

# TEST BANK



24e

# ACCOUNTING

Warren • Reeve • Duchac

A collage of images related to accounting. It features a woman with dark hair looking towards the camera, a hand with fingers spread, and several overlapping screenshots of accounting software or textbooks. One screenshot shows a 'Practice Exercise' with multiple-choice questions. Another shows a table with columns for 'Account Name' and 'Amount'. A third shows a 'At a Glance' summary table. The background is a light, textured surface.

## Chapter 2—Analyzing Transactions

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### TRUE/FALSE

1. Accounts are records of increases and decreases in individual financial statement items.

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

2. A chart of accounts is a listing of accounts that make up the journal.

ANS: F                      PTS: 1                      DIF: Easy                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

3. The chart of accounts should be the same for each business.

ANS: F                      PTS: 1                      DIF: Moderate                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

4. Accounts payable are accounts that you expect will be paid to you.

ANS: F                      PTS: 1                      DIF: Moderate                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

5. Consuming goods and services in the process of generating revenues results in expenses.

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

6. Prepaid expenses are an example of an expense.

ANS: F                      PTS: 1                      DIF: Moderate                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

7. Unearned Revenues account is an example of a liability.

ANS: T                      PTS: 1                      DIF: Moderate                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

8. The Drawings account is an example of an expense.

ANS: F                      PTS: 1                      DIF: Moderate                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

9. Accounts in the ledger are usually maintained in alphabetical order.

ANS: F                      PTS: 1                      DIF: Moderate                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

10. Depending on the account title, the right side of the account is referred to as the credit side.

ANS: F                   PTS: 1                   DIF: Moderate           OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

11. To determine the balance in an account, always subtract credits from debits.

ANS: F                   PTS: 1                   DIF: Moderate           OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

12. The double-entry accounting system records each transaction twice.

ANS: F                   PTS: 1                   DIF: Easy                OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

13. The increase side of all accounts is the normal balance.

ANS: T                   PTS: 1                   DIF: Easy                OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

14. Transactions are initially entered into a record called a journal.

ANS: T                   PTS: 1                   DIF: Easy                OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

15. The process of recording a transaction in the journal is called journalizing.

ANS: T                   PTS: 1                   DIF: Easy                OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

16. Journalizing is the process of entering amounts in the ledger.

ANS: F                   PTS: 1                   DIF: Easy                OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

17. Transactions are listed in the journal chronologically.

ANS: T                   PTS: 1                   DIF: Moderate           OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

18. Journalizing transactions using the double-entry bookkeeping system will eliminate fraud.

ANS: F                   PTS: 1                   DIF: Moderate           OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

19. Liability accounts are increased by debits.

ANS: F                   PTS: 1                   DIF: Easy                OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

20. Expense accounts are increased by credits.

ANS: F                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

21. Revenue accounts are increased by credits.

ANS: T                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

22. The normal balance of a capital account is a debit.

ANS: F                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

23. The normal balance of the drawing account is a debit.

ANS: T                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

24. The normal balance of an expense account is a credit.

ANS: F                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

25. The normal balance of revenue accounts is a credit.

ANS: T                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

26. Withdrawals decrease owner's equity and are listed on the income statement as a deduction from revenue.

ANS: F                    PTS: 1                    DIF: Moderate                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

27. For a month's transactions for a typical medium-sized business, the salary expense account is likely to have only credit entries.

ANS: F                    PTS: 1                    DIF: Moderate                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

28. For a month's transactions for a typical medium-sized business, the accounts payable account is likely to have only credit entries.

ANS: F                    PTS: 1                    DIF: Moderate                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

29. When a business receives a bill from the utility company, no entry should be made until the invoice is paid.

ANS: F                      PTS: 1                      DIF: Moderate                      OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

30. An account has three parts to it; a title, an increase side, and a decrease side.

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

31. The T account got its name because it resembles the letter “T.”

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

32. The right hand side of a T account is known as a debit and the left hand side is known as a credit.

ANS: F                      PTS: 1                      DIF: Easy                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

33. A debit is abbreviated as *Db* and a credit is abbreviated as *Cr*.

ANS: F                      PTS: 1                      DIF: Easy                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

34. Debiting the cash account will increase the account.

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

35. A credit to the cash account will increase the account.

ANS: F                      PTS: 1                      DIF: Easy                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

36. The cash account will always be debited.

ANS: F                      PTS: 1                      DIF: Moderate                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

37. The recording of cash receipts to the cash account will be done by debiting the account.

ANS: T                      PTS: 1                      DIF: Moderate                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

38. The recording of cash payments from the cash account is done by entering the amount as a credit.

ANS: T                      PTS: 1                      DIF: Moderate                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

39. The balance of the account can be determined by adding all of the debits, adding all of the credits, and adding the amounts together.

ANS: F                   PTS: 1                   DIF: Difficult           OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

40. When an owner contributes equipment to the business, he or she retains ownership of the property.

ANS: F                   PTS: 1                   DIF: Moderate           OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

41. Liabilities are debts owed by the business entity.

ANS: T                   PTS: 1                   DIF: Easy               OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

42. The accounts payable account is listed in the chart of accounts as an asset.

ANS: F                   PTS: 1                   DIF: Easy               OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

43. A drawing account represents the amount of withdrawals made by the owner.

ANS: T                   PTS: 1                   DIF: Moderate           OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

44. Revenues are equal to the difference between cash receipts and cash payments.

ANS: F                   PTS: 1                   DIF: Moderate           OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

45. Expenses use up assets or consume services in the process of generating revenues.

ANS: T                   PTS: 1                   DIF: Moderate           OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

46. Owner's capital will be reduced by the amount in the drawing account.

ANS: T                   PTS: 1                   DIF: Moderate           OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

47. The journal includes both debit and credit accounts for each transaction.

ANS: T                   PTS: 1                   DIF: Easy               OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

48. A transaction that is recorded in the journal is called a journal entry.

ANS: T                   PTS: 1                   DIF: Easy               OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

49. Assets are increased with debits and decreased with credits.
- ANS: T                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
50. Liabilities are increased with debits and decreased with credits.
- ANS: F                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
51. Debits will increase Unearned Revenues and Revenues.
- ANS: F                    PTS: 1                    DIF: Moderate                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
52. All owner's equity accounts record increases to the accounts with credits.
- ANS: F                    PTS: 1                    DIF: Difficult                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
53. Journal entries can have more than two accounts as long as the debits equal the credits.
- ANS: T                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
54. Normal balances are the side that increase the account balance.
- ANS: T                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
55. When an owner invests assets in the business, the capital account increases due to revenue being earned.
- ANS: F                    PTS: 1                    DIF: Moderate                    OBJ: 02-01 | 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
56. When an accounts payable account is paid in cash, the owner's equity in the business decreases.
- ANS: F                    PTS: 1                    DIF: Moderate                    OBJ: 02-01 | 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
57. When an account receivable is collected in cash, the total assets of the business increase.
- ANS: F                    PTS: 1                    DIF: Moderate                    OBJ: 02-01 | 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
58. The process of transferring the data from the journal to the ledger accounts is posting.
- ANS: T                    PTS: 1                    DIF: Easy                    OBJ: 02-03  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

59. The post reference notation used in the ledger is the account number.

ANS: F                   PTS: 1                   DIF: Easy                   OBJ: 02-03  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

60. The post reference notation used in the journal is the page number.

ANS: F                   PTS: 1                   DIF: Easy                   OBJ: 02-03  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

61. A notation in the post reference column of the general journal indicates that the amount has been posted to the ledger.

ANS: T                   PTS: 1                   DIF: Moderate                   OBJ: 02-03  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

62. The order of the flow of accounting data is (1) record in the ledger, (2) record in the journal, (3) prepare the financial statements.

ANS: F                   PTS: 1                   DIF: Moderate                   OBJ: 02-03  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

63. The process of transferring the debits and credits from the journal entries to the accounts is known as “updating the accounts”.

ANS: F                   PTS: 1                   DIF: Moderate                   OBJ: 02-03  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

64. Journalizing eliminates fraud.

ANS: F                   PTS: 1                   DIF: Moderate                   OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

65. Once journal entries are posted to accounts, each account will show a new balance after each entry.

ANS: T                   PTS: 1                   DIF: Moderate                   OBJ: 02-03  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

66. A group of related accounts that make up a complete unit is called a trial balance.

ANS: F                   PTS: 1                   DIF: Easy                   OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

67. A trial balance determines the accuracy of the numbers.

ANS: F                   PTS: 1                   DIF: Difficult                   OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

68. Even when a trial balance is in balance, there may be errors in the individual accounts.

ANS: T                   PTS: 1                   DIF: Moderate                   OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP



69. The totals at the bottom of the trial balance and the totals at the bottom of the balance sheet both show equality and balancing, and therefore should be equal.

ANS: F                      PTS: 1                      DIF: Difficult                      OBJ: 02-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

70. A proof of the equality of debits and credits in the ledger at the end of an accounting period is called a balance sheet.

ANS: F                      PTS: 1                      DIF: Moderate                      OBJ: 02-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

71. If the trial balance is in balance, it can be assumed that all journal entries were posted correctly and no errors were made.

ANS: F                      PTS: 1                      DIF: Moderate                      OBJ: 02-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

72. Posting a part of a transaction to the wrong account will cause the trial balance totals to be unequal.

ANS: F                      PTS: 1                      DIF: Difficult                      OBJ: 02-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

73. The erroneous arrangement of digits, such as writing \$45 as \$54, is called a slide.

ANS: F                      PTS: 1                      DIF: Moderate                      OBJ: 02-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

74. Journalizing a transaction with both the debit and the credit for \$69 instead of \$96 will cause the trial balance to be out of balance.

ANS: F                      PTS: 1                      DIF: Moderate                      OBJ: 02-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

75. Posting a transaction twice will cause the trial balance totals to be equal.

ANS: T                      PTS: 1                      DIF: Moderate                      OBJ: 02-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

76. The erroneous moving of an entire number one or more spaces to the right or left, such as writing \$85 as \$850, is called a transposition.

ANS: F                      PTS: 1                      DIF: Moderate                      OBJ: 02-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

## MATCHING

Several types of errors can be made during the journalizing and posting process. Match the following with their best description.

- a. Trial balance preparation errors
- b. Account balance errors
- c. Posting errors

1. Balance incorrectly computed.
2. Debit or credit posting omitted.
3. Wrong amount posted to an account.
4. Column incorrectly added.
5. Balance entered in wrong column of account.
6. Amount incorrectly entered on trial balance.
7. Balance entered in wrong column or omitted.
8. Debit posted as credit, or vice versa.

1. ANS: B                    PTS: 1                    DIF: Difficult            OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
2. ANS: C                    PTS: 1                    DIF: Difficult            OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
3. ANS: C                    PTS: 1                    DIF: Difficult            OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
4. ANS: A                    PTS: 1                    DIF: Difficult            OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
5. ANS: B                    PTS: 1                    DIF: Difficult            OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
6. ANS: A                    PTS: 1                    DIF: Difficult            OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
7. ANS: A                    PTS: 1                    DIF: Difficult            OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
8. ANS: C                    PTS: 1                    DIF: Difficult            OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

**Identify each of the following accounts as either:**

- |                              |                       |
|------------------------------|-----------------------|
| a. an Asset account          | d. a Revenue account  |
| b. a Liability account       | e. an Expense account |
| c. an Owners' Equity account |                       |

9. Unearned Rent
10. Prepaid Insurance
11. Fees Earned
12. Patents
13. Drawings

9. ANS: B                    PTS: 1                    DIF: Moderate            OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
10. ANS: A                    PTS: 1                    DIF: Moderate            OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

11. ANS: D                   PTS: 1                   DIF: Moderate       OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
12. ANS: A                   PTS: 1                   DIF: Moderate       OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
13. ANS: C                   PTS: 1                   DIF: Moderate       OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

*For the following accounts, please indicate whether their normal balance is on the credit side or the debit side of the T-account.*

- a. Credit side  
b. Debit side
14. John Smith, Capital  
15. Accounts Receivable  
16. Accounts Payable  
17. Interest Earned  
18. Copyrights
14. ANS: A                   PTS: 1                   DIF: Moderate       OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
15. ANS: B                   PTS: 1                   DIF: Moderate       OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
16. ANS: A                   PTS: 1                   DIF: Moderate       OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
17. ANS: A                   PTS: 1                   DIF: Moderate       OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP
18. ANS: B                   PTS: 1                   DIF: Moderate       OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

## MULTIPLE CHOICE

1. Accounts
- do not reflect money amounts
  - are not used by entities that manufacture products
  - are records of increases and decreases in individual financial statement items
  - are only used by large entities with many transactions

ANS: C                   PTS: 1                   DIF: Easy            OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

2. Accounts are classified in the ledger
- chronologically
  - alphabetically
  - in accordance with their appearance in the financial statements
  - so that accounts used most often are listed first

ANS: C                   PTS: 1                   DIF: Moderate       OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

3. Revenue should be recognized when
- cash is received
  - the service is performed
  - the customer places an order
  - the customer charges an order

ANS: B                    PTS: 1                    DIF: Moderate            OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

4. Which of the following accounts is an owner's equity account?
- Cash
  - Accounts Payable
  - Prepaid Insurance
  - Ross Morris, Capital

ANS: D                    PTS: 1                    DIF: Easy                    OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

5. The gross increases in owner's equity attributable to business activities are called
- assets
  - liabilities
  - revenues
  - net income

ANS: C                    PTS: 1                    DIF: Easy                    OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

6. A chart of accounts is
- the same as a balance sheet
  - usually a listing of accounts in alphabetical order
  - usually a listing of accounts in financial statement order
  - used in place of a ledger

ANS: C                    PTS: 1                    DIF: Moderate            OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

7. The debit side of an account
- depends on whether the account is an asset, liability or owner's equity
  - can be either side of the account depending on how the accountant set up the system
  - is the right side of the account
  - is the left side of the account

ANS: D                    PTS: 1                    DIF: Moderate            OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

8. An account is said to have a debit balance if
- the amount of the debits exceeds the amount of the credits
  - there are more entries on the debit side than on the credit side
  - its normal balance is debit without regard to the amounts or number of entries on the debit side
  - the first entry of the accounting period was posted on the debit side

ANS: A                      PTS: 1                      DIF: Difficult                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

9. Which statement(s) concerning cash is (are) true?
- cash will always have more debits than credits
  - cash will never have a credit balance
  - cash is increased by debiting
  - all of the above

ANS: C                      PTS: 1                      DIF: Moderate                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

10. A debit may signify a(n)
- decrease in asset accounts
  - decrease in liability accounts
  - increase in the capital account
  - decrease in the drawing account

ANS: B                      PTS: 1                      DIF: Moderate                      OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

11. Which of the following types of accounts have a normal credit balance?
- assets and liabilities
  - liabilities and expenses
  - revenues and liabilities
  - capital and drawing

ANS: C                      PTS: 1                      DIF: Easy                      OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

12. Which of the following groups of accounts have a normal debit balance?
- revenues, liabilities, capital
  - capital, assets
  - liabilities, expenses
  - assets, expenses

ANS: D                      PTS: 1                      DIF: Easy                      OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

13. Which one of the statements below is **not** a purpose for the journal?
- to show increases and decreases in accounts
  - to show a chronological order by date
  - to show a complete transaction in one place
  - to help locate errors

ANS: A                    PTS: 1                    DIF: Moderate            OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

14. A credit may signify a
- decrease in assets
  - decrease in liabilities
  - decrease in capital
  - decrease in revenue

ANS: A                    PTS: 1                    DIF: Moderate            OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

15. A debit signifies a decrease in
- assets
  - expenses
  - drawing
  - revenues

ANS: D                    PTS: 1                    DIF: Moderate            OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

16. Which of the following applications of the rules of debit and credit is true?
- decrease Prepaid Insurance with a credit and the normal balance is a credit
  - increase Accounts Payable with a credit and the normal balance is a debit
  - increase Supplies Expense with a debit and the normal balance is a debit
  - decrease Cash with a debit and the normal balance is a credit

ANS: C                    PTS: 1                    DIF: Difficult            OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

17. Which of the following describes the classification and normal balance of the fees earned account?
- asset, credit
  - liability, credit
  - owner's equity, debit
  - revenue, credit

ANS: D                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

18. The classification and normal balance of the accounts payable account is
- an asset with a credit balance
  - a liability with a credit balance
  - owner's equity with a credit balance
  - revenue with a credit balance

ANS: B                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

19. The classification and normal balance of the drawing account is
- an expense with a credit balance
  - an expense with a debit balance
  - a liability with a credit balance
  - owner's equity with a debit balance

ANS: D                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

20. The classification and normal balance of the supplies expense account is a(n)
- asset with a debit balance
  - asset with a credit balance
  - expense with a debit balance
  - liability with a credit balance

ANS: C                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

21. In which of the following types of accounts are increases recorded by debits?
- assets, liabilities
  - drawing, liabilities
  - expenses, liabilities
  - assets, expenses

ANS: D                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

22. In which of the following types of accounts are increases recorded by credits?
- revenues, liabilities
  - drawing, assets
  - liabilities, drawing
  - expenses, liabilities

ANS: A                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

23. In which of the following types of accounts are decreases recorded by debits?
- assets
  - revenues
  - expenses
  - drawing

ANS: B                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

24. In which of the following types of accounts are decreases recorded by credits?
- liabilities
  - owner's capital
  - drawing
  - revenues

ANS: C                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

25. A credit balance in which of the following accounts would indicate a likely error?
- Fees Earned
  - Salary Expense
  - Janet James, Capital
  - Accounts Payable

ANS: B                    PTS: 1                    DIF: Difficult            OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

26. A debit balance in which of the following accounts would indicate a likely error?
- Salaries Expense
  - Notes Payable
  - Edgar Martin, Drawing
  - Supplies

ANS: B                    PTS: 1                    DIF: Difficult            OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

27. Randomly listed below are the steps for preparing a trial balance:

- Verify that the total of the Debit column equals the total of the Credit column.
- List the accounts from the ledger and enter their debit or credit balance in the Debit or Credit column of the trial balance.
- List the name of the company, the title of the trial balance, and the date the trial balance is prepared.
- Total the Debit and Credit columns of the trial balance.

What is the proper order of these steps?

- (3), (2), (4), (1)
- (2), (3), (4), (1)
- (3), (2), (1), (4)
- (4), (3), (2), (1)

ANS: A                    PTS: 1                    DIF: Moderate            OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

28. Which of the following entries records the payment of an account payable?
- debit Cash; credit Accounts Payable
  - debit Accounts Receivable; credit Cash
  - debit Cash; credit Supplies Expense
  - debit Accounts Payable; credit Cash

ANS: D                    PTS: 1                    DIF: Difficult            OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

29. Which of the following entries records the investment of cash by Ron York, owner of a proprietorship?
- debit Ron York, Capital; credit Accounts Receivable
  - debit Cash; credit Ron York, Capital
  - debit Ron York, Drawing; credit Cash
  - debit Cash; credit Ron York, Drawing

ANS: B                    PTS: 1                    DIF: Moderate            OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions



30. Which of the following entries records the receipt of a utility bill from the water company?
- debit Utilities Expense; credit Accounts Payable
  - debit Utilities Payable; credit Accounts Receivable
  - debit Accounts Payable; credit Cash
  - debit Accounts Payable; credit Utilities Payable

ANS: A                   PTS: 1                   DIF: Difficult           OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

31. Which of the following entries records the withdrawal of cash by Sue Martin, owner of a proprietorship, for personal use?
- debit Sue Martin, Capital; credit Cash
  - debit Sue Martin, Drawing; credit Cash
  - debit Salaries Expense; credit Cash
  - debit Salaries Expense; credit Salaries Payable

ANS: B                   PTS: 1                   DIF: Difficult           OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

32. Office supplies were sold by Ari's Alarm Service at cost to another repair shop, with cash received. Which of the following entries for Ari's Alarm Service records this transaction?
- Office Supplies, debit; Cash, credit
  - Office Supplies, debit; Accounts Payable, credit
  - Cash, debit; Office Supplies, credit
  - Accounts Payable, debit; Office Supplies, credit

ANS: C                   PTS: 1                   DIF: Difficult           OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

33. Office supplies purchased by Ari's Alarm Service on account were returned. Which of the following entries for Ari's Alarm Service records this transaction?
- Cash, debit; Office Supplies, credit
  - Office Supplies, debit; Accounts Receivable, credit
  - Accounts Payable, debit; Office Supplies, credit
  - Office Supplies, debit; Accounts Payable, credit

ANS: C                   PTS: 1                   DIF: Difficult           OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

34. Cash was paid by Ari's Alarm Service to creditors on account. Which of the following entries for Ari's Alarm Service records this transaction?
- Cash, debit; Ari Fleish, Capital, credit
  - Accounts Payable, debit; Cash, credit
  - Accounts Receivable, debit; Cash, credit
  - Accounts Payable, debit; Account Receivable, credit

ANS: B                   PTS: 1                   DIF: Difficult           OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

35. The process of initially recording a business transaction is called
- trial balancing
  - posting
  - journalizing
  - balancing

ANS: C                    PTS: 1                    DIF: Easy                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

36. Which of the following entries records the acquisition of office supplies on account?
- Office Supplies, debit; Cash, credit
  - Cash, debit; Office Supplies, credit
  - Office Supplies, debit; Accounts Payable, credit
  - Accounts Receivable, debit; Office Supplies, credit

ANS: C                    PTS: 1                    DIF: Moderate                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

37. Which of the following entries records the payment of rent for the current month?
- Cash, debit; Rent Expense, credit
  - Rent Expense, debit; Cash, credit
  - Rent Expense, debit; Accounts Receivable, credit
  - Accounts Payable, debit; Rent Expense, credit

ANS: B                    PTS: 1                    DIF: Moderate                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

38. Which of the following entries records the receipt of cash from patients on account?
- Accounts Payable, debit; Fees Earned, credit
  - Accounts Receivable, debit; Fees Earned, credit
  - Accounts Receivable, debit; Cash, credit
  - Cash, debit; Accounts Receivable, credit

ANS: D                    PTS: 1                    DIF: Moderate                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

39. Which of the following entries records the collection of cash from cash customers?
- Fees Earned, debit; Cash, credit
  - Fees Earned, debit; Accounts Receivable, credit
  - Cash, debit; Fees Earned, credit
  - Accounts Receivable, debit; Fees Earned, credit

ANS: C                    PTS: 1                    DIF: Moderate                    OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

40. Which of the following entries records the receipt of cash for two months' rent? The cash was received in advance of providing the service.
- Prepaid Rent, debit; Rent Revenue, credit.
  - Cash, debit; Unearned Rent, credit.
  - Cash, debit; Prepaid Rent, credit.
  - Cash, debit; Rent Expense credit.

ANS: B                      PTS: 1                      DIF: Difficult                      OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

41. A patient has a physical examination and asks the bookkeeper to mail the bill. The bookkeeper should
- make no entry until the cash is received
  - Cash, debit; Accounts Receivable, credit
  - Cash, debit; Fees Earned, credit
  - Accounts Receivable, debit; Fees Earned, credit

ANS: D                      PTS: 1                      DIF: Difficult                      OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

42. Proof that the dollar amount of the debits equals the dollar amount of the credits in the ledger means
- all* of the information from the journal was correctly transferred to the ledger
  - all* accounts have their correct balances in the ledger
  - only* the journal is accurate; the ledger may be incorrect
  - only* that the debit dollar amounts equal the credit dollar amounts

ANS: D                      PTS: 1                      DIF: Difficult                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

43. Which of the following is true about a T-Account?
- Left hand side of the T-Account is called a debit.
  - Left hand side of the T-Accounts is called a credit
  - Right hand side of the T-Account is called a debit
  - None are true.

ANS: A                      PTS: 1                      DIF: Easy                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

44. Which of the following abbreviations are correct?
- Debit "Dr", Credit "Cd"
  - Debit "Db", Credit "Cr"
  - Debit "Db", Credit "Cd"
  - Debit "Dr", Credit "Cr"

ANS: D                      PTS: 1                      DIF: Moderate                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

45. Which side of the account increases a cash account?

- a. credit
- b. neither a debit or a credit
- c. debit
- d. either a debit or a credit

ANS: C                      PTS: 1                      DIF: Moderate                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

46. A cash payment is recorded on the cash account as a

- a. neither a debit or a credit
- b. credit
- c. debit
- d. either a debit or a credit

ANS: B                      PTS: 1                      DIF: Moderate                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

47. The balance of the account is determined by

- a. adding all of the debits to all of the credits.
- b. always subtracting the debits from the credits.
- c. always subtracting the credits from the debits.
- d. adding all of the debits, adding all of the credits, and then subtracting the smaller sum from the larger sum.

ANS: D                      PTS: 1                      DIF: Difficult                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

48. A list of the accounts is called

- a. ledger
- b. chart of accounts
- c. T-Account
- d. Debit

ANS: B                      PTS: 1                      DIF: Easy                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

49. On the chart of accounts, the balance sheet accounts are normally listed in the following order

- a. liabilities, assets, owner's equity
- b. assets, liabilities, owner's equity
- c. owner's equity, assets, liabilities
- d. assets, owner's equity, liabilities

ANS: B                      PTS: 1                      DIF: Moderate                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

50. In which order are the accounts listed in the chart of accounts?
- assets, expenses, liabilities, owners' equity, revenues
  - owners' equity, assets, liabilities, revenues, expenses
  - assets, liabilities, owner' equity, revenues, expenses
  - assets, liabilities, revenues, expenses, owners' equity

ANS: C                    PTS: 1                    DIF: Easy                    OBJ: 02-01  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

51. Which are the parts of the T account?
- title, date, total
  - date, debit side, credit side
  - title, debit side, credit side
  - title, debit side, total

ANS: C                    PTS: 1                    DIF: Moderate                    OBJ: 02-01  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

52. Which of the following is **not** a correct rule of debits and credits?
- assets, expenses and withdrawals are increased by debits
  - assets are decreased by credits and have a normal debit balance
  - liabilities, revenues and owner's equity are increased by credits
  - the normal balance for revenues and expenses is a credit

ANS: D                    PTS: 1                    DIF: Difficult                    OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

53. Prarie Clinic purchased X-ray equipment for \$4,000, paid \$1,275 down, with the remainder to be paid later. The correct entry would be

- |           |       |       |
|-----------|-------|-------|
| Equipment | 1,275 |       |
| Cash      |       | 1,275 |
- |                  |       |       |
|------------------|-------|-------|
| Cash             | 1,275 |       |
| Accounts Payable | 2,725 |       |
| Equipment        |       | 4,000 |
- |                   |       |       |
|-------------------|-------|-------|
| Equipment Expense | 4,000 |       |
| Accounts Payable  |       | 1,275 |
| Cash              |       | 2,725 |
- |                  |       |       |
|------------------|-------|-------|
| Equipment        | 4,000 |       |
| Accounts Payable | 2,725 |       |
| Cash             |       | 1,275 |

ANS: D                    PTS: 1                    DIF: Moderate                    OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

54. The chart of accounts is designed to
- alphabetize the accounts to make reading easier for its financial statement users.
  - analyze the accounts and organize them in order of dollar amount to simplify the accounting information for users.
  - summarize the transactions and determine their ending balances.
  - meet the information needs of a company and other financial statement users.

ANS: D                    PTS: 1                    DIF: Difficult                    OBJ: 02-01  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

55. Which group of accounts is comprised of only assets?
- Cash, Accounts Payable, Buildings
  - Accounts Receivable, Revenue, Cash
  - Prepaid Expenses, Buildings, Patents
  - Unearned Revenues, Prepaid Expenses, Cash

ANS: C                      PTS: 1                      DIF: Moderate                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

56. Of the following which is **true** about assets?
- Assets include physical and intangible assets.
  - Assets include only physical assets.
  - Assets are owned solely by the owner of the company.
  - Assets are the result of selling products or services to customers.

ANS: A                      PTS: 1                      DIF: Difficult                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

57. Which of the following is **not** considered to be a liability?
- Wages Payable
  - Accounts Receivable
  - Unearned Revenues
  - Accounts Payable

ANS: B                      PTS: 1                      DIF: Moderate                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

58. Which of the following statements is **not** true about liabilities?
- Liabilities are debts owed to outsiders.
  - Account titles of liabilities often include the term “payable”.
  - Cash received before services are performed are considered to be liabilities.
  - Liabilities do not include wages owed to employees of the company.

ANS: D                      PTS: 1                      DIF: Difficult                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

59. The owner’s equity will be reduced by all of the following accounts **except**:
- Revenues
  - Expenses
  - Drawing account
  - All are true.

ANS: A                      PTS: 1                      DIF: Moderate                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

60. Expenses can result from:
- increasing owner’s equity.
  - consuming services.
  - using up liabilities.
  - all are true.

ANS: B                      PTS: 1                      DIF: Difficult                      OBJ: 02-01  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

61. The chart of accounts classify the accounts to make identification of the accounts easier. This is done by way of assigning a number to each account. The first number identifies the classification of the type of account. Which of the following indicates the use of this classification?
- 1-Assets, 2-Liabilities, 3-Owner's Equity, 4-Expenses, 5-Revenues
  - 1-Assets, 2-Liabilities, 3-Owner's Equity, 4-Revenues, 5-Expenses
  - 1-Assets, 2-Owner's Equity, 3-Revenues, 4-Expenses, 5-Drawing
  - 1-Owner's Equity, 2-Drawing, 3-Revenues, 4-Expenses

ANS: B                      PTS: 1                      DIF: Difficult                      OBJ: 02-01  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

62. The \_\_\_\_ is where a transaction can first be found on the accounting records.
- chart of accounts
  - income statement
  - balance sheet
  - journal

ANS: D                      PTS: 1                      DIF: Easy                      OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

63. The process of recording a transaction in the journal is called
- recording
  - journalizing
  - posting
  - summarizing

ANS: B                      PTS: 1                      DIF: Easy                      OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

64. Joshua Scott invests \$65,000 into his new business. How would the journal entry for this transaction be entered in the journal?

- |    |                           |        |        |        |
|----|---------------------------|--------|--------|--------|
| a. | Cash                      |        | 65,000 |        |
|    | Joshua Scott, Capital     |        |        | 65,000 |
|    | Invested cash in business |        |        |        |
| b. | Cash                      |        | 65,000 |        |
|    | Joshua Scott, Capital     |        |        | 65,000 |
|    | Invested cash in business |        |        |        |
| c. | Joshua Scott, Capital     | 65,000 |        |        |
|    | Cash                      |        |        | 65,000 |
|    | Invested cash in business |        |        |        |
| d. | Joshua Scott, Capital     | 65,000 |        |        |
|    | Cash                      |        |        | 65,000 |
|    | Invested cash in business |        |        |        |

ANS: A                      PTS: 1                      DIF: Moderate                      OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

65.

April	23	Cash		14,000	
		Jim Xu, Capital			14,000
		Invest cash in Xu Co.			

The journal entry will:

- Increase Capital and decrease Cash
- Increase Cash and decrease Capital
- Increase Cash and increase Capital
- Decrease Cash and decrease Capital

ANS: C                      PTS: 1                      DIF: Moderate                      OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

66.

May	24	Land		53,000	
		Cash			53,000
		Purchased land for business			

What effects does this journal entry have on the accounts?

- Increase to Cash and increase to Land
- Increase to Land and decrease to Cash
- Decrease to Cash and decrease to Land
- Increase to Cash and decrease to Land

ANS: B                      PTS: 1                      DIF: Moderate                      OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

67.

May	31	Supplies		120	
		Accounts Payable			120
		????????????			

What is the best explanation for this journal entry?

- Purchased supplies with cash
- Investment of supplies by owner
- Purchased supplies on account
- Paid accounts payable.

ANS: C                      PTS: 1                      DIF: Moderate                      OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions



68.

March	10	Accounts Payable		3,300	
		Cash			3,300
		Paid creditors on account			

What effect does this journal entry have on the accounts?

- Decrease accounts payable, increase cash
- Increase cash, decrease accounts payable
- Increase accounts payable, increase cash
- Decrease accounts payable, decrease cash

ANS: D                      PTS: 1                      DIF: Moderate                      OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

69. Which of the following accounts would be increased with a credit?

- Land, Accounts Payable, Drawing
- Accounts Payable, Unearned revenue, Collins Capital
- Collins Capital, Accounts Receivable, Unearned Revenue
- Cash, Accounts Receivable, Collins Capital

ANS: B                      PTS: 1                      DIF: Moderate                      OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

70. In accordance with the debit and credit rules, which of the following is true?

- Debits increase assets.
- Credits increase assets.
- Debits increase both assets and capital.
- Credits increase both assets and liabilities.

ANS: A                      PTS: 1                      DIF: Moderate                      OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

71. All of the following accounts are increased with a debit **except**:

- Unearned Revenues
- Land
- Accounts Receivable
- Cash

ANS: A                      PTS: 1                      DIF: Easy                      OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

72. Which of the following owner's equity accounts follow the same debit and credit rules as liabilities?

- Expense accounts only
- Drawing accounts only
- Revenues accounts only
- Expenses and drawing accounts

ANS: C                      PTS: 1                      DIF: Difficult                      OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

73. The payment for the monthly rent will require the following entry
- Debit Cash and Debit Rent Expense
  - Credit Cash and Credit Rent Expense
  - Debit Rent Expense and Credit Cash
  - Credit Rent Expense and Debit Cash

ANS: C                    PTS: 1                    DIF: Moderate            OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

74. Expenses follow the same debit and credit rules as
- Revenues
  - Drawing Account
  - Capital Account
  - Liabilities

ANS: B                    PTS: 1                    DIF: Moderate            OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

75. Net income will result when
- revenues (credits) > expenses (debits)
  - revenues (debits) > expenses (credits)
  - expenses (credits) < revenues (debits)
  - revenues (credits) = expenses (debits)

ANS: A                    PTS: 1                    DIF: Moderate            OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

76. Which of the following will increase owner's equity?
- Expenses > revenues
  - the owner draws money for personal use
  - Revenues > expenses
  - Cash is received from customers on account.

ANS: C                    PTS: 1                    DIF: Moderate            OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

77. Which of the following situations increase owner's equity?
- Supplies are purchased on account.
  - Services are provided on account.
  - Cash is received from customers.
  - Utility bill will be paid next month.

ANS: B                    PTS: 1                    DIF: Difficult            OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

78. Which of the following group of accounts are increased with a debit?
- assets, liabilities, owner's equity
  - assets, drawing, expenses
  - assets, revenues, expenses
  - assets, liabilities, revenues

ANS: B                    PTS: 1                    DIF: Moderate            OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

79. Which of the following group of accounts increase with a credit?
- Capital, revenues, expenses
  - Assets, capital, revenues
  - Liabilities, capital, revenues
  - None of these

ANS: C                      PTS: 1                      DIF: Moderate                      OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

80. Which of the following is true regarding normal balances of accounts?
- All accounts have a normal debit balance.
  - The normal balance of all accounts will have either a positive or negative balance.
  - Accounts that have a normal debit balance will only have debit entries, never credit entries.
  - The normal balance is the side of the account that increases the account.

ANS: D                      PTS: 1                      DIF: Moderate                      OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

81. All of the following occur with a double-entry accounting system **except**:
- The accounting equation remains in balance.
  - The sum of all debits is always equal to the sum of all credits in each journal entry.
  - Each business transaction will have only two entries.
  - Every transaction affects at least two accounts.

ANS: C                      PTS: 1                      DIF: Difficult                      OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

82.

March	6	Cash		375	
		Unearned Fees			375
		????????????			

What is the best explanation for this journal entry?

- Received cash for services performed
- Received cash for services to be performed in the future.
- Paid cash in advance for services to be done.
- Paid cash for services to be performed.

ANS: B                      PTS: 1                      DIF: Moderate                      OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

83.

April	14	Equipment		6,700	
		Cash			2,000
		Note Payable			4,700
		????????????			

Which is the best explanation for this journal entry?

- Purchased equipment, paid cash of \$2,000, with the remainder to be paid in payments.
- Purchased equipment, paid cash of \$4,700, with the remainder to be received in the future.
- Purchased equipment, paid cash for the entire amount.

d. Purchased equipment on credit.

ANS: A                      PTS: 1                      DIF: Moderate                      OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

84. The process of rewriting the information from the journal into the ledger is called
- sliding
  - transposing
  - journalizing
  - posting

ANS: D                      PTS: 1                      DIF: Easy                      OBJ: 02-03  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

85. The verification that the total dollar amount of the debits equals the total dollar amount of the credits in the ledger is called a
- ledger
  - trial balance
  - account
  - balance sheet

ANS: B                      PTS: 1                      DIF: Moderate                      OBJ: 02-02  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

86. The process of transferring the journal entries to the accounts is known as
- posting
  - updating
  - journalizing
  - summarizing

ANS: A                      PTS: 1                      DIF: Moderate                      OBJ: 02-03  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

87. The posting process will include the transfer of the following information from the journal to the account.
- date, amount (debit or credit)
  - date, amount (debit or credit), journal page number
  - amount (debit or credit), account number
  - date, amount (debit or credit) account number

ANS: B                      PTS: 1                      DIF: Difficult                      OBJ: 02-03  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

88. The post reference columns are used to trace transactions from the journal to the accounts. What will be posted on the post reference column of (a) the journal and (b) on the account?
- (a) the amount of the debit or credit (b) the journal page number
  - (a) the journal page number (b) the date of the transaction
  - (a) the journal page number, (b) the account number
  - (a) the account number, (b) the journal page number

ANS: D                      PTS: 1                      DIF: Difficult                      OBJ: 02-03  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

The chart of account for the Corning Company includes some of the following accounts:

Account Name	Account Number
Cash	11
Accounts Receivable	13
Prepaid Insurance	15
Accounts Payable	21
Unearned Revenue	24
Corning, Capital	31
Corning, Drawing	32
Fees Earned	41
Salaries Expense	54
Rent Expense	56

On the journal page 3, the following transaction was found:

Prepaid Insurance	1,530	
Cash		1,530

89. What is the post reference that will be found on the cash account?
- 11
  - 15
  - 3
  - None

ANS: C                    PTS: 1                    DIF: Moderate            OBJ: 02-03  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

90. What is the post reference that will be found on the Prepaid Insurance account?
- 11
  - 15
  - 3
  - None

ANS: C                    PTS: 1                    DIF: Moderate            OBJ: 02-03  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

91. What is the post reference that will be found on the journal entry?
- 15, 11
  - 15
  - 11
  - 3

ANS: A                    PTS: 1                    DIF: Difficult            OBJ: 02-03  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

92. The chart of account for the Miguel Company includes some of the following accounts:

Account Name	Account Number
Cash	11
Accounts Receivable	13
Prepaid Insurance	15
Accounts Payable	21
Unearned Revenue	24
Miguel, Capital	31
Miguel, Drawing	32
Fees Earned	41
Salaries Expense	54
Rent Expense	56

On the journal page 3, the following transaction was found:

Cash	640	
Fees Earned		640

What is the post reference that will be found on the journal entry?

- 41
- 3
- 11, 41
- 11

ANS: C                      PTS: 1                      DIF: Difficult                      OBJ: 02-03  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

93. The chart of account for the Miguel Company includes some of the following accounts:

Account Name	Account Number
Cash	11
Accounts Receivable	13
Prepaid Insurance	15
Accounts Payable	21
Unearned Revenue	24
Miguel, Capital	31
Miguel, Drawing	32
Fees Earned	41
Salaries Expense	54
Rent Expense	56

On the journal page 5, the following transaction was found:

Salaries Expense	525	
Cash		525

What is the post reference that will be found on the Salaries Expense account?

- a. 5
- b. 11
- c. 54
- d. None

ANS: A                      PTS: 1                      DIF: Difficult                      OBJ: 02-03  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

94. The accounts in the ledger of Monroe Entertainment Co. are listed in alphabetical order. All accounts have normal balances.

Accounts Payable	1,500	Fees Earned	3,000
Accounts Receivable	1,800	Insurance Expense	1,300
Investment	2,000	Land	3,000
Cash	2,600	Wages Expense	1,400
Drawing	1,200	Capital	8,800

The total of all the assets is:

- a. \$9,400
- b. \$9,000
- c. \$9,100
- d. \$9,800

ANS: A                      PTS: 1                      DIF: Difficult                      OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

95. A trial balance is prepared to
- a. prove that there were no errors made in recording transactions into the journal
  - b. prove that no errors were made in posting to the ledger
  - c. prove that each account balance is correct
  - d. summarize the account balances to help prepare financial statements

ANS: D                      PTS: 1                      DIF: Moderate                      OBJ: 02-04  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

96. The accounts in the ledger of Monroe Entertainment Co. are listed in alphabetical order. All accounts have normal balances.

Accounts Payable	1,500	Fees Earned	3,000
Accounts Receivable	1,800	Insurance Expense	1,300
Investment	2,000	Land	3,000
Cash	2,600	Wages Expense	1,400
Drawing	1,200	Capital	8,800

Prepare a trial balance. The total of the debits is

- a. \$13,300
- b. \$9,400
- c. \$9,100
- d. \$9,600

ANS: A                      PTS: 1                      DIF: Difficult                      OBJ: 02-04  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

97. Of the following financial reports, which one is the one that will determine if the accounting equation is in balance?
- Journal entry
  - Income statement
  - Trial balance
  - Account reconciliation

ANS: C                    PTS: 1                    DIF: Moderate            OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

98. An overpayment error was discovered in computing and paying the wages of a Jamison Tree Trimming employee. When Jamison receives cash from the employee for the amount of the overpayment, which of the following entries will Jamison make?
- Cash, debit; Wages Expense, credit
  - Wages Payable, debit; Wages Expense, credit
  - Wages Expense, debit, Cash, credit
  - Cash, debit; Wages Payable, credit

ANS: A                    PTS: 1                    DIF: Difficult            OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

99. If the two totals of a trial balance are not equal, it could be due to
- failure to record a transaction
  - recording the same erroneous amount for both the debit and the credit parts of a transaction
  - an error in determining the account balances, such as a balance being incorrectly computed
  - recording the same transaction more than once

ANS: C                    PTS: 1                    DIF: Difficult            OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

100. When a transposition error is made on the trial balance, the difference between the debit and credit totals on the trial balance will be
- zero
  - twice the amount of the transposition
  - one-half the amount of the transposition
  - divisible by 9

ANS: D                    PTS: 1                    DIF: Moderate            OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

101. Which of the following errors, each considered individually, would cause the trial balance totals to be unequal?
- a transaction was not posted
  - a payment of \$67 for insurance was posted as a debit of \$42 to Prepaid Insurance and a credit of \$42 to Cash
  - a payment of \$1,311 to a creditor was posted as a debit of \$3,111 to Accounts Payable and a debit of \$311 to Accounts Receivable
  - cash received from customers on account was posted as a debit of \$680 to Cash and a credit of \$680 to Accounts Payable

ANS: C                    PTS: 1                    DIF: Difficult            OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle



102. Supplies purchased on account were incorrectly recorded as Office Equipment. The correcting entry would be
- Supplies, debit; Office Equipment, credit.
  - Accounts Receivable, debit; Supplies, credit.
  - Office Equipment, debit; Supplies Expense, credit.
  - Supplies, debit; Accounts Payable, credit.

ANS: A                    PTS: 1                    DIF: Difficult                    OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

103. Which of the following errors will cause the trial balance totals to be unequal?
- post the debit portion of a journal entry incorrectly and the credit portion of the entry is correctly posted
  - failure to record a transaction or to post a transaction
  - recording the same transaction more than once
  - recording the same erroneous amount for both the debit and the credit parts of a transaction
  - posting a part of a transaction correctly as a debit or credit but to the wrong account

ANS: A                    PTS: 1                    DIF: Moderate                    OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

104. The trial balance is out of balance and the accountant suspects that a transposition or slide error has occurred. What will the accountant do to find the error?
- Determine the amount of the error and look for that amount on the trial balance.
  - Determine the amount of the error and divide by two, then look for that amount on the trial balance.
  - Determine the amount of the error and refer to the journal entries for that amount.
  - Determine the amount of the error and divide by nine. If the result is evenly divided, then this type of error is likely.

ANS: D                    PTS: 1                    DIF: Difficult                    OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

105. Which of the following is **not** a short-cut in finding errors on the trial balance?
- Determine the difference between debits and credits and look for the amount.
  - Determine the amount and change any account to make the trial balance correct.
  - Determine the difference between debits and credits, divide the amount by 2, look for the amount.
  - Determine the difference between debits and credits, divide the amount by 9, if it divides evenly, look for a transposition or slide error.

ANS: B                    PTS: 1                    DIF: Moderate                    OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

106. All of the following statements regarding a horizontal analysis are true **except**:
- A horizontal analysis is used to compare an item in a current statement with the same item in prior statements.
  - A horizontal analysis can be performed on a balance sheet and income statement, but not on a statement of cash flows.
  - If Fees Earned in 2010 is \$150,000 and Fees Earned in 2011 is \$187,500, a horizontal analysis will indicate a 25% increase over this period.
  - When two statements are compared in horizontal analysis, the earlier statement is used as the base for computing the amount and the percent of change.

ANS: B                      PTS: 1                      DIF: Moderate                      OBJ: 02-04  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

### EXERCISE/OTHER

- The chart of accounts classifies the accounts to make identification of the accounts easier. Discuss how companies set up their chart of accounts for use in their business.

ANS:

A chart of accounts is set-up by assigning numbers to each of the accounts. The account number for assets will begin with (1), liabilities (2), owner's equity (3), revenues (4), and expenses (5).

PTS: 1                      DIF: Moderate                      OBJ: 02-01  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

- On September 1st, Erika Company purchased land for \$47,500 cash. Write the journal entry in the space below.

ANS:

	Sep 1	Land	47,500	
		Cash		47,500
				Purchased land for the company

PTS: 1                      DIF: Moderate                      OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

- On October 10th, Nikle Company purchased supplies worth \$2,750 on account.
  - Write the journal entry in the space below.

- Nikle Company paid this bill on October 25th. Write the journal entry in the space below.

ANS:

	(a) Oct 10	Supplies	2,750	
		Accounts Payable		2,750
				Purchased supplies on account.
	(b) Oct 25	Accounts Payable	2,750	
		Cash		2,750
				Paid for supplies on account.

PTS: 1                    DIF: Moderate            OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

4. On October 17th Nikle Company purchased a building and a plot of land for \$750,000. The building was valued at \$500,000 while the land carried a value of \$250,000. Nikle paid \$300,000 down in cash and signed a notes payable for the balance. In the space below write the journal entry.

ANS:

	Oct 17	Building	500,000	
		Land	250,000	
		Cash		300,000
		Notes Payable		450,000
		Purchased building and land with cash down payment		

PTS: 1                    DIF: Moderate            OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

5. On November 1st Nikle Company made a cash payment of \$200,000 on a note payable that was generated in the purchase of a building and land plot. Write the journal entry for this payment in the space below.

ANS:

	Nov 1	Notes Payable	200,000	
		Cash		200,000
		Made payment on notes payable		

PTS: 1                    DIF: Moderate            OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

6. Damien Lawson invests \$45,000 to initiate the operation of his business, JumpStart, on January 7th. Journalize this transaction.

ANS:

Jan 7	Cash		45,000	
		Damien Lawson, Capital		45,000

PTS: 1                    DIF: Moderate            OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

7. On January 8th, Damien Lawson transfers ownership of several pieces of office equipment to his new business, JumpStart. When new, these items were worth \$72,500. The fair market value of the equipment is \$60,000. Journalize this transfer.

ANS:

January 8	Office Equipment		60,000	
		Damien Lawson, Capital		60,000

While Damien may have paid \$72,500 for this equipment sometime in the past, it should be transferred into the company at fair market value (FMV), \$60,000.



12. Prepare a journal entry on March 27 for the payment of \$8,000 to the owner of Credit Consultant Company, Neal Stone, for personal use.

ANS:

Mar 27	Neal Stone, Drawing	8,000	
	Cash		8,000

PTS: 1                    DIF: Easy                    OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions  
 TOP: Example Exercise 2-4

13. State for each account whether it is likely to have (a) debit entries only, (b) credit entries only, or (c) both debit and credit entries. Also, indicate the normal balance of each account.

- |                      |                        |
|----------------------|------------------------|
| 1. Fees Earned       | 4. Supplies            |
| 2. Utilities Expense | 5. Cash                |
| 3. Accounts Payable  | 6. Accounts Receivable |

ANS:

1. Credit entries only, normal credit balance
2. Debit entries only, normal debit balance
3. Both debit and credit entries, normal credit balance
4. Both debit and credit entries, normal debit balance
5. Both debit and credit entries, normal debit balance
6. Both debit and credit entries, normal debit balance

PTS: 1                    DIF: Easy                    OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP  
 TOP: Example Exercise 2-1

14. On June 1, the cash account balance was \$75,880. During June, cash receipts totaled \$305,000 and the June 30 balance was \$96,750. Determine the cash payments made during June.

ANS:

$$96,750 = 75,880 + 305,000 - ?$$

$$\text{Cash payments} = \$284,130$$

PTS: 1                    DIF: Easy                    OBJ: 02-01 | 02-03  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP  
 TOP: Example Exercise 2-5

15. For each of the following errors, considered individually, indicate whether the error would cause the trial balance totals to be unequal. If the error would cause the trial balance total to be unequal, indicate whether the debit or credit total is higher and by how much.
- A. Payment of a cash withdrawal of \$6,800 was journalized and posted as a debit of \$8,600 to Salaries Expense and a credit of \$8,600 to Cash.
  - B. A fee of \$9,780 earned was debited to Accounts Receivable for \$7,980 and credited to Fees Earned for \$9,780.
  - C. A payment of \$3,000 to a creditor was posted as a credit of \$3,000 to Accounts Payable and a credit of \$3,000 to Cash.

ANS:

- a. The totals are equal.
- b. The totals are unequal. The credit total is higher by \$1,800.
- c. The totals are unequal. The credit total is higher by \$6,000.

PTS: 1                    DIF: Difficult                    OBJ: 02-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

TOP: Example Exercise 2-6

16. The following errors took place in journalizing and posting transactions:

- A. A withdrawal of \$5,000 by Stan Norton, owner of the business, was recorded as a debit to Office Expense and a credit to Cash.
- B. Accounts receivable payment for \$7,800 was recorded as a debit to Cash and a credit to Fees Earned.

Journalize the entries to correct the errors. Omit the explanations.

ANS:

a.	Drawing, Stan Norton	5,000	
	Office Expense		5,000
b.	Fees Earned	7,800	
	Accounts Receivable		7,800

PTS: 1                    DIF: Easy                    OBJ: 02-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

TOP: Example Exercise 2-7

17. Discuss and describe how errors in accounts can be found.

ANS:

- 1) through audit procedures.
- 2) by looking at the trial balance.
- 3) by chance.

PTS: 1                    DIF: Moderate                    OBJ: 02-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

18. On November 30th, Damien Lawson is informed by his accountant that \$550 of a transaction recording the purchase of office supplies was really office equipment. He has been asked to correct this journal entry. Write the journal entry to correct this situation.

ANS:

Nov 30	Office Equipment	550	
	Office Supplies		550

PTS: 1                    DIF: Difficult                    OBJ: 02-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

19. Journalize the entries to correct the following errors:

- (a) A purchase of supplies for \$200 on account was recorded and posted as a debit to Supplies for \$500 and as a credit to Accounts Receivable for \$500.
- (b) A receipt of \$4,000 from Fees Earned was recorded and posted as a debit to Fees Earned for \$4,000 and a credit to Cash for \$4,000.

ANS:

(a)	Accounts Receivable	500	
	Supplies		500
	Supplies	200	
	Accounts Payable		200
(b)	Cash	8,000	
	Fees Earned		8,000

PTS: 1                    DIF: Moderate            OBJ: 02-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

20. For the following, mark an “D” if the following account normally has a debit balance and mark a “C” if the following account normally has a credit balance.

- \_\_\_\_\_ 1. Notes Payable
- \_\_\_\_\_ 2. Mortgage Payable
- \_\_\_\_\_ 3. Drawing
- \_\_\_\_\_ 4. Accounts Receivable
- \_\_\_\_\_ 5. Capital
- \_\_\_\_\_ 6. Rent Revenue
- \_\_\_\_\_ 7. Unearned Income
- \_\_\_\_\_ 8. Utility Expense
- \_\_\_\_\_ 9. Automobiles

ANS:

1.C 2.C 3.D 4.D 5.C 6.C 7.C 8.D 9.D

PTS: 1                    DIF: Easy                    OBJ: 02-02

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

21. On January 1, 2010, Cary Parsons established a catering service. Listed below are accounts to use for transactions (a) through (d), each identified by a number. Following this list are the transactions that occurred during the first month of operations. You are to indicate for each transaction the accounts that should be debited and credited by place the account number(s) in the appropriate box.

- 1. Cash
- 2. Accounts Receivable
- 3. Supplies
- 4. Prepaid Insurance
- 5. Equipment
- 6. Truck

7. Notes Payable
8. Accounts Payable
9. Cary Parsons, Capital
10. Cary Parsons, Drawing
11. Fees Earned
12. Wages Expense
13. Rent Expense
14. Utilities Expense
15. Truck Expense
16. Miscellaneous Expense

Transactions	Account(s) Debited	Account(s) Credited
a. Cary transferred cash from a personal bank account to an account to be used for the business.		
b. Paid rent for the period of January 3 to the end of the month.		
c. Purchased truck for \$30,000 with a cash down payment of \$5,000 and the remainder on a note.		
d. Purchased equipment on account.		

ANS:

Transactions	Account(s) Debited	Account(s) Credited
a.	1	9
b.	13	1
c.	6	1,7
d.	5	8

PTS: 1                      DIF: Difficult                      OBJ: 02-01 | 02-02 | 02-03

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

22. On January 1, 2010, Cary Parsons established a catering service. Listed below are accounts to use for transactions (a) through (e), each identified by a number. Following this list are the transactions that occurred in Parsons' first month of operation. You are to indicate for each transaction the accounts that should be debited and credited by place the account number(s) in the appropriate box.

1. Cash
2. Accounts Receivable
3. Supplies
4. Prepaid Insurance
5. Equipment
6. Truck
7. Notes Payable
8. Accounts Payable
9. Cary Parsons, Capital
10. Cary Parsons, Drawing
11. Fees Earned
12. Wages Expense
13. Rent Expense
14. Utilities Expense



15. Truck Expense
16. Miscellaneous Expense
17. Insurance Expense

Transactions	Account(s) Debited	Account(s) Credited
a. Purchased supplies for cash.		
b. Paid the annual premiums on property and casualty insurance.		
c. Received cash for a job previously recorded on account.		
d. Paid a creditor a portion of the amount owed for equipment previously purchased on account.		
e. Received cash for a completed job.		

ANS:

Transactions	Account(s) Debited	Account(s) Credited
a.	3	1
b.	4	1
c.	1	2
d.	8	1
e.	1	11

PTS: 1                    DIF: Difficult                    OBJ: 02-01 | 02-02 | 02-03

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

23. On January 1, 2010, Cary Parsons established a catering service. Listed below are accounts to use for transactions (a) through (f), each identified by a number. Following this list are the transactions that occurred in Parsons' first month of operation. You are to indicate for each transaction the accounts that should be debited and credited by place the account number(s) in the appropriate box.

1. Cash
2. Accounts Receivable
3. Supplies
4. Prepaid Insurance
5. Equipment
6. Truck
7. Notes Payable
8. Accounts Payable
9. Cary Parsons, Capital
10. Cary Parsons, Drawing
11. Fees Earned
12. Wages Expense
13. Rent Expense
14. Utilities Expense
15. Truck Expense
16. Miscellaneous Expense
17. Insurance Expense

Transactions	Account(s) Debited	Account(s) Credited
a. Recorded jobs completed on account and sent invoices to customers.		
b. Received an invoice for truck expenses to be paid in February.		
c. Paid utilities expense		
d. Received cash from customers on account.		
e. Paid employee wages.		
f. Withdrew cash for personal use.		

ANS:

Transactions	Account(s) Debited	Account(s) Credited
a.	2	11
b.	15	8
c.	14	1
d.	1	2
e.	12	1
f.	10	1

PTS: 1                    DIF: Difficult                    OBJ: 02-01 | 02-02 | 02-03

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

24. Listed below are accounts to use for transactions (a) through (d), each identified by a number. Following this list are the transactions. You are to indicate for each transaction the accounts that should be debited and credited by place the account number(s) in the appropriate box.

1. Cash
2. Accounts Receivable
3. Office Supplies
4. Land
5. Interest Receivable
6. Building
7. Accumulated Depreciation - Building
8. Depreciation Expense - Building
9. Accounts Payable
10. Interest Payable
11. Insurance Payable
12. Utility Expense
13. Notes Payable
14. Capital Stock
15. Prepaid Insurance
16. Service Revenue
17. Retained Earnings
18. Insurance Expense
19. Utility Payable
20. Office Supplies Expense
21. Unearned Service Revenue
22. Dividends

23. Interest Expense

Transactions	Account(s) Debited	Account(s) Credited
a. Utility bill is received; payment will be made in 10 days.		
b. Paid the utility bill previously recorded in transaction (a).		
c. Bought a three year insurance policy and paid in full.		
d. Received \$7,000 from a contract to perform accounting services over the next two years.		

ANS:

	Debit	Credit
a.	12	19
b.	19	1
c.	15	1
d.	1	21

PTS: 1                    DIF: Difficult                    OBJ: 02-01 | 02-02 | 02-03  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

25. Below is the unadjusted trial balance for Dawson Designs.

REQUIRED:

- (1) Identify the errors in the following trial balance. All accounts have normal balances.
- (2) Prepare a corrected trial balance.

Dawson Co. Unadjusted Trial Balance For the Month of January 2011		
	Debits	Credits
Cash	23,000	
Accounts Receivable		49,700
Prepaid Insurance	11,300	
Equipment	150,500	
Accounts Payable	6,050	
Salaries Payable		4,250
Tim Dawson, Capital		110,000
Tim Dawson, Drawing		18,500
Service Revenue		236,600
Salary Expense	98,930	
Miscellaneous Expense		4,970
	<u>424,020</u>	<u>424,020</u>

ANS:

(1)

- a. The debit column is added incorrectly; the sum is actually \$289,780.
- b. The date of the trial balance should be dated January 31, 2011, rather than “For the Month of January 2011.”
- c. The accounts receivable balance should be in the debit column.
- d. The accounts payable should be in the credit column.
- e. Tim Dawson, Drawing should be in the debit column.
- f. Miscellaneous Expense should be in the debit column.

(2)

Dawson Co. Unadjusted Trial Balance January 31, 2011		
	Debits	Credits
Cash	23,000	
Accounts Receivable	49,700	
Prepaid Insurance	11,300	
Equipment	150,500	
Accounts Payable		6,050
Salaries Payable		4,250
Tim Dawson, Capital		110,000
Tim Dawson, Drawing	18,500	
Service Revenue		236,600
Salary Expense	98,930	
Miscellaneous Expense	4,970	
	<u>356,900</u>	<u>356,900</u>

PTS: 1                    DIF: Moderate            OBJ: 02-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

26. The following two situations are independent of each other.
1. On June 1, the cash account balance was \$38,750. During June, cash payments totaled \$239,140 and the June 30 balance was \$42,175. Determine the cash receipts during June and show your calculation.
  2. On March 1, the supplies account balance was \$1,340. During March, supplies of \$4,335 were purchased and \$890 of supplies were on hand as of March 31. Determine the supplies expense for March and show your calculation.

ANS:

$$1. \quad \$42,175 = \$38,750 + \text{Cash receipts} - \$239,140$$

$$\text{Cash receipts} = \$242,565$$

$$2. \quad \$890 = \$1,340 + \$4,335 - \text{Supplies Expense}$$

$$\text{Supplies expense} = \$4,785$$

PTS: 1                    DIF: Moderate            OBJ: 02-01 | 02-02 | 02-03

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

27. On January 1, 2010, Cary Parsons established a catering service. Listed below are accounts she would like to open in the general ledger. List the accounts in the order in which they should appear in the ledger and propose a two digit account numbering scheme that is consistent with the rules of a proper chart of accounts.

1. Cash
  2. Supplies
  3. Equipment
  4. Accounts Payable
  5. Cary Parsons, Capital
  6. Wages Expense
  7. Rent Expense
  8. Truck
  9. Utilities Expense
  10. Cary Parsons, Drawing
  11. Truck Expense
  12. Prepaid Insurance
  13. Fees Earned
  14. Miscellaneous Expense
  15. Insurance Expense
  16. Notes Payable
  17. Accounts Receivable
- 

ANS:

- 11 Cash
- 12 Accounts Receivable
- 13 Supplies
- 14 Prepaid Insurance
- 15 Equipment
- 16 Truck
- 21 Accounts Payable
- 22 Notes Payable
- 31 Cary Parsons, Capital
- 32 Cary Parsons, Drawing
- 41 Fees Earned
- 51 Wages Expense
- 52 Rent Expense
- 53 Utilities Expense
- 54 Truck Expense
- 55 Insurance Expense
- 56 Miscellaneous Expense

PTS: 1                    DIF: Moderate            OBJ: 02-01

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

28. Several transactions are listed below, with the accounting equation stated to the right side of each. Use the following identification codes to indicate the effects of each transaction on the accounting equation. Write your answers in the space provided under the accounting equation. You need an identification code for each element of the accounting equation. An example is given before the first transaction.

I-Increase                    D-Decrease                    NE-No Effect

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owners' Equity</u>
Example John Smith invests in his new business by giving it his personal drill press valued at \$3,500.	<u>I</u>		<u>NE</u>		<u>I</u>
A) Cash sales are made.	_____		_____		_____
B) Equipment is purchased on credit.	_____		_____		_____
C) Payment is made for the equipment purchased on credit in (B).	_____		_____		_____
D) The company sold excess supplies to another company on credit.	_____		_____		_____
E) Cash is collected from customers for accounts receivable balances.	_____		_____		_____

ANS:

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owners' Equity</u>
A) Cash sales are made.	<u>I</u>		<u>NE</u>		<u>I</u>
B) Equipment is purchased on credit.	<u>I</u>		<u>I</u>		<u>NE</u>
C) Payment is made for the equipment purchased on credit in (B).	<u>D</u>		<u>D</u>		<u>NE</u>
D) The company sold excess supplies to another company on credit.	<u>NE</u>		<u>NE</u>		<u>NE</u>
E) Cash is collected from customers for accounts receivable balances.	<u>NE</u>		<u>NE</u>		<u>NE</u>

PTS: 1                      DIF: Moderate                      OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

29. Journalize the five transactions for Mirmax Rentals described below.

- August 1 Mirmax purchases two new saws on credit at \$375 each. The saws are added to Mirmax's rental inventory. Payment is due in 30 days.
- 8 Mirmax accepts advance deposits for tool rentals of \$75 that will be applied to the cash rental when the tools are returned.
- 15 Mirmax receives a bill from Macon Utility Company for \$150. Payment is due in 30 days.
- 20 Customers are charged \$750 by Mirmax for tool rentals. Payment is due from the customers in 30 days.
- 31 Mirmax receives \$500 in payments from the customers that were billed for rentals on August 20.

ANS:

Aug. 1	Equipment	750	
	Accounts Payable		750
8	Cash	75	
	Unearned Revenue		75
15	Utilities Expense	150	
	Accounts Payable		150
20	Accounts Receivable	750	
	Rental Revenue		750
31	Cash	500	
	Accounts Receivable		500

PTS: 1                      DIF: Moderate              OBJ: 02-02

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

30. Journalize the following five transactions for Nexium & Associates, Inc. Omit explanations.

- March 1 Bills are sent to clients for services provided in February in the amount of \$800.
- 9 Corner Office, Inc. delivers office furniture (\$1,060) and office supplies (\$160) to Nexium leaving an invoice for \$1,220.
- 15 Payment is made to Corner Office, Inc. for the furniture and office supplies delivered on March 9.
- 23 A bill for \$430 for electricity for the month of March is received and will be paid on its due date in April.
- 31 Salaries of \$850 are paid to employees.

ANS:

March 1	Accounts Receivable	800	
	Service Revenue		800
	Office Furniture	1,060	
9	Office Supplies	160	
	Accounts Payable		1,220
	Accounts Payable	1,220	
15	Cash		1,220
	Electricity Expense	430	
23	Accounts Payable		430
	Salaries Expense	850	
31	Cash		850

PTS: 1

DIF: Moderate

OBJ: 02-02

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

31. McMann Company has a condensed income statement as shown::

	2011	2010
Sales	\$178,400	\$162,500
Wage expenses	100,000	92,500
Rent expenses	33,000	30,000
Utilities expenses	30,000	25,000
Total operating expenses	163,000	147,500
Net income	15,400	15,000

REQUIRED:

Prepare a horizontal analysis of McMann Company's income statements. Comment on the trends, both favorable and unfavorable.

ANS:

	2011	2010	Increase Amount	Increase %
Sales	\$178,400	\$162,500	15,900	9.8
Wage expenses	100,000	92,500	7,500	8.1
Rent expenses	33,000	30,000	3,000	10.0
Utilities expenses	30,000	25,000	5,000	20.0
Total operating expenses	163,000	147,500	15,500	10.5
Net income	15,400	15,000	400	2.7



While the trend in sales revenue is favorable, it is not sufficient enough to offset the rising expenses, resulting in a positive but small and slowing increase in net income.

PTS: 1                    DIF: Moderate            OBJ: 02-05  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

32. Georgia Company has a condensed income statement as shown::

	<b>2011</b>	<b>2010</b>
Sales	\$158,400	\$162,500
Wage expenses	80,000	92,500
Rent expenses	28,000	30,000
Utilities expenses	30,000	25,000
Total operating expenses	138,000	147,500
Net income	20,400	15,000

REQUIRED:

Prepare a horizontal analysis of Georgia Company’s income statements. Comment on the trends, both favorable and unfavorable.

ANS:

	<b>2011</b>	<b>2010</b>	<b>Increase Amount</b>	<b>Increase %</b>
Sales	\$158,400	\$162,500	(4,100)	(2.5)
Wage expenses	80,000	92,500	(12,500)	(13.5)
Rent expenses	28,000	30,000	(2,000)	(6.7)
Utilities expenses	30,000	25,000	5,000	20.0
Total operating expenses	138,000	147,500	(9,500)	(6.4)
Net income	20,400	15,000	5,400	36.0

The trend in sales revenue is unfavorable, but that is more than offset by the declines in operating expenses, with the exception of utilities, which increased over the period. Despite the 2.5% drop in sales, the net effect was a favorable increase in net income of 36%, which was in large part spurred by the drop in wages expense.

PTS: 1                    DIF: Moderate            OBJ: 02-05  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

**PROBLEM**

1. Organize the following accounts into the usual sequence of a chart of accounts.

Miscellaneous Expense  
 Accounts Payable  
 Accounts Receivable

Cash  
 Alecia Morris, Capital  
 Fees Earned  
 Prepaid Rent  
 Salaries Expense  
 Unearned Revenue  
 Alecia Morris, Drawing

ANS:

Cash  
 Accounts Receivable  
 Prepaid Rent  
 Accounts Payable  
 Unearned Revenue  
 Alecia Morris, Capital  
 Alecia Morris, Drawing  
 Fees Earned  
 Salaries Expense  
 Miscellaneous Expense

PTS: 1                    DIF: Moderate            OBJ: 02-01  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

2. Selected accounts from the ledger of Garrison Company appear below. 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	Revenue - R
Liability - L	Expense - E
None of the above - N	

(b) In the second column, indicate the increase side of each account by inserting Dr. or Cr.

<u>Account</u>	<u>Type of Account</u>	<u>Increase Side</u>
(1) Supplies	_____	_____
(2) Notes Receivable	_____	_____
(3) Fees Earned	_____	_____
(4) Garrison, Drawing	_____	_____
(5) Accounts Payable	_____	_____
(6) Salaries Expense	_____	_____
(7) Garrison, Capital	_____	_____
(8) Accounts Receivable	_____	_____
(9) Equipment	_____	_____
(10) Notes Payable	_____	_____

ANS:

	<u>Type of Account</u>	<u>Increase Side</u>
(1)	A	Dr.
(2)	A	Dr.
(3)	R	Cr.
(4)	N	Dr.
(5)	L	Cr.
(6)	E	Dr.
(7)	N	Cr.
(8)	A	Dr.
(9)	A	Dr.
(10)	L	Cr.

PTS: 1                    DIF: Moderate            OBJ: 02-01 | 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

3. Calculate the following:

(a) Determine the cash receipts for April based on the following data:

Cash payments during April	\$45,500
Cash account balance, April 1	6,750
Cash account balance, April 30	10,000

(b) Determine the cash received from customers on account during April based on the following data:

Accounts receivable account balance, April 1	\$10,500
Accounts receivable account balance, April 30	7,250
Fees billed to customers during April	26,000

ANS:

- (a) \$48,750 ( $\$10,000 + \$45,500 - \$6,750$ )  
 (b) \$29,250 ( $\$10,500 + \$26,000 - \$7,250$ )

PTS: 1                    DIF: Difficult            OBJ: 02-01 | 02-02 | 02-03  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

4. Increases and decreases in various types of accounts are listed below. In each case, indicate by "Dr." or "Cr." (a) whether the change in the account would be recorded as a debit or a credit and (b) whether the normal balance of the account is a debit or a credit.

	(a) Recorded <u>As</u>	(b) Normal <u>Balance</u>
(1) Increase in Denice Dickenson, Capital	_____	_____
(2) Increase in Denice Dickenson, Drawing	_____	_____
(3) Decrease in Accounts Receivable	_____	_____
(4) Increase in Note Payable	_____	_____
(5) Increase in Accounts Payable	_____	_____
(6) Decrease in Supplies	_____	_____
(7) Decrease in Salaries Expense	_____	_____
(8) Increase in Accounts Receivable	_____	_____
(9) Increase in Cash	_____	_____
(10) Decrease in Land	_____	_____

ANS:

	<u>(a)</u>	<u>(b)</u>
(1)	Cr.	Cr.
(2)	Dr.	Dr.
(3)	Cr.	Dr.
(4)	Cr.	Cr.
(5)	Cr.	Cr.
(6)	Cr.	Dr.
(7)	Cr.	Dr.
(8)	Dr.	Dr.
(9)	Dr.	Dr.
(10)	Cr.	Dr.

PTS: 1                      DIF: Moderate                      OBJ: 02-02

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

5. Record the following selected transactions for April in a two-column journal, identifying each entry by letter:
- (a) Received \$12,000 from Katie Long, owner.
  - (b) Purchased equipment for \$25,000, paying \$10,000 in cash and giving a note payable for the remainder.
  - (c) Paid \$1,800 for rent for April.
  - (d) Purchased \$9,800 of supplies on account.
  - (e) Recorded \$2,250 of fees earned on account.
  - (f) Received \$9,000 in cash for fees earned.
  - (g) Paid \$300 to creditors on account.
  - (h) Paid wages of \$1,650.
  - (i) Received \$1,190 from customers on account.
  - (j) Recorded owner's withdrawal of \$2,350.

ANS:

(a)	Cash	12,000	
	Katie Long, Capital		12,000
(b)	Equipment	25,000	
	Cash		10,000
	Notes Payable		15,000
(c)	Rent Expense	1,800	
	Cash		1,800
(d)	Supplies	9,800	
	Accounts Payable		9,800
(e)	Accounts Receivable	2,250	
	Fees Earned		2,250
(f)	Cash	9,000	
	Fees Earned		9,000
(g)	Accounts Payable	300	
	Cash		300
(h)	Wages Expense	1,650	
	Cash		1,650
(i)	Cash	1,190	
	Accounts Receivable		1,190
(j)	Katie Long, Drawing	2,350	
	Cash		2,350

PTS: 1                   DIF: Difficult           OBJ: 02-02

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

6. All nine transactions for Dalton Survey Company for September, the first month of operations, are recorded in the following T accounts:

Cash	Michael Dalton, Capital
(1) 20,000 (7) 6,900 (9) 4,700	(3) 7,500 (5) 2,600 (6) 5,500 (8) 2,000
(4) 4,900	(1) 20,000
(9) 4,700	(8) 2,000
(3) 7,500	(4) 4,900 (7) 6,900
(2) 4,500	(6) 5,500
(5) 2,600	
(2) 4,500	
(5) 2,600	

Indicate the following for each debit and each credit:

- (a) The type of account affected (asset, liability, capital, drawing, revenue, or expense).
- (b) The effect on the account, using + for increase and - for decrease.

Present your answers in the following form:

Transaction	<u>Account Debited</u>		<u>Account Credited</u>	
	<u>Type</u>	<u>Effect</u>	<u>Type</u>	<u>Effect</u>

ANS:

Transaction	<u>Account Debited</u>		<u>Account Credited</u>	
	<u>Type</u>	<u>Effect</u>	<u>Type</u>	<u>Effect</u>
(1)	asset	+	capital	+
(2)	asset	+	liability	+
(3)	asset	+	asset	-
(4)	asset	+	revenue	+
(5)	liability	-	asset	-
(6)	expense	+	asset	-
(7)	asset	+	revenue	+
(8)	drawing	+	asset	-
(9)	asset	+	asset	-

PTS: 1      DIF: Difficult      OBJ: 02-01 | 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

7. On January 12th, JumpStart Co. purchased \$870 in office supplies.  
 (a) Journalize this transaction as if JumpStart paid cash.

(b) (1) Journalize this transaction as if JumpStart placed it on account.

(b) (2) On January 18th, JumpStart pays the amount due. Journalize this event.

ANS:

- (a) Journalize this transaction as if JumpStart paid cash.

Jan 12	Office Supplies	870	
	Cash		870

- (b)(1) Journalize this transaction as if JumpStart placed it on account.

Jan 12	Office Supplies	870	
	Accounts Payable		870

- (b)(2) On January 18th, JumpStart pays the amount due. Journalize this event.

Jan 18	Accounts Payable	870	
	Cash		870

PTS: 1                    DIF: Moderate            OBJ: 02-02

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

8. On December 1st, JumpStart Company provides \$2,800 in services to clients.

(a) Journalize this event as if the clients had paid cash at the time the services were rendered.

(b)(1) Journalize this event as if the clients had placed this on account.

(b)(2) Assume that the clients paid \$1,200 of the amount on account on December 30th. Journalize this transaction.

ANS:

(a) December 1	Cash	2,800	
	Fees Earned		2,800

(b)(1) December 1	Accounts Receivable	2,800	
	Fees Earned		2,800

(b)(2) December 30	Cash	1,200	
	Accounts Receivable		1,200

PTS: 1                    DIF: Moderate            OBJ: 02-02

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

9. On November 10th, JumpStart Co. provides \$2,900 in services to clients. At the time of service, the clients paid \$600.00 in cash and put the balance on account.

(a) Journalize this event.

(b) On November 20th, JumpStart Co. clients paid an additional \$900 on their accounts due. Journalize this event.

(c) Calculate the amount on accounts receivable on November 30th.





ANS:

Date	Description	Post Ref	Debit	Credit
April 1	Cash		14,000	
	Capital, Owner			14,000
April 2	Cash		9,500	
	Revenues			9,500
April 3	Accounts Receivable		4,200	
	Revenues			4,200
April 4	Advertising Expense		700	
	Cash			700
April 5	Cash		2,500	
	Accounts Receivable			2,500
April 6	Withdrawal		1,010	
	Cash			1,010
April 7	Telephone Expense		900	
	Accounts Payable			900
April 8	Accounts Payable		900	
	Cash			900

PTS: 1                    DIF: Moderate            OBJ: 02-02

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

11. Analyze the following transactions as to their effect on the accounting equation.

- (a) The company paid \$725 to a vendor for supplies purchased previously on account.
- (b) The company performed \$850 of services and billed the customer.
- (c) The company received a utility bill for \$395 and will pay it next month.
- (d) The owner of the company withdrew \$145 of supplies for personal use.
- (e) The company paid \$315 in salaries to its employees.
- (f) The company collected \$730 of cash from its customers on account.

Some of the possible effects of a transaction on the accounting equation are listed below:

- (1) Asset, dr.; Asset, cr.
- (2) Asset, dr.; Owner's Equity, cr.
- (3) Asset, dr.; Liability, cr.
- (4) Asset, dr.; Revenue, cr.
- (5) Liability, dr.; Assets, cr.
- (6) Drawing, dr.; Asset, cr.
- (7) Expense, dr.; Assets, cr.
- (8) Expense, dr.; Liability, cr.

Put the appropriate letter next to each transaction.

ANS:

Transaction	Effect on the accounting equation
(a)	5
(b)	4
(c)	8
(d)	6
(e)	7
(f)	1

PTS: 1                    DIF: Difficult                    OBJ: 02-02  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

12. Set up T accounts for Cash; Accounts Receivable; Supplies; Accounts Payable; Clay Potter, Capital; Clay Potter, Drawing; Professional Fees; and Operating Expenses.

(a) In the T accounts, record the following transactions of Potter Pool Services for June, 2011, identifying each entry by number:

- (1) Potter invested \$12,500 cash in the business.
- (2) Purchased supplies on account, \$6,250.
- (3) Paid operating expenses, \$5,500.
- (4) Billed clients for fees, \$7,440.
- (5) Received cash from cash clients, \$4,700.
- (6) Paid creditors on account, \$1,400.
- (7) Received \$3,100 from clients on account.
- (8) Withdrew \$1,500 cash for personal use.

(b) Prepare a trial balance as of June 30, 2011 for Potter Pool Services.

(c) Assuming that supplies expense (which has not been recorded) amounts to \$1,500 for June, determine the following:

- (1) Net income for the month.
- (2) Owner's equity as of June 30.

ANS:

(a)

Cash		Clay Potter, Capital	
(1)	12,500	(3)	5,500
(5)	4,700	(6)	1,400
(7)	3,100	(8)	1,500
Accounts Receivable		Clay Potter, Drawing	
(4)	7,440	(8)	1,500
(7)	3,100		
Supplies		Professional Fees	
(2)	6,250	(4)	7,440
		(5)	4,700
Accounts Payable		Operating Expenses	
(6)	1,400	(3)	5,500
(2)	6,250		

(b)

Potter Pool Services  
Trial Balance  
June 30, 2011

Cash	11,900	
Accounts Receivable	4,340	
Supplies	6,250	
Accounts Payable		4,850
Clay Potter, Capital		12,500
Clay Potter, Drawing	1,500	
Professional Fees		12,140
Operating Expenses	<u>5,500</u>	
	<u>29,490</u>	<u>29,490</u>

- (c) (1) \$5,140 (\$12,140 - \$5,500 - \$1,500)  
 (2) \$16,140 (\$12,500 + \$5,140 - \$1,500)

PTS: 1                    DIF: Difficult                    OBJ: 02-02 | 02-03 | 02-04  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

13. Prepare a trial balance, listing the following accounts in proper sequence. The accounts (all normal balances) were taken from the ledger of Sophie Designs Co. on April 30, 2010.

Accounts Payable	\$ 4,100	Rent Expense	\$11,500
Accounts Receivable	3,450	Salary Expense	14,000
Cash	7,375	Fees Earned	54,100
Sophie Dawson, Capital	17,800	Supplies	3,125
Sophie Dawson, Drawing	15,500	Supplies Expense	1,700
Equipment	14,500	Utilities Expense	4,000
Miscellaneous Expense	850		

ANS:

Sophie Designs  
Trial Balance  
April 30, 2010

Cash	7,375	
Accounts Receivable	3,450	
Supplies	3,125	
Equipment	14,500	
Accounts Payable		4,100
Sophie Dawson, Capital		17,800
Sophie Dawson, Drawing	15,500	
Fees Earned		54,100
Salary Expense	14,000	
Rent Expense	11,500	
Utilities Expense	4,000	
Supplies Expense	1,700	
Miscellaneous Expense	<u>850</u>	
	<u>76,000</u>	<u>76,000</u>

PTS: 1                    DIF: Moderate            OBJ: 02-04  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

**Exhibit 2-1**

All nine transactions for Ralston Sports Co. for September 2011, the first month of operations, are recorded in the following T accounts:

<table style="width: 100%; border-collapse: collapse;"> <tr><th colspan="2" style="text-align: center; border-top: 1px solid black; border-bottom: 1px solid black;">Cash</th></tr> <tr><td style="width: 50%;">(1)      25,000</td><td style="width: 50%;">(3)      12,500</td></tr> <tr><td>(7)      11,900</td><td>(5)      7,600</td></tr> <tr><td>(9)      9,700</td><td>(6)      10,500</td></tr> <tr><td></td><td>(8)      7,000</td></tr> </table>	Cash		(1)      25,000	(3)      12,500	(7)      11,900	(5)      7,600	(9)      9,700	(6)      10,500		(8)      7,000	<table style="width: 100%; border-collapse: collapse;"> <tr><th colspan="2" style="text-align: center; border-top: 1px solid black; border-bottom: 1px solid black;">James Ralston, Capital</th></tr> <tr><td style="width: 50%;"></td><td style="width: 50%;">(1)      25,000</td></tr> </table>	James Ralston, Capital			(1)      25,000
Cash															
(1)      25,000	(3)      12,500														
(7)      11,900	(5)      7,600														
(9)      9,700	(6)      10,500														
	(8)      7,000														
James Ralston, Capital															
	(1)      25,000														
<table style="width: 100%; border-collapse: collapse;"> <tr><th colspan="2" style="text-align: center; border-top: 1px solid black; border-bottom: 1px solid black;">Accounts Receivable</th></tr> <tr><td style="width: 50%;">(4)      9,900</td><td style="width: 50%;">(9)      9,700</td></tr> </table>	Accounts Receivable		(4)      9,900	(9)      9,700	<table style="width: 100%; border-collapse: collapse;"> <tr><th colspan="2" style="text-align: center; border-top: 1px solid black; border-bottom: 1px solid black;">James Ralston, Drawing</th></tr> <tr><td style="width: 50%;">(8)      7,000</td><td style="width: 50%;"></td></tr> </table>	James Ralston, Drawing		(8)      7,000							
Accounts Receivable															
(4)      9,900	(9)      9,700														
James Ralston, Drawing															
(8)      7,000															
<table style="width: 100%; border-collapse: collapse;"> <tr><th colspan="2" style="text-align: center; border-top: 1px solid black; border-bottom: 1px solid black;">Supplies</th></tr> <tr><td style="width: 50%;">(3)      12,500</td><td style="width: 50%;"></td></tr> </table>	Supplies		(3)      12,500		<table style="width: 100%; border-collapse: collapse;"> <tr><th colspan="2" style="text-align: center; border-top: 1px solid black; border-bottom: 1px solid black;">Fees Earned</th></tr> <tr><td style="width: 50%;"></td><td style="width: 50%;">(4)      9,900</td></tr> <tr><td></td><td>(7)      11,900</td></tr> </table>	Fees Earned			(4)      9,900		(7)      11,900				
Supplies															
(3)      12,500															
Fees Earned															
	(4)      9,900														
	(7)      11,900														
<table style="width: 100%; border-collapse: collapse;"> <tr><th colspan="2" style="text-align: center; border-top: 1px solid black; border-bottom: 1px solid black;">Equipment</th></tr> <tr><td style="width: 50%;">(2)      9,500</td><td style="width: 50%;"></td></tr> </table>	Equipment		(2)      9,500		<table style="width: 100%; border-collapse: collapse;"> <tr><th colspan="2" style="text-align: center; border-top: 1px solid black; border-bottom: 1px solid black;">Operating Expense</th></tr> <tr><td style="width: 50%;">(6)      10,500</td><td style="width: 50%;"></td></tr> </table>	Operating Expense		(6)      10,500							
Equipment															
(2)      9,500															
Operating Expense															
(6)      10,500															
<table style="width: 100%; border-collapse: collapse;"> <tr><th colspan="2" style="text-align: center; border-top: 1px solid black; border-bottom: 1px solid black;">Accounts Payable</th></tr> <tr><td style="width: 50%;">(5)      7,600</td><td style="width: 50%;">(2)      9,500</td></tr> </table>	Accounts Payable		(5)      7,600	(2)      9,500											
Accounts Payable															
(5)      7,600	(2)      9,500														

14. Refer to **Exhibit 2-1**. Prepare a trial balance, listing the accounts in their proper order.

ANS:

Ralston Sports Company			
Trial Balance			
September 30, 2011			
Cash	9,000		
Accounts Receivable	200		
Supplies	12,500		
Equipment	9,500		
Accounts Payable		1,900	
James Ralston, Capital		25,000	
James Ralston, Drawing	7,000		
Fees Earned		21,800	
Operating Expense	<u>10,500</u>		
	<u>48,700</u>		
			<u>48,700</u>

PTS: 1                    DIF: Easy                    OBJ: 02-04  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

- 15.
- List the errors in the following trial balance. All accounts have normal balances.
  - What would be the new balance of the trial balance after errors are corrected? What would be the balance of Accounts Receivable?

Winslow's Auto Body  
Trial Balance  
For Month Ending April 30, 2011

Cash		19,475
Accounts Receivable	?	
Supplies		1,000
Equipment	15,000	
Prepaid Insurance		500
Accounts Payable		2,500
Thad Winslow, Capital	17,000	
Thad Winslow, Drawing		1,000
Fees Earned		49,600
Salary Expense	14,500	
Rent Expense		9,000
Utilities Expense	1,400	
Supplies Expense	3,900	
Miscellaneous Expense	<u>250</u>	
	<u>55,000</u>	<u>81,575</u>

ANS:

- In the heading, the date should be April 30, 2011; not for a period of time.
  - The cash balance should be a debit.
  - Thad Winslow, Capital should be a credit.
  - The supplies account should be a debit.
  - Prepaid Insurance should be a debit and follow Accounts Receivable.
  - Thad Winslow, Drawing should be a debit.
  - Rent Expense should be a debit.
  - The trial balance does not balance.
- The new balance for credits would be accounts payable \$2,500 + fees earned \$49,600 + \$17,000 for capital = \$69,100. Accounts receivable would be \$69,100 (total credits) - \$66,025 (corrected debits) = \$3,075

PTS: 1                      DIF: Difficult                      OBJ: 02-04  
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

16. Answer the following questions for each of the errors listed below, considered individually:
- Did the error cause the trial balance totals to be unequal?
  - What is the amount of the difference between the trial balance totals (where applicable)?
  - Which of the trial balance totals, debit or credit, is the larger (where applicable)?

Present your answers in columnar form, using the following headings:

<u>Error</u> (identifying number)	<u>Totals</u> (equal or unequal)	<u>Difference in Totals</u> (amount)	<u>Larger of Totals</u> (debit or credit)
--------------------------------------	-------------------------------------	---	--

Errors:

- (1) A withdrawal of \$3,000 cash by the owner was recorded by a debit of \$3,000 to Salary Expense and a credit of \$3,000 to Cash.
- (2) A \$650 purchase of supplies on account was recorded as a debit of \$1,650 to Equipment and a credit of \$1,650 to Accounts Payable.
- (3) A purchase of equipment for \$3,450 on account was not recorded.
- (4) A \$870 receipt on account was recorded as a \$870 debit to Cash and a \$780 credit to Accounts Receivable.
- (5) A payment of \$1,530 cash on account was recorded only as a credit to Cash.
- (6) Cash sales of \$8,500 were recorded as a credit of \$8,500 to Cash and a credit of \$8,500 to Fees Earned.
- (7) The debit to record a \$4,000 cash receipt on account was posted twice; the credit was posted once.
- (8) The credit to record an \$300 cash payment on account was posted twice; the debit was posted once.
- (9) The debit balance of \$7,400 in Accounts Receivable was recorded in the trial balance as a debit of \$7,200.

ANS:

<u>Error</u>	<u>Totals</u>	<u>Difference in Totals</u>	<u>Larger of Totals</u>
(1)	equal	----	----
(2)	equal	----	----
(3)	equal	----	----
(4)	unequal	\$ 90	debit
(5)	unequal	1,530	credit
(6)	unequal	17,000	credit
(7)	unequal	4,000	debit
(8)	unequal	300	credit
(9)	unequal	200	credit

PTS: 1                    DIF: Difficult                    OBJ: 02-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-05-Accounting Cycle

17. The bookkeeper for Brockton Industries prepared the following journal entries and posted the entries to the general ledger as indicated in the T accounts presented. Assume that the dollar amounts and the descriptions of the entries are correct.

**Journal entries:**

July 3	Accounts Receivable	1,000	
	Service Revenue		1,000
	Customers were billed for services completed.		
11	Cash	500	
	Service Revenue		500
	Payment is received from a customer billed for services on July 1.		
12	Office Supplies	600	
	Accounts Payable		600
	Purchased office furniture on credit; payment is due in 30 days.		
25	Office Furniture	700	
	Cash		700
	Payment is made for office furniture received on July 25.		

<u>ACCOUNTS RECEIVABLE</u>			
7/3	1,000		

<u>SERVICE REVENUE</u>			
7/3	1,000		
			7/11 500

<u>CASH</u>			
7/11	500		7/25 700

<u>ACCOUNTS PAYABLE</u>			
7/12	600		

<u>OFFICE SUPPLIES</u>			
7/12	600		

<u>OFFICE FURNITURE</u>			
7/25	700		

**Required:** If you assume that all journal entries have been recorded correctly, use the above information to:

- (1) Identify the postings to the general ledger that were made incorrectly.
- (2) Describe how the each incorrect posting should have been made.

ANS:

- (1) The bookkeeper incorrectly posted the July 3, July 11 and 12 journal entries.
- (2) For the July 3 journal entry, the \$1,000 credit to Service Revenue should have been posted to the Service Revenue account as a credit, not as a debit. For the July 11 journal entry, the \$500 credit should be posted to Accounts Receivable, not to Service Revenue. For the July 12 journal entry, the \$600 credit to Accounts Payable should have been posted to the Accounts Payable account as a credit, not as a debit. The debit side of the entry should have been made to Office Furniture, not Office Supplies.

PTS: 1                      DIF: Difficult                      OBJ: 02-03  
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions