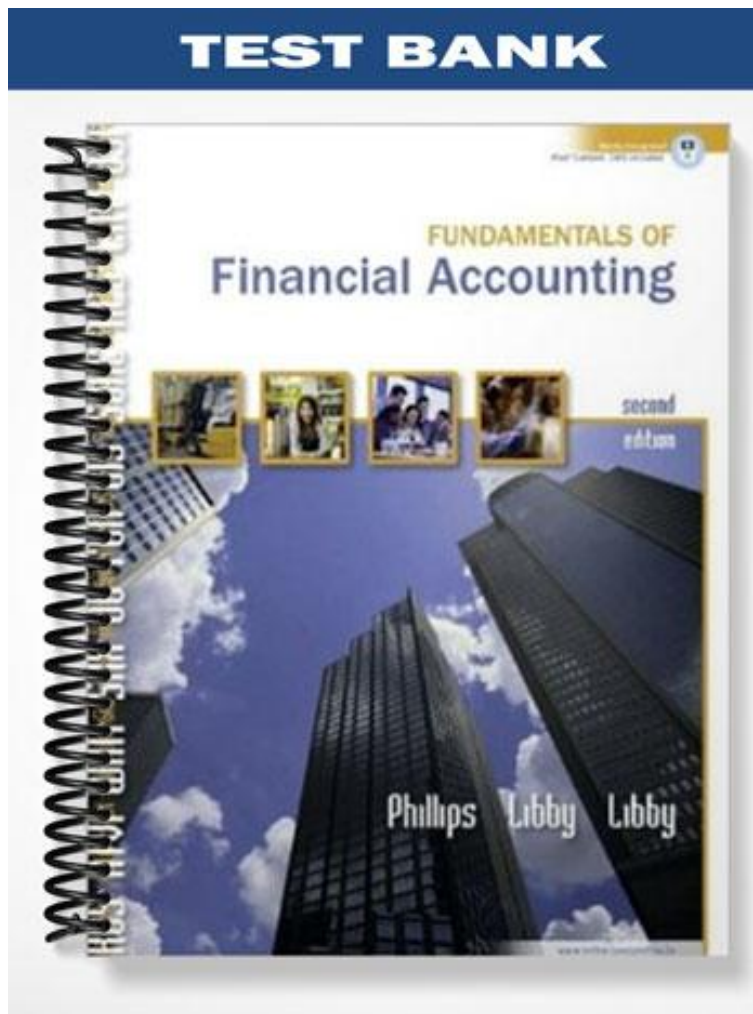


# TEST BANK



## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

### True / False Questions

1. A transaction is an exchange or event that directly affects the assets, liabilities, or stockholders' equity of a company.

**TRUE**

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Easy*  
*Learning Objective: 2*

2. A transaction can cause only one account on the balance sheet to change.

**FALSE**

At least two accounts on the balance sheet must change so that assets continue to equal liabilities and stockholders' equity.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 2*

3. If a company uses \$100 million in cash to pay off debt, its stockholders' equity will rise \$100 million.

**FALSE**

Assets and liabilities would each decrease by \$100 million; stockholders' equity would not change.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 2*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

4. General Motors (GM) signs a new labor agreement that its workers will receive a 5% wage increase next year. This is considered a transaction that affects GM's financial statements in the current year.

**FALSE**

A promise to pay has been exchanged for a promise to work next year. There has not yet been a transaction; this event does not affect GM's financial statements in the current year.

*AACSB: analytic*  
*AICPA BB: critical thinking*  
*AICPA FN: reporting*  
*Difficulty: Hard*  
*Learning Objective: 5*

5. All of a company's business activities have a direct economic effect on the company.

**FALSE**

Some activities, such as signing an employment contract, only have an indirect economic effect.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Easy*  
*Learning Objective: 5*

6. If total assets increase, then either liabilities or stockholders' equity also must increase.

**TRUE**

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Easy*  
*Learning Objective: 2*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

7. Company X issues \$40 million in new stock for cash. This does not affect stockholders' equity because as new shares are sold the value of existing shares falls.

**FALSE**

When new stock is issued for cash, the company has more cash and contributed capital. Assets and stockholders' equity both rise.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 2*

8. The separate entity concept requires that business transactions be examined from the point of view of the company, not the company's owners.

**TRUE**

*AACSB: analytic*  
*AICPA BB: legal*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 2*

9. You are pleasantly surprised to discover that a popular actress appears on The Tonight Show wearing your company's jeans. Later, your company's sales increase by \$500,000 as a result. When the actress appeared on TV, you would have recorded an asset because the TV appearance was expected to bring future economic benefits to your company.

**FALSE**

No asset would be recorded; the future economic benefits (or resources) were not assured on the date of the TV appearance. Further, no transaction occurred with the appearance. Your company's assets, liabilities, and stockholders' equity will not change until the jeans are produced and sold.

*AACSB: reflective thinking*  
*AICPA BB: critical thinking*  
*AICPA FN: reporting*  
*Difficulty: Hard*  
*Learning Objective: 3*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

10. If the total dollar value of credits to an account exceed the total dollar value of debits to that account, the ending balance of the account will be a debit balance.

**FALSE**

If credits exceed debits, the account will have a credit balance.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Easy*  
*Learning Objective: 3*

### Multiple Choice Questions

11. How many of the following statements regarding the balance sheet are true?

- A "classified" balance sheet is one that contains privileged information.
  - All liabilities require that the company sacrifice resources at some time in the future.
  - All companies use an identical list of account names defined by the Financial Accounting Standards Board (FASB).
- a. None  
**B.** One  
c. Two  
d. Three

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 1*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

12. How many of the following statements regarding debits and credits are true?

- A decrease in assets will result in a credit to an asset account.
  - Across all accounts, the total value of all debits must equal the total value of all credits.
  - The total value of all debits to a particular account must equal the total value of all credits to that account.
- a. None  
b. One  
**C.** Two  
d. Three

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 3*

13. How many of the following statements regarding the balance sheet are true?

- Any item on a balance sheet labeled payable is a liability of that company.
  - Current Assets are listed on the balance sheet in order of how fast they are used up or can be turned into cash.
  - The basic accounting equation must always balance.
- a. None  
b. One  
c. Two  
**D.** Three

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 2*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

14. How many of the following statements regarding posting and classification are true?
- Posting journal entries involves copying the dollar amounts from the journal into the ledger.
  - If a \$100 debit is erroneously posted to an account as a \$100 credit, the accounts will be out of balance by \$100.
  - If a \$5,000 liability is misclassified as stockholders' equity then the accounting equation will still balance.
- a. None  
b. One  
c. Two  
d. Three

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 3*  
*Learning Objective: 4*

15. How many of the following statements regarding the concepts underlying the balance sheet are true?
- A company buys land for \$5 million dollars in 1983. The land is now worth \$15 million. The company should increase the book value of this asset on its balance sheet to reflect its current value.
  - All events affecting the current value of a company are reported on the balance sheet.
  - According to the cost principle, assets are valued at their replacement cost.
- a. None  
b. One  
c. Two  
d. Three

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 5*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

16. Which of the following would be listed as a long-term asset?

- a. Cash.
- b. Supplies.
- C.** Buildings and equipment.
- d. Total assets.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Easy*  
*Learning Objective: 1*

17. Which of the following would be listed as a current liability?

- a. Cash in the bank.
- b. Notes payable due in two years.
- c. Supplies.
- D.** Accounts payable.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Easy*  
*Learning Objective: 1*

18. A long-term liability is one that the company:

- a. has owed for over one year.
- b. has owed for over five years.
- C.** will not pay off for over one year.
- d. will not pay off for over five years.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Easy*  
*Learning Objective: 1*



## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

19. A current asset is one that:

- a. the company has owned for over one year.
- b. the company has owned for over five years.
- C.** the company will use up or convert into cash in less than one year.
- d. the company will use up or convert into cash in less than five years.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Easy*  
*Learning Objective: 1*

20. At the start of the first year of operations, retained earnings on the balance sheet would be:

- A.** equal to zero.
- b. equal to contributed capital.
- c. equal to stockholders' equity.
- d. equal to the negative of liabilities.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 1*

21. Account names in the chart of accounts should be:

- a. sufficiently descriptive to enable users to quickly understand items.
- b. consistent throughout the financial statements and records.
- c. linked to account numbers.
- D.** all of these.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 1*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

### PURRFECT PETS, INC.

#### BALANCE SHEET AT JUNE 30, 2005

<b>Assets</b>		<b>Liabilities</b>	
Cash	\$732,600	Accounts Payable	\$349,200
Accounts Receivable	419,200	Notes Payable, due 2007	<u>268,900</u>
Supplies	58,400	Total Liabilities	<u>618,100</u>
Property, Plant and Equipment	118,500		
Other Assets	<u>69,400</u>	<b>Stockholders' Equity</b>	
		Contributed Capital	662,100
		Retained Earnings	<u>117,900</u>
		Total Equity	<u>780,000</u>
Total Assets	<u>\$1,398,100</u>	Total Liabilities and Stockholders' Equity	<u>\$1,398,100</u>

22. Which line items on the balance sheet would be classified as long term?

- a. Cash; Supplies; Accounts Payable.
- B.** Property, Plant and Equipment; Notes Payable; Other Assets.
- c. Supplies; Property, Plant and Equipment; Notes Payable.
- d. Total Assets; Total Liabilities; Other Assets.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 1*

23. How much financing did the stockholders of Purrfect Pets, Inc., directly contribute to the company?

- a. \$117,900.
- B.** \$662,100.
- c. \$780,000.
- d. \$1,398,100.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 1*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

24. Which of the following is **not** an example of a liability?

- A. Interest receivable.
- b. Wages payable.
- c. Accounts payable.
- d. All of these are examples of liabilities.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 1*

25. The local branch of the Universal Bank System (UBS) receives money from depositors and lends it to borrowers. Which of the following would be true about UBS's financial statements?

- a. UBS reports deposits as assets and loans as liabilities.
- b. UBS reports both deposits and loans as assets.
- C. UBS reports deposits as liabilities and loans as assets.
- d. UBS reports both deposits and loans as liabilities.

*AACSB: reflective thinking*  
*AICPA BB: critical thinking*  
*AICPA FN: reporting*  
*Difficulty: Hard*  
*Learning Objective: 1*

26. Which of the following is not an example of an asset?

- a. Notes receivable.
- b. Supplies.
- c. Prepaid expenses.
- D. Retained Earnings.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 1*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

27. If a company borrows money from a bank and signs an agreement to repay the loan several years from now, in which account would the company report the amount borrowed?

- a. Contributed Capital.
- b. Accounts Payable.
- C.** Notes Payable.
- d. Bonds Payable.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 1*

28. The Sweet Smell of Success Fragrance Company borrowed \$60,000 from the bank and used all of the money to re-design its new store. Sweet Smell's balance sheet would show this as:

- A.** \$60,000 under Furnishings & Equipment and \$60,000 under Notes Payable.
- b. \$60,000 under Supplies and \$60,000 under Accounts Payable.
- c. \$60,000 under Prepaid Expenses and \$60,000 under Accrued Liabilities.
- d. \$60,000 under Other Assets and \$60,000 under Other Liabilities.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Medium*  
*Learning Objective: 1*

29. The Buddy Burger Corporation owes \$1.5 million to the Texas Wholesale Meat Company from whom Buddy Burger buys its burger meat. Which account would Buddy Burger use to report the amount owed?

- a. Cash.
- B.** Accounts Payable.
- c. Supplies.
- d. Accounts Receivable.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 1*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

30. Which of the following describes the classification and normal balance of the retained earnings account?

- a. Asset, debit
- B.** Stockholders' equity, credit
- c. Liability, credit
- d. Stockholders' equity, debit

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Learning Objective: 1*

31. If a company receives \$20,000 cash on accounts receivable and uses the cash to pay \$20,000 on accounts payable then:

- a. assets would increase by \$20,000 while liabilities would decrease by \$20,000.
- b. liabilities would decrease by \$20,000 while stockholders' equity would increase by \$20,000.
- C.** assets would decrease by \$20,000 while liabilities would decrease by \$20,000.
- d. liabilities would decrease by \$20,000 while stockholders' equity would decrease by \$20,000.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Medium*  
*Learning Objective: 2*

32. In 1999, the Denim Company bought land that cost \$15,000. In 2005, a similar piece of land was bought for \$28,000 and the company's existing land was estimated to be worth \$18,000. On the balance sheet at the end of 2005, the land that was purchased in 1999 would be reported at:

- A.** \$15,000.
- b. \$28,000.
- c. \$18,000.
- d. the average of the three prices.

*AACSB: analytic*  
*AICPA BB: legal*  
*AICPA FN: measurement*  
*Difficulty: Medium*  
*Learning Objective: 2*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

33. What is the minimum number of accounts that must be involved in any transaction?
- a. One.
  - B.** Two.
  - c. Three.
  - d. No minimum.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Easy*  
*Learning Objective: 2*

34. Transactions include which three types of events?
- a. Direct events, indirect events, and other events.
  - b. Monetary events, production events, and other events.
  - C.** Observable external events, observable internal events, and unobservable events.
  - d. Current events, past events, and future events.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Easy*  
*Learning Objective: 2*

35. A company disposes of \$1 million of its assets. Which of the following could **not** be true?
- A.** Assets remain the same, and liabilities and stockholders' equity both decrease by \$1 million.
  - b. Assets decrease by \$1 million, liabilities decrease by \$1 million, and stockholders' equity is unchanged.
  - c. Assets, liabilities, and stockholders' equity all remain the same.
  - d. Assets decrease by \$1 million, and liabilities and stockholders' equity both decrease by \$500,000.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Hard*  
*Learning Objective: 2*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

36. Your company orders and broadcasts a 30 second ad during the Super Bowl for \$1.2 million. It is legally obligated to pay for the ad but has not yet done so.
- a. This is an internal unobservable event so it does NOT affect the balance sheet.
  - b. This is an external unobservable event so it does NOT affect the balance sheet.
  - c. This is an internal observable event that affects the balance sheet.
  - D.** This is an external observable event that affects the balance sheet.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 2*

37. In part, a transaction affects the accounting equation as follows:

<b>Assets</b>	=	<b>Liabilities</b>	+	<b>Stockholders' Equity</b>
↓ Accounts receivable	=	No change	+	

Which of the following must be true for this transaction?

- a. If other assets are unchanged, stockholders' equity must be increasing.
- B.** If other assets are unchanged, stockholders' equity must be decreasing.
- c. If stockholders' equity is unchanged, another asset must be decreasing.
- d. If stockholders' equity is unchanged, other assets must be unchanged.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 2*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

38. A company buys equipment for \$500,000 and signs a promissory note for the full amount. How does this transaction affect the accounting equation?

a. Assets: ↑ Property and equipment, ↓ Cash; Liabilities: no change; Stockholders' Equity: no change.

**B.** Assets: ↑ Property and equipment; Liabilities: ↑ Notes payable; Stockholders' Equity: no change.

c. Assets: ↑ Property and equipment; Liabilities: no change; Stockholders' Equity: ↓ Retained earnings.

d. Assets: ↑ Property and equipment; Liabilities: no change; Stockholders' Equity: ↓ Contributed capital.

*AACSB: analytic*

*AICPA BB: resource management*

*AICPA FN: reporting*

*Difficulty: Medium*

*Learning Objective: 2*

39. Your company pays back \$2 million on a loan it had received earlier from a bank.

a. Assets are unchanged, liabilities and stockholders' equity both increased by \$2 million.

**B.** Assets decrease by \$2 million, liabilities decrease by \$2 million, stockholders' equity is unchanged.

c. Assets are unchanged, liabilities increase by \$2 million, contributed capital decreases by \$2 million.

d. Assets decrease by \$2 million, liabilities are unchanged, contributed capital decreases by \$2 million.

*AACSB: analytic*

*AICPA BB: resource management*

*AICPA FN: reporting*

*Difficulty: Medium*

*Learning Objective: 2*



## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

40. A company issues \$20 million in new stock. It later uses the cash received to pay off promissory notes. How many different accounts and which account names are affected by these two transactions?

- A. 3 accounts involved: contributed capital, cash, and notes payable.
- b. 4 accounts involved: contributed capital, cash, liabilities, and accounts payable.
- c. 3 accounts involved: cash, assets, and accounts payable.
- d. 3 accounts involved: contributed capital, investments, and accounts payable.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 2*

41. A company borrows \$2 million from its bank. It then uses this money to buy equipment. How does this transaction affect the accounting equation?

- A. Assets and Liabilities both rise \$2 million.
- b. Assets and Stockholders' Equity both fall \$2 million.
- c. Assets, Liabilities, and Stockholders' Equity are unchanged.
- d. Stockholders' Equity rises \$2 million and Liabilities fall \$2 million.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 2*

42. A company receives \$100,000 cash from investors in exchange for new common stock. Several weeks later, the company buys a \$250,000 machine using all of the cash from the stock issue and signing a promissory note for the remainder. The accounts involved in these two transactions are:

- a. Long-term Investments; Cash; Equipment; and Accounts Payable.
- b. Contributed Capital; Cash; Long-term Investments; and Notes Payable.
- C. Contributed Capital; Cash; Equipment; and Notes Payable.
- d. Retained Earnings; Equipment; and Notes Payable.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 2*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

43. A company purchases \$23,000 of supplies in the current month and promises to pay for them next month. How would the company record a liability for the supplies?
- a. This liability is not a recognized liability until the payment is due.
  - B.** \$23,000 would be journalized as a credit to Accounts Payable.
  - c. \$23,000 would be journalized as a debit to Accounts Payable.
  - d. \$23,000 would be journalized as a debit to Prepaid Expenses.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Medium*  
*Learning Objective: 2*

44. If total liabilities decreased by \$25,000 and stockholders' equity increased by \$5,000 during a period of time, then total assets must change by what amount and direction during the same time period?
- a. \$20,000 increase.
  - B.** \$20,000 decrease.
  - c. \$30,000 increase.
  - d. \$30,000 decrease.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Easy*  
*Learning Objective: 2*

45. The characteristic shared by all liabilities is that they:
- a. provide a future economic benefit.
  - b. result in an inflow of resources to the company.
  - c. always end in the word "payable."
  - D.** obligate the company to do something in the future.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 2*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

46. A company issues \$20 million in new stock. The company later uses this money to acquire a building. How many accounts will be affected by these transactions and which particular account names are most likely to be used to record the effects of these transactions?

- A.** 3 accounts affected: Contributed Capital, Cash, and Building.
- b. 4 accounts affected: Contributed Capital, Cash, Liabilities, and Building.
- c. 3 accounts affected: Cash, Property, Plant and Equipment, and Contributed Capital.
- d. 3 accounts affected: Contributed Capital, Investments, and Cash.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 2*

47. Park & Company was recently formed with a \$5,000 investment in the company by stockholders. The company then borrowed \$2,000 from a local bank, purchased \$1,000 of supplies on account, and also purchased \$5,000 of equipment by paying \$2,000 in cash and signing a promissory note for the balance. Based on these transactions, the company's total assets are:

- a. \$7,000.
- b. \$9,000.
- c. \$10,000.
- D.** \$11,000.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Hard*  
*Learning Objective: 2*

48. The common characteristic possessed by all assets is

- a. long life.
- b. great financial value.
- c. physical substance.
- D.** future economic benefit.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Easy*  
*Learning Objective: 2*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

49. Current liabilities are expected to be
- converted to cash within one year.
  - B.** paid within one year.
  - used in the business within one year.
  - acquired within one year.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Easy*  
*Learning Objective: 2*

50. If Accounts Payable had a balance of \$18,200 at the beginning of the month, and the six amounts shown below were posted to this account, what should be the ending balance?

Three debits posted to Accounts Payable this month: \$4,700, \$11,300, and \$14,800.

Three credits posted to Accounts Payable this month: \$3,600, \$9,500, and \$12,700.

- A.** \$13,200.
- \$5,000.
- \$23,200.
- \$49,000.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Medium*  
*Learning Objective: 3*

51. In a T-account debits appear in what manner?
- They are on the left under assets but on the right under liabilities and stockholders' equity.
  - They are always listed on the right.
  - C.** They are always listed on the left.
  - They are on the right under assets but on the left under liabilities and stockholders' equity.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Easy*  
*Learning Objective: 3*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

52. A company uses \$100,000 in cash to pay off \$100,000 in notes payable. This would result in a:

- A. \$100,000 credit to Cash and a \$100,000 debit to Notes Payable.
- b. \$100,000 credit to Cash and a \$100,000 credit to Notes Payable.
- c. \$100,000 debit to Cash and a \$100,000 credit to Notes Payable.
- d. \$100,000 debit to Cash and a \$100,000 debit to Notes Payable.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Medium*  
*Learning Objective: 3*

53. Purrfect Pets, Inc., uses \$10,000 in cash to pay \$10,000 on Accounts Payable. This would result in a:

- a. \$10,000 credit to Cash and a \$10,000 credit to Accounts Payable.
- b. \$10,000 debit to Cash and a \$10,000 debit to Accounts Payable.
- C. \$10,000 credit to Cash and a \$10,000 debit to Accounts Payable.
- d. \$10,000 debit to Cash and a \$10,000 credit to Accounts Payable.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 3*

54. The best interpretation of the word credit is the

- a. offset side of an account.
- b. increase side of an account.
- C. right side of an account.
- d. decrease side of an account.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Easy*  
*Learning Objective: 3*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

### 55. Accounts Payable

- A.** has a normal credit balance
- b. is increased by a debit
- c. is an asset
- d. is increased when a company receives cash from customers

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Easy*  
*Learning Objective: 3*

### 56. Accounts receivable

- a. has a normal credit balance
- B.** is increased by a debit
- c. is a liability
- d. is increased when a company receives cash from its customers

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Easy*  
*Learning Objective: 3*

Cash			
Beginning			
Balance	123,900		
(a)	14,700	(c)	6,000
(b)	38,300	(d)	5,800
		(e)	7,400
		(f)	12,000
		(g)	11,200

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

57. The final balance of the Cash-account would be:

- a. \$219,300.
- b. \$113,300.
- c. \$28,500.
- D.** \$134,500.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Medium*  
*Learning Objective: 3*

58. In the T-account:

- a. (a) and (b) are debits while (c) through (g) are credits.
- b. (a) and (b) are increases while (c) through (g) are decreases.
- c. if the sum of (a) and (b) is less than the sum of (c) through (g), the total cash will decrease.
- D.** All of these.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Medium*  
*Learning Objective: 3*

59. A credit would make which of the following accounts decrease?

- a. Contributed Capital.
- B.** Inventories.
- c. Notes Payable.
- d. Retained Earnings.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Medium*  
*Learning Objective: 3*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

60. Your company buys a \$2 million warehouse paying \$300,000 in cash and issuing \$1.7 million in promissory notes. This will be posted as:
- a. \$2 million credited and \$300,000 debited to assets; \$1.7 million debited to liabilities.
  - b. \$2 million debited to assets and \$2 million credited to liabilities.
  - C.** \$2 million debited and \$300,000 credited to assets; \$1.7 million credited to liabilities.
  - d. \$2 million credited to assets and \$2 million debited to liabilities.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Hard*  
*Learning Objective: 3*

61. Cash had a beginning balance of \$68,900. During the month, Cash was credited for \$16,000 and debited for \$18,300. At the end of the month, the balance is:
- a. \$2,300.
  - B.** \$71,200.
  - c. \$66,700.
  - d. \$(2,300).

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Medium*  
*Learning Objective: 3*

62. Which of the following is true?
- A.** Assets have debit balances and liabilities have credit balances.
  - b. Assets and liabilities have credit balances.
  - c. Assets have credit balances and liabilities have debit balances.
  - d. Assets and liabilities have debit balances.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Easy*  
*Learning Objective: 3*



## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

63. The standard formatting for a journal entry:
- a. lists credits first and then debits, both aligned to the left.
  - b. lists credits first and then debits, indented underneath.
  - c. lists debits first and then credits, both aligned to the right.
  - D.** lists debits first and then credits, indented underneath.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Easy*  
*Learning Objective: 3*

64. The standard formatting for a journal entry lists the dollar amounts for:
- A.** credits to the right of the dollar amounts for debits.
  - b. debits and credits aligned equally to the right.
  - c. debits to the right of the dollar amounts for credits.
  - d. debits and credits aligned equally to the left.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Medium*  
*Learning Objective: 3*

65. Which of the following scenarios could explain the journal entry below?

<i>dr</i>	<b>Equipment</b> .....	10,000	
	<i>cr</i>	<b>Cash</b> .....	4,000
	<i>cr</i>	<b>Notes payable</b> .....	6,000

- A.** The company buys \$10,000 of equipment for \$4,000 in cash and \$6,000 on credit.
- b. The company receives \$4,000 in cash and \$6,000 in notes payable for selling 10,000 of equipment.
- c. The company buys \$10,000 of equipment, for \$4,000 cash and a promise to cancel \$6,000 of debt owed to it.
- d. The company sells \$10,000 of equipment, for \$4,000 in cash and pays off \$6,000 it owes on the equipment.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Medium*  
*Learning Objective: 3*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

66. Which of the following statements is true?

- a. Assets must always equal liabilities plus stockholders' equity.
- b. The total value of credits in all accounts must always equal the total value of debits in all accounts.
- c. The net changes in assets must always equal the sum of the net changes in liabilities and stockholders' equity.
- D.** All of these.

*AACSB: analytic*

*AICPA BB: resource management*

*AICPA FN: reporting*

*Difficulty: Easy*

*Learning Objective: 3*

67. The normal balance of any account is the

- a. left side.
- b. right side.
- C.** side which increases that account.
- d. side which decreases that account.

*AACSB: analytic*

*AICPA BB: resource management*

*AICPA FN: measurement*

*Difficulty: Medium*

*Learning Objective: 3*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

Use the following T-account and partial listing of account balances to answer the questions:

Accounts Receivable	
Beginning Balance	187,500
	104,900
	63,900
	18,000
	5,400
	14,700
	19,200

Partial listing of account balances at the end of the year:

Cash	\$28,000
Accounts Receivable	?
Supplies	35,600
Other Current Assets	5,900

68. The amount of Total Current Assets that would be reported on the company's balance sheet at the end of the year would be:

- a. \$180,800.
- B. \$368,500.**
- c. \$145,700.
- d. \$298,800.

$$\begin{aligned} \text{A/R} &= (187,500 + 104,900 + 63,900) - (18,000 + 5,400 + 14,700 + 19,200) = 299,000 \\ \text{Total Current Assets} &= 28,000 + 299,000 + 35,600 + 5,900 = 368,500 \end{aligned}$$

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Hard*  
*Learning Objective: 2*  
*Learning Objective: 4*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

69. Which of the following is an accurate description of the economic events involving Accounts receivable as documented in the T-Account above?
- a. There were more customers paying off balances than there were customers adding to their balances.
  - B.** There were more customers adding to their balances than paying off their balances.
  - c. The company paid off its debt more than it incurred new debt.
  - d. The company incurred more debt than it paid off.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Medium*  
*Learning Objective: 3*

70. According to the principle of conservatism, when faced with uncertainty about the value of an item, a company should use the measure that avoids:
- a. overstating assets and liabilities.
  - B.** overstating assets and understating liabilities.
  - c. understating assets and overstating liabilities.
  - d. understating assets and liabilities.

*AACSB: analytic*  
*AICPA BB: legal*  
*AICPA FN: measurement*  
*Difficulty: Medium*  
*Learning Objective: 5*

71. Which of the following would **not** be considered fraudulent financial reporting?
- a. Intentionally reporting long-term assets that include equipment ordered but not yet received.
  - B.** Intentionally reporting long-term assets that include equipment ordered and received but not yet paid for.
  - c. Intentionally reporting long-term assets that include items paid for but not yet received.
  - d. All of these would be considered fraudulent financial reporting.

*AACSB: reflective thinking*  
*AICPA BB: critical thinking*  
*AICPA FN: reporting*  
*Difficulty: Hard*  
*Learning Objective: 5*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

72. Your company's president donates a large amount of her own money to charity and receives significant publicity that includes the company's name. How would the benefits of this publicity appear on the balance sheet?

- a. It would appear as a current asset.
- b. It would appear as a liability.
- c. It would appear as a long-term asset.
- D.** It would not appear on the balance sheet.

*AACSB: analytic*  
*AICPA BB: critical thinking*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 5*

73. Which of the following would a company be most likely to overstate if the company was trying to mislead potential external investors or creditors?

- A.** Accounts Receivable.
- b. Notes Payable.
- c. Salaries Expense.
- d. Accounts Payable.

*AACSB: analytical*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 5*

74. Which of the following would not be recorded as an identifiable accounting transaction?

- a. Putting a deposit down on a new vehicle.
- B.** Hiring a new employee.
- c. Obtaining a bank loan.
- d. Receiving a deposit from a customer.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 5*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

75. Which concept should be applied when reporting a piece of land that was bought for \$50,000 five years ago, and which would probably now sell for \$80,000?

- A.** The cost principle.
- b. The asset principle.
- c. The separate entity concept.
- d. None of these.

*AACSB: analytic*  
*AICPA BB: legal*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 5*

76. Conservatism means:

- a. not underestimating asset values.
- b. not overestimating liabilities.
- C.** using the least optimistic measurement when faced with uncertainty about the reported amounts of assets and liabilities.
- d. always recording an asset at the amount it originally cost.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Hard*  
*Learning Objective: 5*

77. The MegaBuck movie studio's name has become famous for adventure movies. Another studio once offered to buy the name for \$20 million, but MegaBuck turned down the offer. The MegaBuck balance sheet will show:

- a. The company's name under Other Assets, valued at \$20 million.
- b. The company's name under Other Assets, valued conservatively at \$10 million.
- c. The company's name under Accounts Receivable, valued at \$20 million.
- D.** The company's name will not be shown as an asset on the balance sheet.

*AACSB: reflective thinking*  
*AICPA BB: critical thinking*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 5*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

### Essay Questions

78. Selected accounts for Moonbills Corporation appear below.

Instructions – For each account, indicate the following:

A. In the first column at the right, indicate the nature of each account, using the following abbreviations:

Asset — A, Liability — L, Stockholders' Equity — SE.

B. In the second column, indicate the normal balance by inserting *dr* or *cr*.

	(A) Type of Account	(B) Normal Balance
1. Supplies.....	_____	_____
2. Notes Payable .....	_____	_____
3. Unearned Revenue .....	_____	_____
4. Equipment.....	_____	_____
5. Accounts Payable.....	_____	_____
6. Accounts Receivable.....	_____	_____
7. Contributed Capital.....	_____	_____
8. Cash .....	_____	_____
9. Retained Earnings .....	_____	_____
10. Land .....	_____	_____

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

	(A) Type of Account	(B) Normal Balance
1. Supplies.....	A	dr
2. Notes Payable .....	L	cr
3. Unearned Revenue .....	L	cr
4. Equipment.....	A	dr
5. Accounts Payable.....	L	cr
6. Accounts Receivable.....	A	dr
7. Contributed Capital .....	SE	cr
8. Cash .....	A	dr
9. Retained Earnings .....	SE	cr
10. Land .....	A	dr

*AACSB: analytic*

*AICPA BB: resource management*

*AICPA FN: measurement*

*Difficulty: Medium*

*Learning Objective: 1*

*Learning Objective: 3*



## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

79. Prepare a classified balance sheet for Purrfect Pets, Inc., using the following data for June 30, 2005.

Accounts Payable	\$119,400	Retained Earnings	54,700
Property and Equipment	421,600	Notes Payable, due 2007	343,200
Contributed Capital	200,000	Accounts Receivable	202,500
Unearned Revenue	3,900	Cash	97,100

### PURRFECT PETS, INC.

#### BALANCE SHEET

AT JUNE 30, 2005

<b>Assets</b>		<b>Current Liabilities</b>	
Cash	\$ 97,100	Accounts Payable	\$119,400
Accounts Receivable	<u>202,500</u>	Unearned Revenue	<u>3,900</u>
Total Current Assets	299,600	Total Current Liabilities	\$123,300
		Notes Payable	<u>343,200</u>
		Total Liabilities	<u>466,500</u>
Property and Equipment	421,600	<b>Stockholders' Equity</b>	
		Contributed Capital	200,000
		Retained Earnings	<u>54,700</u>
		Total Stockholders' Equity	<u>254,700</u>
Total Assets	<u><u>\$721,200</u></u>	Total Liabilities and Stockholders' Equity	<u><u>\$721,200</u></u>

*AACSB: analytic*

*AICPA BB: resource management*

*AICPA FN: reporting*

*Difficulty: Medium*

*Learning Objective: 1*

*Learning Objective: 4*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

80. Stockholders contribute \$10,000 cash to a company. The company uses \$5,000 to buy new equipment and \$3,000 to pay off accounts payable. Show the effect of these transactions on the basic accounting equation. Then, show the journal entries that would be used to record the transactions.

<u>Transaction Analysis (\$000)</u>				
<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
Cash		Accounts Payable		Contributed Capital
+10,000				+10,000
-5,000	+5,000			
-3,000		-3,000		

Journal entries:

<i>dr</i>	<b>Cash (+A)</b> .....	10,000		
	<b>cr</b> <b>Contributed Capital (+SE)</b>		10,000	
<i>dr</i>	<b>Property &amp; Equipment (+A)</b> .....	5,000		
	<b>cr</b> <b>Cash (-A)</b>		5,000	
<i>dr</i>	<b>Accounts Payable (-L)</b> .....	3,000		
	<b>cr</b> <b>Cash(-A)</b> .....		3,000	

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Hard*  
*Learning Objective: 2*  
*Learning Objective: 3*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

81. The balance sheet for Purrfect Pets, Inc., as of June 30, 2006 is shown below.

<b>PURRFECT PETS, INC.</b>			
BALANCE SHEET			
AT JUNE 30, 2006			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$732,600	Accounts Payable	\$349,200
Accounts Receivable	419,200	Notes Payable	<u>268,900</u>
Inventories	58,400	Total Liabilities	<u>618,100</u>
Property, Plant and Equipment	118,500		
Other Assets	<u>69,400</u>	<b>Stockholders' Equity</b>	
		Contributed Capital	662,100
		Retained Earnings	<u>117,900</u>
		Total Stockholders' Equity	<u>780,000</u>
Total Assets	<u>\$1,398,100</u>	Total Liabilities and Stockholders' Equity	<u>\$1,398,100</u>

During July, 2006, stockholders contribute \$300,000 cash for additional ownership shares. The company pays \$550,000 in cash and borrows \$150,000 from a bank to buy some new stores.

- a. Show the journal entries and the effects of these transactions on the basic accounting equation.
- b. Show the new balance sheet as of July 31, 2006 after these transactions have occurred, assuming there was no other July activity.

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

a. Journal entries:

<i>dr</i>	<b>Cash (+A)</b> .....	300,000	
	<i>cr</i> <b>Contributed Capital (+SE)</b> .....		300,000
<i>dr</i>	<b>Property, Plant &amp; Equipment (+A)</b> .....	700,000	
	<i>cr</i> <b>Cash (-SE)</b> .....		550,000
	<i>cr</i> <b>Notes Payable (+L)</b> .....		150,000

b. Transaction Analysis:

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
Cash		Notes Payable		Contributed Capital
+300,000				+300,000
-550,000		+150,000		
Property and Equipment				
+700,000				

### PURRFECT PETS, INC.

#### BALANCE SHEET

AT JULY 31, 2006

<b>Assets</b>		<b>Liabilities</b>	
Cash	\$482,600	Accounts Payable	\$349,200
Accounts Receivable	419,200	Notes Payable	<u>418,900</u>
Inventories	58,400	Total Liabilities	<u>768,100</u>
Property, Plant and Equipment	818,500		
Other Assets	<u>69,400</u>	<b>Stockholders' Equity</b>	
		Contributed Capital	962,100
		Retained Earnings	<u>117,900</u>
		Total Stockholders' Equity	<u>1,080,000</u>
Total Assets	<u>\$1,848,100</u>	Total Liabilities and Stockholders' Equity	<u>\$1,848,100</u>

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Learning Objective: 4*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

82. During the month, a company enters into the following transactions:

- buys \$4,000 of supplies on account
- pays \$5,000 cash for new equipment.
- pays off \$3,000 of accounts payable
- pays off \$1,500 of notes payable.

Show the journal entries and analyze the effect of these transactions on the basic accounting equation.

Journal entries:

<i>dr</i>	<b>Supplies (+A)</b> .....	4,000	
	<i>cr</i>		<b>Accounts Payable (+L)</b> .....
			4,000
<i>dr</i>	<b>Equipment (+A)</b> .....	5,000	
	<i>cr</i>		<b>Cash (-A)</b> .....
			5,000
<i>dr</i>	<b>Accounts Payable (-L)</b> .....	3,000	
	<i>cr</i>		<b>Cash (-A)</b> .....
			3,000
<i>dr</i>	<b>Notes Payable (-L)</b> .....	1,500	
	<i>cr</i>		<b>Cash (-A)</b> .....
			1,500

Transaction Analysis:

<u>Assets</u>			=	<u>Liabilities</u>		+	<u>Stockholders' Equity</u>
Cash	Supplies	Equipment		Accounts Payable	Notes Payable		
	+4,000			+4,000			
-5,000		+5,000		-3,000			
-3,000							
-1,500					-1,500		

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Medium*  
*Learning Objective: 2*  
*Learning Objective: 3*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

83. If a purchase of supplies for \$400 was mistakenly recorded as a credit to Supplies, but the cash paid for the supplies was correctly recorded, what would be the effect on the accounting equation?

Assets would be \$800 less than liabilities plus stockholders' equity.

*AACSB: analytic*

*AICPA BB: resource management*

*AICPA FN: reporting*

*Difficulty: Medium*

*Learning Objective: 2*

*Learning Objective: 3*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

84. CheapBooks Incorporated (CI) had the following business activities, for which you are to prepare journal entries. *Reference each journal entry to the transaction number, shown below.*

1. Stockholders invest \$25,000 cash in the corporation.
2. CI purchased \$400 of office supplies on credit.
3. CI purchased office equipment for \$7,000, paying \$2,500 in cash and signing a 30-day note payable for the remainder.
4. CI paid \$200 cash on account for office supplies purchased in transaction 2.
5. CI purchased two acres of land for \$10,000, signing a 2-year note payable.
6. CI sold one acre of land at one-half of the total cost of the two acres, receiving the full amount or \$5,000 in cash.
7. CI made a payment of \$5,000 on its 2-year note.

1.	<i>dr</i> Cash .....	25,000	
	<i>cr</i> Contributed Capital .....		25,000
2.	<i>dr</i> Supplies .....	400	
	<i>cr</i> Accounts Payable .....		400
3.	<i>dr</i> Equipment .....	7,000	
	<i>cr</i> Cash.....		2,500
	<i>cr</i> Notes Payable .....		4,500
4.	<i>dr</i> Accounts Payable .....	200	
	<i>cr</i> Cash.....		200
5.	<i>dr</i> Land .....	10,000	
	<i>cr</i> Notes Payable .....		10,000
6.	<i>dr</i> Cash .....	5,000	
	<i>cr</i> Land.....		5,000
7.	<i>dr</i> Notes Payable.....	5,000	
	<i>cr</i> Cash.....		5,000

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Medium*  
*Learning Objective: 3*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

85. On January 1, 2005, NWK, Inc.'s assets were \$300,000 and its stockholders' equity was \$140,000. During the year, assets increased \$15,000 and liabilities decreased \$10,000. What was the stockholders' equity on December 31, 2005?

\$165,000.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 3*

86. On March 3, 2005, your company pays \$4,000 to acquire supplies. Should this be a recognized accounting transaction? If so, what accounts are affected and by how much each?

It should be a recognized transaction. Supplies (an asset) is increased by \$4,000 and Cash (also an asset) is decreased by \$4,000.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Easy*  
*Learning Objective: 3*



## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

87. Use the following information as of December 31, 2005 to calculate the amounts of cash and retained earnings. The company's total assets are \$36,000. This company doesn't have other accounts.

Accounts Payable	\$ 7,000
Accounts Receivable	8,000
Supplies	1,000
Furniture and Equipment	22,000
Contributed Capital	10,000
Cash	?
Retained Earnings	?

Cash: \$5,000; Retained Earnings: \$19,000.

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 4*

88. For each of the following, indicate how the line item would be categorized on a classified balance sheet.

CA (current asset)  
LTA (long-term asset)  
CL (current liability)  
LTL (long-term liability)  
SE (stockholders' equity)

\_\_\_ Property and Equipment  
\_\_\_ Contributed Capital  
\_\_\_ Supplies  
\_\_\_ Retained Earnings  
\_\_\_ Accounts Receivable  
\_\_\_ Accounts Payable

LTA, SE, CA, SE, CA, CL

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 1*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

89. Match the term and the explanation. There are more explanations than terms.

- \_\_\_\_\_ dr
- \_\_\_\_\_ Unobservable event
- \_\_\_\_\_ Classified balance sheet
- \_\_\_\_\_ Contributed capital
- \_\_\_\_\_ Accounting equation
- \_\_\_\_\_ Transaction
- \_\_\_\_\_ Accounts payable
- \_\_\_\_\_ Journal entry

- A. The account credited when cash is received in exchange for stock issued.
- B. Another name for stockholders' equity or shareholders' equity.
- C. An exchange or event that has a direct impact on a company's balance sheet.
- D. A balance sheet that has not yet been publicly released.
- E. When a company becomes included in the Fortune 500.
- F. A method of recording a transaction in debit/credit format.
- G. A transaction that is triggered automatically merely by the passage of time.
- H. The abbreviation for an item posted on the left side of a T-account.
- I. The expression that assets must equal liabilities plus stockholders' equity.
- J. The value of a company's public relations campaign.
- K. Amounts owed to suppliers for goods or services bought on credit.
- L. An event that has no effect on the balance sheet and is not recorded in the financial statements.
- M. Liabilities divided by assets.
- N. A balance sheet that has assets and liabilities categorized as current vs. long-term.
- O. The abbreviation for an item posted on the right side of a T-account.

H, L, N, A, I, C, K, F

*AACSB: communications*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 1-5*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

90. For each of the following, indicate how the event would most likely be categorized.

OE (Observable External Event)

OI (Observable Internal Event)

UE (Unobservable Event)

NT (No transaction)

- \_\_\_\_\_ A company sells \$2 million in goods for immediate payment.
- \_\_\_\_\_ The company uses up office supplies.
- \_\_\_\_\_ The stock market rises 10% and the value of a company's stock increases.
- \_\_\_\_\_ Each day the company owes more interest on a loan.
- \_\_\_\_\_ A company pays cash to an inventor for the legal rights to produce a new product.
- \_\_\_\_\_ Management pays workers an overtime bonus as required by their union contract.
- \_\_\_\_\_ A company uses up supplies to manufacture a product.
- \_\_\_\_\_ A company receives \$1 million in orders but no down payments.

OE, OI, NT, UE, OE, OE, OI, NT

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Medium*  
*Learning Objective: 2*

91. Listed below are components of several transactions. In the blank to the left indicate whether a debit (dr) or credit (cr) would be required to record the component of the transaction.

- \_\_\_\_\_ Increase in Cash.
- \_\_\_\_\_ Increase in Accounts Payable.
- \_\_\_\_\_ Decrease in Notes Payable.
- \_\_\_\_\_ Increase in Inventory.
- \_\_\_\_\_ Increase in Contributed Capital.
- \_\_\_\_\_ Decrease in Property and Equipment.

dr, cr, dr, dr, cr, cr

*AACSB: analytic*  
*AICPA BB: resource management*  
*AICPA FN: measurement*  
*Difficulty: Medium*  
*Learning Objective: 3*

## Chapter 002 Reporting Investing and Financing Results on the Balance Sheet

92. Match the term and the explanation. There are more explanations than terms.

- \_\_\_\_\_ Duality of effects
- \_\_\_\_\_ Journal entry
- \_\_\_\_\_ Posting
- \_\_\_\_\_ Conservatism
- \_\_\_\_\_ Debit
- \_\_\_\_\_ Chart of accounts
- \_\_\_\_\_ T-account
- \_\_\_\_\_ Credit
- \_\_\_\_\_ Cost principle

- A. A journal entry that lowers the balance of the account.
- B. When journal entries are copied to the appropriate T-account.
- C. The concept that a company must keep separate accounts by time period.
- D. A simplified version of an account in the General Ledger.
- E. The mechanism used to record each transaction in the General Journal.
- F. When a company's balance sheet has been verified by an outside auditor.
- G. The concept that any transaction must have at least two effects on the accounting equation.
- H. When a dollar value is assigned to an item recorded in the accounting system.
- I. Compares balance sheet items from two different time periods.
- J. An amount that is posted on the left side of a T-account or ledger.
- K. The principle that a company should use the least optimistic measure, when uncertainty exists.
- L. Assets are initially recorded at their original cost to the company.
- M. A journal entry that raises the balance of the account.
- N. A balance sheet where assets appear on the top, liabilities in the middle and stockholders' equity appears on the bottom.
- O. An amount that is posted on the right side of a T-account.
- P. A summary of account names and numbers.

G, E, B, K, J, P, D, O and L.

*AACSB: communications*  
*AICPA BB: resource management*  
*AICPA FN: reporting*  
*Difficulty: Medium*  
*Learning Objective: 3*  
*Learning Objective: 5*