key

156. Dolly Barton began Barton Office Services in October and during that month completed these transactions:

- a. Invested \$10,000 cash and \$15,000 of computer equipment in exchange for common stock
- b. Paid \$500 cash for an insurance premium covering the next 12 months
- c. Completed a word processing assignment for a customer and collected \$1,000 cash
- d. Paid \$200 cash for office supplies
- e. Paid \$2,000 for October's rent.

Prepare journal entries to record the above transactions. Explanations are unnecessary.

a.	Cash	10,000	
	Computer Equipment	15,000	
	Common Stock		25,000
b.	Prepaid Insurance	500	
	Cash		500
c.	Cash	1,000	
	Office Services Revenue		1,000
d.	Office Supplies	200	
	Cash		200
e.	Rent Expense	2,000	
	Cash		2,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: A1

Chapter 002 Analyzing and Recording Transactions Key

157. A company sends a \$1,500 bill to a customer for delivery services rendered. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.

Accounts Receivable			Delivery Fees Earned	
1,500				1,500

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A1

Chapter 002 Analyzing and Recording Transactions Key

158. A company paid \$2,500 cash to satisfy a previously recorded account payable. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.

Accounts Payable		Cash
2,500		2,500

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A1

159. A business paid a \$100 cash dividend. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.

Dividends		Cash
100		100

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A1

Chapter 002 Analyzing and Recording Transactions Key

160. On December 3, the Matador Company paid \$5,400 cash in salaries to office personnel. Prepare the general journal entry to record this transaction.

12/3	Office Salaries Expense	5,400	
	Cash		5,400

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A1

161. On February 5, Textron Stores purchased a van that cost \$35,000. The firm made a down payment of \$5,000 cash and signed a long-term note payable for the balance. Show the general journal entry to record this transaction.

2/5	Van	35,000	
	Cash		5,000
	Note Payable		30,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A1

Chapter 002 Analyzing and Recording Transactions Key

162. Krenz Car Care, owned and operated by Karl Krenz, began business as a corporation in September of the current year. Karl, a master mechanic, had no experience with keeping a set of books. As a result, Karl entered all of September's transactions directly to the ledger accounts. When he tried to locate a particular entry he found it confusing and time consuming. He has hired you to improve his accounting procedures. The accounts in his General Ledger follow:

Cash		Equipment	
9/01	(a) 4,200	9/4 (b) 550	9/1 (a) 800
9/11	(d) 150		9/4 (b) 2,550
9/15	(e) 190		

Common Stock		Notes Payable	
	9/1 (a) 5,000		9/4 (b) 2,000

Accounts Receivable		Repair Revenue	
9/9	(c) 275	9/15 (e) 190	9/9 (c) 275
			9/11 (d) 150

Prepare the general journal entries, in chronological order (a) through (e), from the T-account entries shown. Include a brief description of the probable nature of each transaction.

Chapter 002 Analyzing and Recording Transactions Key

a.	Sept. 1	Cash.....	4,200	
		Equipment.....	800	
		Common Stock		5,000
		To record initial investment.		
b.	4	Equipment.....	2,550	
		Cash.....		550
		Notes Payable		2000
		To record purchase of equipment, paying \$550 in cash and signing a \$2,000 note payable for the balance due.		
c.	9	Accounts Receivable.....	275	
		Repair Revenue.....		275
		To record credit sale of services.		
d.	11	Cash.....	150	
		Repair Revenue.....		150
		To record cash sale of services.		
e.	15	Cash.....	190	
		Accounts Receivable		190
		To record collection from customer.		

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A1

Chapter 002 Analyzing and Recording Transactions Key

163. Flora Accounting Services completed these transactions in February:

- a. Purchased office supplies on account, \$300
- b. Completed work for a client on credit, \$500
- c. Paid cash for the office supplies purchased in (a)
- d. Completed work for a client and received \$800 cash
- e. Received \$500 cash for the work described in (b).
- f. Received \$1,000 from a client for accounting services to be performed in March.

Prepare journal entries to record the above transactions. Explanations are not necessary.

a.	Office Supplies	300	
	Accounts Payable		300
b.	Accounts Receivable	500	
	Accounting Services Revenue		500
c.	Accounts Payable	300	
	Cash		300
d.	Cash	800	
	Accounting Services Revenue		800
e.	Cash	500	
	Accounts Receivable		500
f.	Cash	1,000	
	Unearned Accounting Service Revenue		1,000

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A1

Chapter 002 Analyzing and Recording Transactions Key

164. Leonard Matson completed these transactions during December of the current year:

Dec.	1	Began a financial services practice by investing \$15,000 cash and office equipment having a \$5,000 value in exchange for common stock.
	2	Purchased \$1,200 of office equipment on credit.
	3	Purchased \$300 of office supplies on credit
	4	Completed work for a client and immediately received a payment of \$900 cash.
	8	Completed work for Acme Loan Co. on credit, \$1,700.
	10	Paid for the supplies purchased on December 3.
	14	Paid for the annual \$960 premium on an insurance policy.
	18	Received payment in full from Acme Loan Co. for the work completed on December 8.
	27	Paid a \$650 cash dividend.
	30	Paid \$175 cash for the December utility bills.
	30	Received \$2,000 from a client for financial services to be rendered next year.

Prepare general journal entries to record these transactions.

Chapter 002 Analyzing and Recording Transactions Key

Dec. 1	Cash	15,000	
	Office Equipment	5,000	
	Common Stock		20,000
	Owner invested in business.		
2	Office Equipment	1,200	
	Accounts Payable		1,200
	Purchased office equipment and supplies on credit.		
3	Office Supplies	300	
	Accounts Payable		300
4	Cash	900	
	Fees Earned		900
	Rendered services for cash.		
8	Accounts Receivable	1,700	
	Fees Earned		1,700
	Rendered services on account.		
10	Accounts Payable	300	
	Cash		300
	Paid amount owed for supplies		
14	Prepaid Insurance	960	
	Cash		960
	Paid insurance premium for one year.		
18	Cash	1,700	
	Accounts Receivable		1,700
	Received payment on account.		
27	Dividends	650	
	Cash		650
	Cash dividend paid.		
30	Utility Expense	175	
	Cash		175
	Paid utility bills.		
30	Cash	2,000	
	Unearned Fees		2,000

Chapter 002 Analyzing and Recording Transactions **Key**

AACSB: Analytic

AACSB: Communications

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: A1

Chapter 002 Analyzing and Recording Transactions Key

165. Maria Sanchez began business as Sanchez Law Firm on November 1. Record the following November transactions by making entries directly to the T-accounts provided. Then, prepare a trial balance, as of November 30.

- a. Sanchez invested \$15,000 cash and a law library valued at \$6,000 in exchange for common stock.
- b. Purchased \$7,500 of office equipment from Johnson Bros. on credit.
- c. Completed legal work for a client and received \$1,500 cash in full payment.
- d. Paid Johnson Bros. \$3,500 cash in partial settlement of the amount owed.
- e. Completed \$4,000 of legal work for a client on credit.
- f. Paid a \$2,000 cash dividend.
- g. Received \$2,500 cash as partial payment for the legal work completed for the client in (e).
- h. Paid \$2,500 cash for the legal secretary's salary.

Cash	Office Equipment	Dividends

Accounts Receivable	Accounts Payable	Legal Fees Earned

Law Library	Common Stock	Salaries Expense

Chapter 002 Analyzing and Recording Transactions Key

Cash		Office Equipment		Dividends	
(a) 15,000	(d) 3,500	(b) <u>7,500</u>		(f) <u>2,000</u>	
(c) 1,500	(f) 2,000				
(g) 2,500	(h) 2,500				
<u>11,000</u>					

Accounts Receivable		Accounts Payable		Legal Fees Earned	
(e) 4,000	(g) 2,500	(d) 3,500	(b) 7,500		(c) 1,500
<u>1,500</u>			<u>4,000</u>		(e) 4,000
					<u>5,500</u>

Law Library		Common Stock		Salaries Expense	
(e) <u>6,000</u>			(a) <u>21,000</u>	(h) <u>2,500</u>	

Sanchez Law Firm Trial Balance November 30		
Account	Debit	Credit
Cash	\$ 11,000	
Accounts Receivable	1,500	
Law Library	6,000	
Office Equipment	7,500	
Accounts Payable		\$ 4,000
Common Stock		21,000
Dividends	2,000	
Legal Fees Earned		5,500
Salaries Expense	<u>2,500</u>	
Totals	<u>\$30,500</u>	<u>\$30,500</u>

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A1
Learning Objective: P3

Chapter 002 Analyzing and Recording Transactions **Key**

166. Josephine's Bakery had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year.....	\$114,000	\$68,000
End of the year.....	135,000	73,000

If the owners made no investments in the business and no dividends were paid during the year, what was the amount of net income earned by Josephine's Bakery during the current year?

Beginning owner's equity = \$114,000 - \$68,000 = \$46,000

Ending owner's equity = \$135,000 - \$73,000 = \$62,000

Increase in owner's equity = \$62,000 - \$46,000 = \$16,000

Since there were no investments or dividends during the year, the net income is \$16,000.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A1
Learning Objective: P3

Chapter 002 Analyzing and Recording Transactions **Key**

167. Josephine's Bakery had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	\$114,000	\$68,000
End of the year	135,000	73,000

If the owners invested an additional \$12,000 in the business during the year, but no dividends were paid, what was the amount of net income earned by Josephine's Bakery during the current year?

Beginning owner's equity = \$114,000 - \$68,000 = \$46,000

Ending owner's equity = \$135,000 - \$73,000 = \$62,000

Increase in owner's equity = \$62,000 - \$46,000 = \$16,000

Net income = \$16,000 - \$12,000 = \$4,000

AACSB: Analytic

AACSB: Communications

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: A1

Learning Objective: P3

Chapter 002 Analyzing and Recording Transactions **Key**

168. Josephine's Bakery had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	\$114,000	\$68,000
End of the year	135,000	73,000

If the owners made no investments and dividends of \$5,000 were paid during the year, what was the amount of net income earned by Josephine's Bakery during the current year?

Beginning owner's equity = \$114,000 - \$68,000 = \$46,000

Ending owner's equity = \$135,000 - \$73,000 = \$62,000

Increase in owner's equity = \$62,000 - \$46,000 = \$16,000

Net income = \$16,000 + \$5,000 = \$21,000

AACSB: Analytic

AACSB: Communications

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Decision Making

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: A1

Learning Objective: P3

Chapter 002 Analyzing and Recording Transactions **Key**

169. Josephine's Bakery had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	\$114,000	\$68,000
End of the year	135,000	73,000

If the owners invested an additional \$12,000 in the business and dividends of \$5,000 were paid during the year, what was the amount of net income earned by Josephine's Bakery during the current year?

$$\text{Beginning owner's equity} = \$114,000 - \$68,000 = \$46,000$$

$$\text{Ending owner's equity} = \$135,000 - \$73,000 = \$62,000$$

$$\text{Increase in owner's equity} = \$62,000 - \$46,000 = \$16,000$$

$$\text{Net income} = \$16,000 - \$12,000 + \$5,000 = \underline{\$9,000}$$

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A1
Learning Objective: P3

170. A company had total assets of \$350,000; total liabilities of \$101,500; and total equity of \$248,500. Calculate its debt ratio.

$$\$101,500/\$350,000 = \underline{29\%}$$

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A2

Chapter 002 Analyzing and Recording Transactions **Key**

171. Montgomery Marketing Co. had assets of \$475,000; liabilities of \$275,500; and equity of \$199,500. Calculate its debt ratio.

$$\$275,500/\$475,000 = 58\%$$

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A2

172. List the steps in recording transactions.

1. Analyze transactions and source documents.
2. Apply double-entry accounting.
3. Record the journal entry.
4. Post entry to ledger.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: P1

Chapter 002 Analyzing and Recording Transactions Key

173. For each of the following errors, indicate on the table below the amount by which the trial balance will be out of balance and which trial balance column (debit or credit) will have the larger total as a result of the error.

- a. \$100 debit to Cash was debited to the Cash account twice
- b. \$1,900 credit to Sales was posted as a \$190 credit
- c. \$5,000 debit to Office Equipment was debited to Office Supplies
- d. \$625 debit to Prepaid Insurance was posted as a \$62.50 debit
- e. \$520 credit to Accounts Payable was not posted

Error	Amount Out of Balance	Column Having Larger Total
a.		
b.		
c.		
d.		
e.		

Error	Amount Out of Balance		Column With Larger Total
a.	\$100		Debit
b.	\$1,710		Debit
c.	—		—
d.	\$562.50		Credit
e.	\$520		Debit

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P2

Chapter 002 Analyzing and Recording Transactions Key

174. After preparing an (unadjusted) trial balance at year-end, G. Chu of Chu Design Company discovered the following errors:

1. Cash payment of the \$225 telephone bill for December was recorded twice.
2. Cash payment of a note payable was recorded as a debit to Cash and a debit to Notes Payable for \$1,000.
3. A \$900 cash dividend was recorded to the correct accounts as \$90.
4. An additional investment of \$5,000 cash by the owner was recorded as a debit to Common Stock and a credit to Cash.
5. A credit purchase of office equipment for \$1,800 was recorded as a debit to the Office Equipment account with no offsetting credit entry.

Using the form below, indicate whether the error would cause the trial balance to be out of balance by placing an X in either the yes or no column.

Would the error cause the trial balance to be out of balance?

Error	Yes	No
1.	_____	_____
2.	_____	_____
3.	_____	_____
4.	_____	_____
5.	_____	_____

Would the error cause the trial balance to be out of balance?

Error	Yes		No
1.			X
2.	X		
3.			X
4.			X
5.	X		

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Decision Making
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P2

Chapter 002 Analyzing and Recording Transactions **Key**

175. The balances for the accounts of Mike's Maintenance, Inc. for the year ended December 31 are shown below. Each account shown had a normal balance.

Accounts payable	\$ 6,500	Wages expense	\$36,000
Accounts receivable	7,000	Rent expense	6,000
Cash	?	Retained Earnings	68,700
Maintenance supplies	1,200		
Building	125,000	Land	50,000
Supplies expense	21,500	Unearned maintenance fees	4,000
Common Stock	50,000	Dividends	48,000
Maintenance revenue	175,000		

Calculate the correct balance for Cash and prepare a trial balance.

MIKE'S MAINTENANCE INC. Trial Balance For Year Ended December 31	
Cash**	\$9,500
Accounts receivable	7,000
Maintenance supplies	1,200
Land	50,000
Building	125,000
Accounts payable	
Unearned maintenance fees	
Common stock	
Retained earnings	
Dividends	48,000
Maintenance revenue	
Wages expense	36,000
Rent expense	6,000
Supplies expense	<u>21,500</u>
Totals	<u>\$304,200</u>
**Total credits	\$304,200
Total debits (excluding cash)	<u>294,700</u>
Cash	<u>\$ 9,500</u>

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P2

Chapter 002 Analyzing and Recording Transactions Key

176. At year-end, Harris Cleaning Service noted the following errors in its trial balance:

1. It understated the total debits to the Cash account by \$500 when computing the account balance.
2. A credit sale for \$311 was recorded as a credit to the revenue account, but the offsetting debit was not posted.
3. A cash payment to a creditor for \$2,600 was never recorded.
4. The \$680 balance of the Prepaid Insurance account was listed in the credit column of the trial balance.
5. A \$24,900 truck purchase for cash was recorded as a \$24,090 debit to Vehicles and a \$24,090 credit to Notes Payable.
6. A purchase of office supplies for \$150 was recorded as a debit to Office Equipment. The offsetting credit entry was correct.
7. An additional investment of \$4,000 by Del Harris was recorded as a debit to Common Stock and as a credit to Cash.
8. The cash payment of the \$510 utility bill for December was recorded (but not paid) twice.
9. A revenue account balance of \$79,817 was listed on the trial balance as \$97,817.
10. A \$1,000 cash dividend was recorded as a \$100 debit to Dividends and \$100 credit to cash.

Using the form below, indicate whether each error would cause the trial balance to be out of balance, the amount of any imbalance and whether a correcting journal entry is required.

Error	Would the error cause the trial balance to be out of balance?		Amount of Imbalance	Correcting Journal Entry Required	
	Yes	No		Yes	No
1.					
2.					
3.					
4.					
5.					
6.					
7.					
8.					
9.					
10.					

Chapter 002 Analyzing and Recording Transactions Key

Error	Would the error cause the trial balance to be out of balance?		Amount of Imbalance	Correcting Journal Entry Required	
	Yes	No		Yes	No
1.	X		\$500		X
2.	X		311		X
3.		X	0	X	
4.	X		1,360		X
5.		X	0	X	
6.		X	0	X	
7.		X	0	X	
8.		X	0	X	
9.	X		18,000		X
10.		X	0	X	

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Decision Making
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: P2

Chapter 002 Analyzing and Recording Transactions Key

177. The following trial balance was prepared from the general ledger of Hal's Auto Repair.

HAL'S AUTO REPAIR Trial Balance October 31		
	Debit	Credit
Cash.....	\$ 975	
Accounts receivable.....	3,800	
Supplies.....	500	
Repair equipment.....	13,000	
Office equipment.....	6,600	
Accounts payable.....		\$ 4,510
Common stock.....		10,000
Retained earnings.....		13,000
Dividends.....	4,200	
Repair fees earned.....		10,875
Supplies expense.....	<u>8,600</u>	
Totals.....	<u>\$37,675</u>	<u>\$38,385</u>

Because the trial balance did not balance, you decided to examine the accounting records. You found that the following errors had been made:

1. A purchase of supplies on account for \$245 was posted as a debit to Supplies and as a debit to Accounts Payable.
2. An investment of \$500 cash by the owner was debited to Common Stock and credited to Cash.
3. In computing the balance of the Accounts Receivable account, a debit of \$600 was omitted from the computation.
4. One debit of \$300 to the Dividends account was posted as a credit.
5. Office equipment purchased for \$800 was posted to the Repair Equipment account.
6. One entire entry was not posted to the general ledger. The transaction involved the receipt of \$125 cash at the time repair services were performed.

Prepare a corrected trial balance for the Hal's Auto Repair as of October 31.

Chapter 002 Analyzing and Recording Transactions Key

HAL'S AUTO REPAIR Trial Balance October 31		
	<u>Debit</u>	<u>Credit</u>
Cash ^a	\$ 2,100	
Accounts receivable ^b	4,400	
Supplies.....	500	
Repair equipment ^c	12,200	
Office equipment ^d	7,400	
Accounts payable ^e		\$ 5,000
Common stock ^f		11,000
Retained earnings.....		13,000
Dividends ^g	4,800	
Repair fees earned ^h		11,000
Supplies expense.....	8,600	
Totals.....	<u>\$40,000</u>	<u>\$40,000</u>

^aCash: Balance \$975 + \$1,000 (2) + 125 (6) = \$2,100

^bAccounts Receivable: Bal. \$3,800 + 600 (3) = \$4,400

^cRepair Equipment: Bal. \$13,000 - 800 (5) = \$12,200

^dOffice Equipment: Bal. \$6,600 + 800 (5) = \$7,400

^eAccounts Payable: Bal \$4,510 + 490 (1) = \$5,000

^fCommon Stock = Bal. \$10,000 + 1,000 (2) = \$11,000

^gDividends: Bal. \$4,200 + 600 (4) = \$4,800

^hRepair fees earned: Bal \$10,875 + 125 (6) = \$11,000

AACSB: Analytic

AACSB: Communications

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: P2

Chapter 002 Analyzing and Recording Transactions Key

178. The following are all of the accounts of Flaherty Company that have a balance at the end of August. All accounts have normal balances:

Accounts receivable	\$36,000	Cash	\$27,000
Equipment	59,000	Advertising expense	5,000
Service revenues earned ...	75,000	Accounts payable	31,000
Rent expense	3,600	Dividends	24,000
Office supplies	1,500	Salaries expense	30,000
Notes payable	22,000	Common stock	20,000
		Retained earnings	58,100

- a. Calculate net income
- b. Determine the amount of retained earnings to be shown on the August 31 balance sheet.

A.	\$75,000	Service revenues earned
	(3,600)	Rent expense
	(5,000)	Advertising expense
	(30,000)	Salaries expense
	<u>\$36,400</u>	Net income
B.	\$58,100	Retained earnings (beginning)
	36,400	Net income
	(24,000)	Dividends
	<u>\$70,500</u>	Retained earnings

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P3

Chapter 002 Analyzing and Recording Transactions Key

179. Based on the following trial balance for Sal's Beauty Shop, prepare an income statement, statement of retained earnings and a balance sheet. Sal made no additional investments in the company during the year.

Sal's Beauty Shop Trial Balance December 31		
Cash	\$ 6,500	
Accounts receivable	475	
Beauty supplies	2,500	
Beauty shop equipment	17,000	
Accounts payable		\$ 745
Common stock		10,000
Retained earnings		11,155
Dividends	36,000	
Revenue earned		72,000
Beauty supplies expense	3,425	
Rent expense	6,000	
Wages expense	<u>22,000</u>	
Totals	<u>\$93,900</u>	<u>\$93,900</u>

Chapter 002 Analyzing and Recording Transactions Key

Sal's Beauty Shop Income Statement For the year ended December 31		
Revenue earned.....		\$72,000
Expenses:		
Beauty supplies expense	\$ 3,425	
Rent expense	6,000	
Wages expense	<u>22,000</u>	
Total expenses		<u>31,425</u>
Net Income		<u>\$40,575</u>

Sal's Beauty Shop Statement of Retained Earnings For the year ended December 31	
Retained earnings, January 1	\$11,155
Add: Net income	40,575
Less: Dividends	<u>(36,000)</u>
Retained earnings, December 31	<u>\$15,730</u>

Sal's Beauty Shop Balance Sheet At December 31			
Assets		Liabilities	
Cash	\$ 6,500	Accounts payable	\$ 745
Accounts receivable	475		
Beauty supplies	2,500	Equity	
Beauty shop equipment	<u>17,000</u>	Common stock	\$10,000
		Retained earnings	<u>15,730</u>
		Total equity	<u>25,730</u>
Total assets	<u>\$26,475</u>	Total liabilities and equity	<u>\$26,475</u>

AACSB: Analytic
 AACSB: Communications
 AICPA BB: Critical Thinking
 AICPA BB: Industry
 AICPA FN: Measurement
 AICPA FN: Reporting
 Difficulty: Medium
 Learning Objective: P3

Fill in the Blank Questions

180. _____ and _____ are the starting points for the analyzing and recording process.

Business transactions; events

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: CI

181. The second step in the analyzing and recording process is to record the transactions and events in the _____.

Journal

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: CI

182. The third step in the analyzing and recording process is to post the information to _____.

Ledger accounts.

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: CI

Chapter 002 Analyzing and Recording Transactions **Key**

183. _____ identifies and describes transactions and events and provides objective evidence and amounts for recording.

Source documents

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C2

184. Revenues and expenses are two categories of _____ accounts.

Equity

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C3

185. The _____ is a record containing all accounts (with balances) used by a company.

General ledger (or ledger)

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C3

Chapter 002 Analyzing and Recording Transactions **Key**

186. The three general categories of accounts in a general ledger are _____, _____ and _____.
Assets, liabilities, equity

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C3

187. _____ is promises of payment from customers to sellers.
Accounts receivable

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C3

188. Unearned revenue is classified as _____ that is satisfied by delivering products or services in the future.
A Liability

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C3

Chapter 002 Analyzing and Recording Transactions **Key**

189. The four categories of equity accounts are _____,
_____, _____ and _____.

Common stock; dividends; revenues; expenses

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C3

190. A _____ is a list of all the accounts used by a company and their identification codes.

Chart of accounts

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C4

191. A _____ is a record containing all accounts for a company along with their balances.

Ledger

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C5

Chapter 002 Analyzing and Recording Transactions **Key**

192. _____ requires that each transaction affect and be recorded in, at least two accounts. It also means that total amounts debited must equal total amounts credited for each transaction.

Double-entry accounting

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C5

193. The difference between total debits and total credits for an account, including any beginning balance is the _____.

Account balance

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: C5

194. Increases in assets are _____, while increases in liabilities are _____.

Debited, credited

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: C5

Chapter 002 Analyzing and Recording Transactions **Key**

195. FastForward purchased \$25,000 of equipment for cash. The Equipment asset account is _____ for \$25,000 and the cash account is _____ for \$25,000.

Debited, credited

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: A1*

196. Stride Rite had total liabilities of \$130 million and total assets of \$375 million. Its debt ratio was _____.

\$130 million/\$375million = 34.7%

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: A2*

197. _____ is the process of transferring journal entry information to the ledger.

Posting

*AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: P1*

Chapter 002 Analyzing and Recording Transactions **Key**

198. A _____ gives a complete record of each transaction in one place and shows debits and credits for each transaction.

Journal

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: P1

199. An account format that is similar to a T-account in that it has columns for debits and credits, but that is different in that it has columns for transaction date, explanation and the account balance is the _____.

Balance column account

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P1

200. The posting process is the link between the _____ and the _____.

Journal; ledger

AACSB: Analytic
AACSB: Communications
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P1