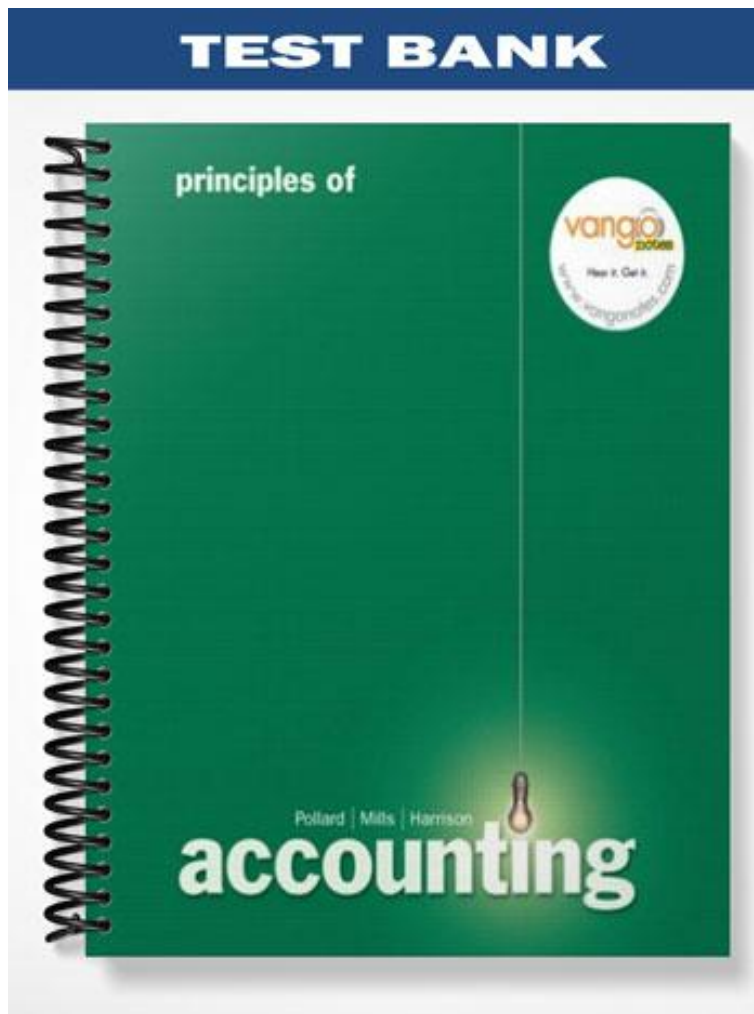


TEST BANK



Chapter 2 Recording Business Transactions

1) Transactions are the economic events that affect the business.

Answer: TRUE

Diff: 1 Page Ref: 58

Objective: 2.1

2) The fact that oil prices went up would be a transaction for a grocery store.

Answer: FALSE

Diff: 2 Page Ref: 58

Objective: 2.1

3) The basic summary device of accounting is the account.

Answer: TRUE

Diff: 1 Page Ref: 58

Objective: 2.1

4) In the accounting process business transactions are recorded in the ledger.

Answer: FALSE

Diff: 2 Page Ref: 58

Objective: 2.1

5) Assets are economic resources that will benefit the business in the future.

Answer: TRUE

Diff: 2 Page Ref: 58

Objective: 2.1

6) Office Supplies are an example of a prepaid expense.

Answer: TRUE

Diff: 1 Page Ref: 58

Objective: 2.1

7) Accrued liabilities are an example of an owner's equity account.

Answer: FALSE

Diff: 1 Page Ref: 58

Objective: 2.1

8) The owner's withdrawal account decreases owner's equity.

Answer: TRUE

Diff: 2 Page Ref: 58

Objective: 2.1

9) A chart of accounts is a list of all of the accounts in an organization along with their account numbers.

Answer: TRUE

Diff: 1 Page Ref: 58

Objective: 2.1

10) A credit will increase an asset account.

Answer: FALSE

Diff: 2 Page Ref: 60

Objective: 2.2

11) A credit will increase a liability account.

Answer: TRUE

Diff: 2 Page Ref: 60

Objective: 2.2

12) A debit will increase an expense account.

Answer: TRUE

Diff: 2 Page Ref: 60

Objective: 2.2

13) A debit will increase a revenue account.

Answer: FALSE

Diff: 2 Page Ref: 60

Objective: 2.2

14) A credit will increase the owner's capital account.

Answer: TRUE

Diff: 2 Page Ref: 60

Objective: 2.2

15) The normal balance for a revenue account is a credit balance.

Answer: TRUE

Diff: 2 Page Ref: 60

Objective: 2.2

16) The normal balance for an asset account is a credit balance.

Answer: FALSE

Diff: 2 Page Ref: 60

Objective: 2.2

17) For every transaction, debits must equal credits.

Answer: TRUE

Diff: 2 Page Ref: 60

Objective: 2.2

18) Posting in accounting means to copy the amounts from the journal to the ledger.

Answer: TRUE

Diff: 1 Page Ref: 63

Objective: 2.3

19) A cash investment by the owner will increase owner's equity.

Answer: TRUE

Diff: 2 Page Ref: 63

Objective: 2.3

20) A purchase of equipment for cash would include a credit to the equipment account.

Answer: FALSE

Diff: 2 Page Ref: 63

Objective: 2.3

21) Borrowing money from the bank would include a credit to the note payable account.

Answer: TRUE

Diff: 2 Page Ref: 63

Objective: 2.3

22) Purchasing supplies on credit would include a debit to supplies.

Answer: TRUE

Diff: 2 Page Ref: 63

Objective: 2.3

23) The purpose of a trial balance is to ensure debits equals credits.

Answer: TRUE

Diff: 1 Page Ref: 80

Objective: 2.4

24) A trial balance is one of the four basic financial statements.

Answer: FALSE

Diff: 2 Page Ref: 80

Objective: 2.4

25) The trial balance lists all accounts with their balances in balance sheet order.

Answer: TRUE

Diff: 2 Page Ref: 80

Objective: 2.4

26) Transactions are recorded in which of the following?

- A) Ledger
- B) Trial Balance
- C) Journal
- D) Account

Answer: C

Diff: 1 Page Ref: 63

Objective: 2.3

27) Which of the following is NOT an example of a business transaction?

- A) Sale of products on account
- B) Purchase of equipment for cash
- C) Federal reserve increasing interest rates
- D) Payment of wages to employees

Answer: C

Diff: 1 Page Ref: 58

Objective: 2.1

28) Which of the following is an asset account?

- A) Cash
- B) Accounts Receivable
- C) Equipment
- D) All of the above

Answer: D

Diff: 1 Page Ref: 58

Objective: 2.1

29) Which of the following is a liability account?

- A) Cash
- B) Accounts Payable
- C) Equipment
- D) All of the above

Answer: B

Diff: 1 Page Ref: 58

Objective: 2.1

30) A journal is which of the following?

- A) A record of all the accounts
- B) A detailed record of the changes in a particular asset, liability, or owner's equity account
- C) A chronological record of transactions
- D) A list of all the accounts with their balances

Answer: C

Diff: 1 Page Ref: 63

Objective: 2.3

31) A trial balance is which of the following?

- A) A record of all the accounts
- B) A detailed record of the changes in a particular asset, liability, or owner's equity account
- C) A chronological record of transactions
- D) A list of all the accounts with their balances

Answer: D

Diff: 1 Page Ref: 63

Objective: 2.3

32) A ledger is which of the following?

- A) A record of all the accounts
- B) A detailed record of the changes in a particular asset, liability, or owner's equity account
- C) A chronological record of transactions
- D) A list of all the accounts with their balances

Answer: A

Diff: 1 Page Ref: 63

Objective: 2.3

33) An account is which of the following?

- A) A record of all the accounts
- B) A detailed record of the changes in a particular asset, liability, or owner's equity
- C) A chronological record of transactions
- D) A list of all the accounts with their balances

Answer: B

Diff: 1 Page Ref: 58

Objective: 2.1

34) Which of the following is NOT an example of a prepaid expense?

- A) Rent
- B) Insurance
- C) Notes Payable
- D) Supplies

Answer: C

Diff: 2 Page Ref: 58

Objective: 2.1

35) Which of the following is an example of a prepaid expense?

- A) Rent
- B) Insurance
- C) Supplies
- D) All of the above

Answer: D

Diff: 2 Page Ref: 58

Objective: 2.1

36) Assets are which of the following?

- A) Debts or obligations to repay creditors
- B) Economic resources that will benefit the entity in the future
- C) Owner's claim to the assets of the business
- D) Amounts earned by providing products or services

Answer: B

Diff: 1 Page Ref: 58

Objective: 2.1

37) Liabilities are which of the following?

- A) Debts or obligations owed to creditors
- B) Economic resources that will benefit the entity in the future
- C) Owner's claim to the assets of the business
- D) Amounts earned by providing products or services

Answer: A

Diff: 1 Page Ref: 58

Objective: 2.1

38) Owner's Equity is which of the following?

- A) Debts or obligations to repay creditors
- B) Economic resources that will benefit the entity in the future
- C) Owner's claim to the assets of the business
- D) Amounts earned by providing products or services

Answer: C

Diff: 1 Page Ref: 58

Objective: 2.1

39) Revenues are which of the following?

- A) Debts or obligations to repay creditors
- B) Economic resources that will benefit the entity in the future
- C) Owner's claim to the assets of the business
- D) Amounts earned by providing products or services

Answer: D

Diff: 1 Page Ref: 58

Objective: 2.1

40) Which of the following accounts is an example of an Owner's Equity account?

- A) Owner's Capital
- B) Accounts Receivable
- C) Accounts Payable
- D) Cash

Answer: A

Diff: 1 Page Ref: 58

Objective: 2.1

41) Taxes Payable, Interest Payable, and Salary Payable are all examples of:

- A) Assets.
- B) Accrued Liabilities.
- C) Prepaid Expenses.
- D) Expenses.

Answer: B

Diff: 2 Page Ref: 58

Objective: 2.1

- 42) Expenses have which effect?
- A) Decrease Owner's Equity
 - B) Increase Owner's Equity
 - C) Have no effect on Owner's Equity
 - D) None of the above

Answer: A

Diff: 2 Page Ref: 58

Objective: 2.1

- 43) Double entry accounting assumes which of the following?
- A) Each account has two transactions.
 - B) Each trial balance has two accounts.
 - C) Each transaction affects at least two accounts.
 - D) Each payment effects two financial statements.

Answer: C

Diff: 1 Page Ref: 60

Objective: 2.2

- 44) Which type of account would be increased by a debit?
- A) Liabilities
 - B) Owner's Equity
 - C) Revenues
 - D) Assets

Answer: D

Diff: 2 Page Ref: 60

Objective: 2.2

- 45) Which type of account would be increased by a credit?
- A) Liabilities
 - B) Owner's Equity
 - C) Revenues
 - D) All of the above

Answer: D

Diff: 2 Page Ref: 60

Objective: 2.2

46) Which account would be increased by a credit?

- A) Cash
- B) Accounts Receivable
- C) Accrued Liabilities
- D) Insurance Expense

Answer: C

Diff: 2 Page Ref: 60

Objective: 2.2

47) Which account would be decreased by a credit?

- A) Cash
- B) Accounts Payable
- C) Both A and B
- D) Neither A and B

Answer: A

Diff: 2 Page Ref: 60

Objective: 2.2

48) Which account would have a normal debit balance?

- A) Accrued Liabilities
- B) Notes Payable
- C) Owner's Capital
- D) Accounts Receivable

Answer: D

Diff: 2 Page Ref: 60

Objective: 2.2

49) Which account would have a normal credit balance?

- A) Accrued Liabilities
- B) Notes Payable
- C) Owner's Capital
- D) All the above

Answer: D

Diff: 2 Page Ref: 60

Objective: 2.2

50) Which account would have a normal credit balance?

- A) Cash
- B) Equipment
- C) Prepaid Expenses
- D) Owner's Capital

Answer: D

Diff: 2 Page Ref: 60

Objective: 2.2

51) Which account would have a normal debit balance?

- A) Accrued Liabilities
- B) Prepaid Expenses
- C) Owner's Capital
- D) Accounts Payable

Answer: B

Diff: 2 Page Ref: 60

Objective: 2.2

Case 2.1

Accounts Payable		211
Debit		Credit
	Bal.	0
		3,000
2,000		5,000

52) Referring to Case 2.1, what is the ending balance in the Accounts Payable account?

- A) \$2,000
- B) \$3,000
- C) \$5,000
- D) \$6,000

Answer: D

Diff: 2 Page Ref: 60

Objective: 2.2

Case 2.2

Accounts Payable		211
Debit	Credit	
	<i>Bal.</i>	0
3,000		2,000
2,000		5,000

53) Referring to Case 2.2, what is the ending balance in the Accounts Receivable account?

- A) \$2,000
- B) \$3,000
- C) \$5,000
- D) \$6,000

Answer: B

Diff: 2 Page Ref: 60

Objective: 2.2

54) _____ in accounting means to copy the amounts from the journal to the ledger.

- A) Recording
- B) Posting
- C) Journalizing
- D) Preparing

Answer: B

Diff: 2 Page Ref: 63

Objective: 2.3

55) Which of the following is the correct journal entry for an owner's investment of \$100,000 in cash?

Accounts	Dr	Cr
A) Owner's Capital	\$100,000	
Cash		\$100,000
B) Cash	\$100,000	
Owner's Capital		\$100,000
C) Accounts Receivable	\$100,000	
Owner's Capital		\$100,000
D) Cash	\$100,000	
Owner's Withdrawal		\$100,000

Answer: B

Diff: 2 Page Ref: 63

Objective: 2.3

56) Which of the following is the correct journal entry for a purchase of equipment for \$50,000 cash?

Accounts	Dr	Cr
A) Equipment	\$50,000	
Cash		\$50,000
B) Equipment	\$50,000	
Owner's Capital		\$50,000
C) Accounts Receivable	\$50,000	
Equipment		\$50,000
D) Cash	\$50,000	
Equipment		\$50,000

Answer: A

Diff: 2 Page Ref: 63

Objective: 2.3

57) Which of the following is the correct journal entry for a company that borrows \$200,000 from a bank on a note payable?

Accounts	Dr	Cr
A) Note Payable	\$200,000	
Cash		\$200,000
B) Note Payable	\$200,000	
Owner's Capital		\$200,000
C) Accounts Receivable	\$200,000	
Note Payable		\$200,000
D) Cash	\$200,000	
Note Payable		\$200,000

Answer: D

Diff: 2 Page Ref: 63

Objective: 2.3

58) Which of the following is the correct journal entry for purchasing \$5,000 worth of supplies on credit?

Accounts	Dr	Cr
A) Supplies	\$5,000	
Cash		\$5,000
B) Accounts Payable	\$5,000	
Supplies		\$5,000
C) Supplies	\$5,000	
Accounts Payable		\$5,000
D) Cash	\$5,000	
Supplies		\$5,000

Answer: C

Diff: 2 Page Ref: 63

Objective: 2.3

59) Which of the following is the correct journal entry for providing \$20,000 worth of consulting service for cash?

Accounts	Dr	Cr
A) Service Revenue	\$20,000	
Cash		\$20,000
B) Accounts Receivable	\$20,000	
Service Revenue		\$20,000
C) Accounts Receivable	\$20,000	
Cash		\$20,000
D) Cash	\$20,000	
Service Revenue		\$20,000

Answer: D

Diff: 2 Page Ref: 63

Objective: 2.3

60) Which of the following is the correct journal entry for providing \$20,000 worth of consulting services on account?

Accounts	Dr	Cr
A) Service Revenue	\$20,000	
Cash		\$20,000
B) Accounts Receivable	\$20,000	
Service Revenue		\$20,000
C) Accounts Receivable	\$20,000	
Cash		\$20,000
D) Cash	\$20,000	
Service Revenue		\$20,000

Answer: B

Diff: 2 Page Ref: 63

Objective: 2.3

61) Which of the following is the correct journal entry for paying \$5,000 for an amount owed to a supplier?

A) Accounts Payable	\$5,000	
Cash		\$5,000
B) Accounts Payable	\$5,000	
Supplies		\$5,000
C) Supplies	\$5,000	
Accounts Payable		\$5,000
D) Cash	\$5,000	
Accounts Payable		\$5,000

Answer: A

Diff: 2 Page Ref: 63

Objective: 2.3

62) Which of the following is the correct journal entry for a cash payment of \$10,000 for utility expense?

Accounts	Dr	Cr
A) Utilities Expense	\$10,000	
Cash		\$10,000
B) Accounts Payable	\$10,000	
Supplies		\$10,000
C) Utilities Expense	\$10,000	
Accounts Payable		\$10,000
D) Cash	\$10,000	
Utilities Expense		\$10,000

Answer: A

Diff: 2 Page Ref: 63

Objective: 2.3

63) Which of the following is the correct journal entry for a cash payment of \$25,000 for salaries expense?

Accounts	Dr	Cr
A) Misc Expense	\$25,000	
Cash		\$25,000
B) Accounts Payable	\$25,000	
Salaries Expense		\$25,000
C) Salaries Expense	\$25,000	
Cash		\$25,000
D) Cash	\$25,000	
Salaries Expense		\$25,000

Answer: C

Diff: 2 Page Ref: 63

Objective: 2.3

64) Which of the following is the correct journal entry for an owner withdrawal of \$25,000 in cash?

Accounts	Dr	Cr
A) Owner Expense	\$25,000	
Cash		\$25,000
B) Accounts Payable	\$25,000	
Salaries Expense		\$25,000
C) Owner, Withdrawals	\$25,000	
Cash		\$25,000
D) Cash	\$25,000	
Owner, Withdrawals		\$25,000

Answer: C

Diff: 2 Page Ref: 63

Objective: 2.3

65) The journal displays which of the following information?

- A) The date when the transaction occurred
- B) The accounts debited and credited
- C) The posting reference
- D) All of the above

Answer: D

Diff: 2 Page Ref: 63

Objective: 2.3

- 66) The purpose of the trial balance is:
- A) to ensure assets equal liabilities.
 - B) to ensure debits equal credits.
 - C) to ensure revenues equal expenses.
 - D) None of the above

Answer: B

Diff: 2 Page Ref: 80

Objective: 2.4

- 67) Which of the following is the most common time that a trial balance is prepared?
- A) End of the accounting period
 - B) End of each business day
 - C) Middle of the fiscal year
 - D) Middle of the fiscal month

Answer: A

Diff: 2 Page Ref: 80

Objective: 2.4

- 68) The account balances listed on the trial balance are taken from which of the following?
- A) The financial statements
 - B) The journal entries
 - C) The ledger accounts
 - D) The source documents

Answer: C

Diff: 2 Page Ref: 80

Objective: 2.4

- 69) Accounting errors can occur in which of the following?
- A) Manual accounting systems
 - B) Computerized accounting systems
 - C) Neither A or B
 - D) Both A and B

Answer: D

Diff: 1 Page Ref: 80

Objective: 2.4

70) To find an error, you start with the trial balance and work your way back to which of the following?

- A) The journal entry
- B) The financial statements
- C) The ledger account
- D) None of the above

Answer: A

Diff: 3 Page Ref: 80

Objective: 2.4

71) Which of the following is NOT a common error that occurs in an accounting system?

- A) Addition or subtraction error
- B) Account balance calculated incorrectly
- C) Preparing journal entries in the ledger
- D) Recording the wrong amount in the journal

Answer: C

Diff: 2 Page Ref: 80

Objective: 2.4

72) Which of the following can be errors that occur in an accounting system?

- A) Addition or subtraction error
- B) Account balance calculated incorrectly
- C) Recording the wrong amount in the journal
- D) All of the above

Answer: D

Diff: 2 Page Ref: 80

Objective: 2.4

73) Assume that after a trial balance has been prepared there are no known errors. Which of the following is the next step?

- A) Post the balances to the ledger
- B) Preparation of the financial statements
- C) Preparation of the journal entries
- D) All of the above

Answer: B

Diff: 2 Page Ref: 80

Objective: 2.4

74) Which of the following is the correct order in preparing the financial statements?

- A) Balance Sheet, Income Statement, Statement of Owner's Equity
- B) Statement of Owner's Equity, Income Statement, Balance Sheet
- C) Income Statement, Balance Sheet, Statement of Owner's Equity
- D) Income Statement, Statement of Owner's Equity, Balance Sheet

Answer: D

Diff: 2 Page Ref: 80

Objective: 2.4

75) What part of the accounting system would indicate the balance of any account at a point in time?

- A) The journal
- B) The trial balance
- C) The income statement
- D) The ledger

Answer: D

Diff: 2 Page Ref: 60

Objective: 2.2

76) What part of the accounting system would indicate the profit or loss of a business?

- A) The journal
- B) The trial balance
- C) The income statement
- D) The ledger

Answer: C

Diff: 1 Page Ref: 80

Objective: 2.4

77) What part of the accounting system would indicate the financial position of a business at a point in time?

- A) The journal
- B) The balance sheet
- C) The income statement
- D) The ledger

Answer: B

Diff: 1 Page Ref: 80

Objective: 2.4

78) What part of the accounting system would prove that the accounts balance?

- A) The journal
- B) The trial balance
- C) The income statement
- D) The ledger

Answer: B

Diff: 1 Page Ref: 63, 80

Objective: 2.3, 2.4

79) Which sequence of actions correctly summarizes the accounting process?

- A) Prepare a trial balance, journalize transactions, post to the accounts
- B) Post to the accounts, journalize transactions, prepare a trial balance
- C) Journalize transactions, post to the accounts, prepare a trial balance
- D) Journalize transactions, prepare a trial balance, post to the accounts

Answer: C

Diff: 2 Page Ref: 58, 60, 63

Objective: 2.1, 2.2, 2.3

80) If Liabilities are \$250,000 and Owner's Equity is \$150,000, what are the total Assets?

- A) \$100,000
- B) \$200,000
- C) \$400,000
- D) \$700,000

Answer: C

Diff: 2 Page Ref: 80

Objective: 2.4

81) If Assets are \$250,000 and Owner's Equity is \$150,000, what are the total Liabilities ?

- A) \$100,000
- B) \$200,000
- C) \$400,000
- D) \$700,000

Answer: A

Diff: 2 Page Ref: 80

Objective: 2.4

82) If Assets are \$500,000 and Liabilities are \$150,000, what is the total Owner's Equity?

- A) \$150,000
- B) \$350,000
- C) \$400,000
- D) \$650,000

Answer: B

Diff: 2 Page Ref: 80

Objective: 2.4

83) If cash is \$8,000, accounts receivable is \$10,000, and accounts payable is \$4,500, owner's capital must equal which of the following?

- A) \$10,000
- B) \$12,500
- C) \$13,500
- D) \$22,500

Answer: C

Diff: 2 Page Ref: 80

Objective: 2.4

84) If cash is \$8,000, accounts receivable is \$10,000, and owner's capital is \$14,500, liabilities must equal which of the following?

- A) \$3,500
- B) \$12,500
- C) \$18,500
- D) \$22,500

Answer: A

Diff: 2 Page Ref: 80

Objective: 2.4

Case 2.3

ABC Repair Company's first month of operations was January 2006. ABC purchased \$20,000 of supplies on account on January 3. ABC performed \$50,000 of repair work during January. ABC paid \$15,000 of the supply bill on January 20th. ABC used \$17,000 worth of the supplies during January.

85) Referring to Case 2.3, what is the balance in the accounts payable account at the end of January?

- A) \$3,000
- B) \$5,000
- C) \$20,000
- D) \$50,000

Answer: B

Diff: 2 Page Ref: 63

Objective: 2.3

86) Referring to Case 2.3, what is the balance in the supplies account at the end of January?

- A) \$3,000
- B) \$5,000
- C) \$20,000
- D) \$50,000

Answer: A

Diff: 2 Page Ref: 63

Objective: 2.3

87) Referring to Case 2.3, how much revenue should ABC recognize for January?

- A) \$3,000
- B) \$5,000
- C) \$20,000
- D) \$50,000

Answer: D

Diff: 2 Page Ref: 63

Objective: 2.3

88) Referring to Case 2.3, what is the ending balance in accounts receivable if half of ABC's customers paid them in January?

- A) \$3,000
- B) \$5,000
- C) \$25,000
- D) \$50,000

Answer: C

Diff: 2 Page Ref: 63

Objective: 2.3

Case 2.4

Gilkey Security Systems' first month of operations was January 2009. Gilkey purchased \$40,000 of supplies on account on January 5. Gilkey performed \$150,000 of security system work during January. Gilkey paid \$25,000 of the supply bill on January 22nd. Gilkey used \$27,000 worth of the supplies during January.

89) Referring to Case 2.4, what is the balance in the accounts payable account at the end of January?

- A) \$3,000
- B) \$5,000
- C) \$15,000
- D) \$40,000

Answer: C

Diff: 2 Page Ref: 63

Objective: 2.3

90) Referring to Case 2.4, what is the balance in the supplies account at the end of January?

- A) \$13,000
- B) \$15,000
- C) \$27,000
- D) \$40,000

Answer: A

Diff: 2 Page Ref: 63

Objective: 2.3

91) Referring to Case 2.4, how much revenue should Gilkey recognize for January?

- A) \$13,000
- B) \$5,000
- C) \$40,000
- D) \$150,000

Answer: D

Diff: 2 Page Ref: 63

Objective: 2.3

92) Referring to Case 2.4, what is the ending balance in accounts receivable if half of Gilkey's customers paid them in January?

- A) \$13,000
- B) \$40,000
- C) \$75,000
- D) \$150,000

Answer: C

Diff: 2 Page Ref: 63

Objective: 2.3

93) Which of the following accounts is an asset?

- A) Accounts payable
- B) Prepaid insurance
- C) Owner's withdrawal
- D) Utility expense

Answer: B

Diff: 1 Page Ref: 58

Objective: 2.1

94) Gilkey Security Systems recorded a cash collection on account by debiting Cash and crediting Accounts Payable. What will the trial balance show for this error?

- A) Too much for liabilities
- B) The trial balance will not balance
- C) Too much for assets
- D) Both A and C

Answer: D

Diff: 3 Page Ref: 80

Objective: 2.4

95) Gilkey Security Systems recorded a cash payment on account by debiting Accounts Payable and crediting Utilities Expense. What will the trial balance show for this error?

- A) Too much for liabilities
- B) The trial balance will not balance
- C) Too much for assets
- D) Too little for Utilities Expense

Answer: D

Diff: 3 Page Ref: 80

Objective: 2.4

96) A \$98 debit to cash in the journal was posted as an \$89 debit. When should this error be discovered?

- A) After preparing journal entries
- B) After preparing the income statement
- C) After preparing the trial balance
- D) After preparing the balance sheet

Answer: C

Diff: 1 Page Ref: 80

Objective: 2.4

97) The balance sheet will show which of the following?

- A) Revenues and Expense accounts
- B) Assets, Liabilities and Owner's Equity accounts
- C) All of the accounts
- D) None of the above

Answer: B

Diff: 1 Page Ref: 80

Objective: 2.4

98) The income statement will show which of the following?

- A) Revenues and Expense accounts
- B) Assets, Liabilities and Owner's Equity accounts
- C) All of the accounts
- D) None of the above

Answer: A

Diff: 1 Page Ref: 80

Objective: 2.4

99) _____ are the economic events that affect the business.

Answer: Transactions

Diff: 1 Page Ref: 58

Objective: 2.1

100) The basic summary device of accounting is the _____.

Answer: account

Diff: 1 Page Ref: 58

Objective: 2.1

101) The _____ is a chronological record of transactions.

Answer: journal

Diff: 2 Page Ref: 63

Objective: 2.3

102) The _____ is a record of all the accounts.

Answer: ledger

Diff: 2 Page Ref: 63

Objective: 2.3

103) The _____ is a list of all the accounts with their balances.

Answer: trial balance

Diff: 2 Page Ref: 63, 80

Objective: 2.3, 2.4

104) The _____ account shows how much cash the customers owe the business for goods or services that have already been provided

Answer: Accounts Receivable

Diff: 2 Page Ref: 58

Objective: 2.1

105) _____ represents amounts the business must pay because it signed promissory notes to borrow money or to purchase goods or services.

Answer: Notes Payable

Diff: 2 Page Ref: 58

Objective: 2.1

106) The left side of the account is called the _____ side.

Answer: Debit

Diff: 2 Page Ref: 60

Objective: 2.2

107) The right side of the account is called the _____ side.

Answer: Credit

Diff: 2 Page Ref: 60

Objective: 2.2

108) The normal balance for an asset account would be a _____.

Answer: debit

Diff: 2 Page Ref: 60

Objective: 2.2

109) _____ in accounting means to copy the amounts from the journal to the ledger.

Answer: Posting

Diff: 2 Page Ref: 63

Objective: 2.3

110) For every transaction debits must _____ credits.

Answer: equal

Diff: 1 Page Ref: 63

Objective: 2.3

111) What is the purpose of preparing a trial balance?

Answer: The purpose of the trial balance is to summarize all account balances for the financial statements and to be certain that total debits equal total credits.

Diff: 2 Page Ref: 58, 80

Objective: 2.1, 2.4

112) Identify the appropriate account type for each of the following accounts.

(A) Asset (L) Liability (OE) Owner Equity (R) Revenue (E) Expense

- | | |
|----------------------------|--------------------------------|
| ___ 1. Joe Gilkey, Capital | ___ 6. Rent Expense |
| ___ 2. Accounts Payable | ___ 7. Joe Gilkey, Withdrawals |
| ___ 3. Cash | ___ 8. Accounts Receivable |
| ___ 4. Service Revenue | ___ 9. Supplies Expense |
| ___ 5. Prepaid Rent | ___ 10. Note Payable |

Answer: <u>OE</u> 1. Joe Gilkey, Capital	<u>E</u> 6. Rent Expense
<u>L</u> 2. Accounts Payable	<u>OE</u> 7. Joe Gilkey, Withdrawals
<u>A</u> 3. Cash	<u>A</u> 8. Accounts Receivable
<u>R</u> 4. Service Revenue	<u>E</u> 9. Supplies Expense
<u>A</u> 5. Prepaid Rent	<u>L</u> 10. Note Payable

Diff: 2 Page Ref: 58
Objective: 2.1

113) Brian Lay opened a medical practice in Delaware. Journalize entries for the following transactions that occurred during September.

September 1 Lay invested \$50,000 cash in a business bank account to start his medical practice.

2 Purchased medical supplies on account, \$20,000.

2 Paid monthly office rent of \$3,000.

3 Recorded \$5,000 revenue for service rendered to patients.
Received cash of \$3,000 and sent bills to patients for the remainder.

Answer:

Date	Accounts	Dr	Cr
9/1	Cash	\$50,000	
	Lay, Capital		\$50,000
9/2	Supplies	\$20,000	
	Accounts Payable		\$20,000
9/2	Rent Expense	\$3,000	
	Cash		\$3,000
9/2	Cash	\$3,000	
	Accounts Receivable	\$2,000	
	Service Revenue		\$5,000

Diff: 2 Page Ref: 63
Objective: 2.3

114) Glen Miller opened a batting cage in Sunrise Florida. Journalize entries for the following transactions that occurred during May.

May 1	Miller invested \$150,000 cash in a business bank account to start his batting cage business.
2	Purchased pitching machines for \$50,000.
15	Paid monthly rent of \$3,000.
20	Recorded \$15,000 of revenue from the batting cages, all in cash

Answer:

Date	Accounts	Dr	Cr
5/1	Cash	\$150,000	
	Miller, Capital		\$150,000
5/2	Pitching Machines	\$50,000	
	Cash		\$50,000
5/15	Rent Expense	\$3,000	
	Cash		\$3,000
5/20	Cash	\$15,000	
	Batting Cage Revenue		\$15,000

Diff: 2 Page Ref: 63
Objective: 2.3

115) Complete the following table by placing a Debit or Credit in each column for each account. For example if a Debit would increase an account place a debit in that column.

	<i>Increase</i> <i>(Normal Balance)</i>	<i>Decrease</i>
Asset		
Liability		
Owner's Equity		
Revenue		
Expense		
Answer:		
	<i>Increase</i> <i>(Normal Balance)</i>	<i>Decrease</i>
Asset	Debit	Credit
Liability	Credit	Debit
Owner's Equity	Credit	Debit
Revenue	Credit	Debit
Expense	Debit	Credit

Diff: 2 Page Ref: 60
Objective: 2.2

116) List the 4 main steps in an accounting cycle from beginning to end.

- Answer: 1. Record Transactions in Journal
 2. Post Transactions to Ledger
 3. Prepare Trial Balance
 4. Prepare Financial Statements

Diff: 2 Page Ref: 58, 60, 63, 80

Objective: 2.1, 2.2, 2.3, 2.4

117) The total debits do not equal the total credits for Todd's Personal Training. Todd realized he made an error by recording his withdrawal as \$600 instead of the correct amount of \$100. He also made another error, but needs your help to find it. Take a good look at the Trial balance.

**Todd's Personal Training
 Trial Balance
 September 30, 2009**

<u>Account Title</u>	<u>Balance</u>	
	<u>Debit</u>	<u>Credit</u>
Assets	\$ 3,000	
Liabilities		\$ 1,000
Todd, Capital		2,100
Todd, Withdrawals		600
	\$ 3,000	\$ 3,700

Prepare a new trial balance showing the correct balance for withdrawals.

Answer: **Todd's Personal Training
 Trial Balance
 September 30, 2009**

<u>Account Title</u>	<u>Balance</u>	
	<u>Debit</u>	<u>Credit</u>
Assets	\$ 3,000	
Liabilities		\$ 1,000
Todd, Capital		2,100
Todd, Withdrawals	100	
	\$ 3,100	\$ 3,100

Diff: 3 Page Ref: 80

Objective: 2.4

118) The total debits do not equal the total credits for Todd's Personal Training. Todd realized he made an error by recording his withdrawal as \$630 instead of the correct amount of \$360.

**Todd's Personal Training
Trial Balance
September 30, 2009**

<u>Account Title</u>	Balance	
	Debit	Credit
Assets	\$ 3,000	
Liabilities		\$ 1,260
Todd, Capital		2,100
Todd, Withdrawals	630	
	\$ 3,630	\$ 3,360

Prepare a new trial balance showing the correct balance for withdrawals.

Answer: **Todd's Personal Training**
Trial Balance
September 30, 2009

<u>Account Title</u>	Balance	
	Debit	Credit
Assets	\$ 3,000	
Liabilities		\$ 1,260
Todd, Capital		2,100
Todd, Withdrawals	360	
	\$ 3,360	\$ 3,360

Diff: 3 Page Ref: 80
Objective: 2.4

119) Record the following transactions in the journal of Lisa Enterprises.

Dec.	1	Paid interest expense of \$1,000.
	5	Purchased office furniture on account, \$8,000.
	10	Performed services on account for a customer, \$16,000.
	12	Borrowed \$97,000 cash, signing a note payable.
	19	Sold land for \$29,000 that had cost the company \$29,000.
	21	Purchased building for \$140,000; signed a note payable.
	27	Paid the liability from December 5.

Answer:

Date	Accounts	Dr	Cr
12/1	Interest Expense	\$1,000	
	Cash		\$1,000
12/5	Office Furniture	\$8,000	
	Accounts Payable		\$8,000
12/10	Accounts Receivable	\$16,000	
	Service Revenue		\$16,000
12/19	Cash	\$29,000	
	Land		\$29,000
12/12	Cash	97,000	
	Note Payable		97,000
12/21	Building	\$140,000	
	Notes Payable		\$140,000
12/27	Accounts Payable	\$8,000	
	Cash		\$8,000

Diff: 2 Page Ref: 63
 Objective: 2.3

120) The following journal entries were prepared by Lisa Enterprises in December. Post them to the following T-accounts and calculate the ending balance for each account.

Date	Accounts	Debit	Cr
12/1	Interest Expense	\$1,000	
	Cash		\$1,000
12/5	Office Furniture	\$8,000	
	Accounts Payable		\$8,000
12/10	Accounts Receivable	\$16,000	
	Service Revenue		\$16,000
12/19	Cash	\$29,000	
	Land		\$29,000
12/21	Land	\$140,000	
	Notes Payable		\$140,000
12/27	Accounts Payable	\$8,000	
	Cash		\$8,000

Answer:

Cash				Accounts Receivable		
Debit		Credit		Debit	Credit	
12/19	29,000	12/1	1,000 8,000	12/10	16,000	
Ending Balance	20,000			Ending Balance	16,000	
Office furniture				Land		
Debit		Credit		Debit	Credit	
12/5	8,000				140,000	29,000
Ending Balance	8,000			Ending Balance	111,000	
Accounts Payable				Service Revenue		
Debit		Credit		Debit	Credit	
	8,000	12/5	12,500			16,000
Ending Balance		4,500		Ending Balance		16,000

Note Payable			Interest Expense		
Debit		Credit	Debit		Credit
		140,000	12/1	1,000	
Ending Balance		140,000	Ending Balance	1,000	

Diff: 2 Page Ref: 63
Objective: 2.3

121) Oddey Consulting had the following transactions during March.

Mar. 1	Mike McGovern invested \$70,000 in cash to start the business.
2	Purchased supplies of \$2000 on account.
4	Paid \$60,000 cash for computer equipment.
6	Performed consulting services for customers and received cash, \$13,000.
9	Paid \$1,000 on accounts payable.
17	Performed consulting services for customers on account, \$16,000.
23	Received \$10,200 cash from a customer on account.
31	Paid salary expense of \$1,200.

Answer:

Date	Accounts	Dr	Cr
3/1	Cash	\$70,000	
	Owner's Capital		\$70,000
3/2	Supplies	\$2,000	
	Accounts Payable		\$2,000
3/4	Computer Equipment	\$60,000	
	Cash		\$60,000
3/6	Cash	\$13,000	
	Service Revenue		\$13,000
3/9	Accounts Payable	\$1,000	
	Cash		\$1,000
3/17	Accounts Receivable	\$16,000	
	Service Revenue		\$16,000
3/23	Cash	\$10,200	
	Accounts Receivable		\$10,200
3/31	Salary Expense	\$1,200	
	Cash		\$1,200

Diff: 2 Page Ref: 63
Objective: 2.3

122) Calculate the following account balances and prepare a trial balance as of 12-31-08 for Lisa Enterprises.

Cash		111	
Mar. 1	70,000	Mar. 4	60,000
6	3,000	9	100
23	1,200	31	1,700
Bal.			

Accounts Receivable		112	
Mar. 17	1,600	Mar. 23	1200
Bal.			

Supplies		113	
Mar. 2	200		
Bal.			

Building		114	
Mar. 4	60,000		
Bal.			

Accounts Payable		211	
Mar. 9	100	Mar. 2	200
		Bal.	
Lisa, Capital		311	
		Mar. 1	70,000
		Bal.	

Service Revenue		411	
		Mar. 6	3,000
		17	1,600
		Bal.	

Salary Expense		501	
Mar. 31	1,200		
Bal.			

Rent Expense		502	
Mar. 31	500		
Bal.			

Answer:

Cash		111	
Mar. 1	70,000	Mar. 4	60,000
6	3,000	9	100
23	1,200	31	1,700
Bal.	12,400		

Accounts Payable		211	
Mar. 9	100	Mar. 2	200
		Bal.	100

Lisa, Capital		311	
		Mar. 1	70,000
		Bal.	70,000

Accounts Receivable		112	
Mar. 17	1,600	Mar. 23	1200
Bal.	400		

Service Revenue		411	
		Mar. 6	3,000
		17	1,600
		Bal.	4,600

Supplies		113	
Mar. 2	200		
Bal.	200		

Salary Expense		501	
Mar. 31	1,200		
Bal.	1200		

Building		114	
Mar. 4	60,000		
Bal.	60,000		

Rent Expense		502	
Mar. 31	500		
Bal.	500		

Lisa Enterprises
Trial Balance
December 31, 2008

Account Title	Balance	
	Debit	Credit
Cash	\$12,400	
Accounts receivable	400	
Supplies	200	
Building	60,000	
Accounts payable		\$100
Lisa, capital		70,000
Service revenue		4,600
Salary expense	1,200	
Rent expense	500	
Total	<u>\$74,700</u>	<u>\$74,700</u>

Diff: 3 Page Ref: 63, 80
Objective: 2.2, 2.4

123) Discuss four common errors that could be identified by preparing a trial balance.

Answer: **Common Errors in Trial Balance**

1. Addition error in trial balance
2. Account and balance were not recorded in trial balance
3. Balance entered into wrong column of trial balance
4. Balance incorrectly calculated in account
5. Posted wrong amount from journal to account
6. Posted journal entry into wrong column of account
7. Recorded in the journal only one of the two accounts affected.
8. Recorded wrong amount in the journal. X — if the wrong amount was recorded for the debit and credit, the journal entry would still balance, resulting in the trial balance balancing, assuming there are no other errors.
9. Transaction not recorded in the journal. X — the trial balance would still balance if a transaction had been omitted in the journal, assuming there are no other errors.

Diff: 3 Page Ref: 80

Objective: 2.4

124) List the five steps to record business transactions.

- Answer:
1. Determine what accounts are affected.
 2. Determine the type of account.
 3. Determine if the transaction is an increase or a decrease.
 4. Determine if the transaction is a debit or credit.
 5. Post to the account.

Diff: 3 Page Ref: 63

Objective: 2.3

125) Based on the following trial balance for Lisa Enterprises, prepare the Income Statement, Statement of Owner's Equity, and Balance Sheet.

Lisa Enterprises
Trial Balance
December 31, 2008

Account Title	Balance	
	Debit	Credit
Cash	\$12,400	
Accounts receivable	400	
Supplies	200	
Building	60,000	
Accounts payable		\$100
Lisa, capital		70,000
Service revenue		4,600
Salary expense	1,200	
Rent expense	500	
Total	\$74,700	\$74,700

Answer:

**Lisa Enterprise
Trial Balance
For the month ending, December 31, 2008**

Revenue		
Service revenue	\$	4,000
Expenses		
Salary expense		1,200
Rent expense		<u>500</u>
Total expenses		<u>1,700</u>
Net Income		<u><u>\$ 2,900</u></u>

**Lisa Enterprises
Statement of Owner's Equity
For the period ended December 31, 2008**

Beginning Owner's Capital	\$70,000
Plus: Net Income	\$2,900
Minus: Owner's Withdrawals	<u>0</u>
Ending Owner's Capital	<u><u>\$72,900</u></u>

**Lisa Enterprises
Balance Sheet
December 31, 2008**

Cash	\$12,000	
Accounts receivable	400	
Supplies	200	
Building	<u>60,000</u>	
Total Assets	<u><u>73,000</u></u>	
Accounts payable		\$100
Lisa, capital	<u>72,900</u>	
Total Liabilities and Owners Equity	<u><u>73,000</u></u>	

Diff: 2 Page Ref: 80
Objective: 2.4