Horngrens Financial and Managerial Accounting 6th edition Miller Nobles Test Bank

SKU: 9780134486833-TEST-BANK

Horngren's Financial and Managerial Accounting, 6e **(Miller-Nobles)**
Chapter 2 Recording Business Transactions

2.1 Learning Objective 2-1

1) An account is a detailed record of all increases and decreases that have occurred in an individual asset, liability, or equity during a specific period.
Answer: TRUE
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is an Account? (H1)

2) The accounting equation is made up of four parts or categories.
Answer: FALSE
Explanation: The accounting equation is made up of three parts or categories: assets, liabilities, and equity.
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is an Account? (H1)

3) Each category of the accounting equation contains accounts.
Answer: TRUE
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is an Account? (H1)

4) Which is a true statement regarding the accounting equation?
A) The equation can be stated as assets minus liabilities equals equity.
B) The equation consists of three parts: assets, liabilities, and net income.
C) The equation is an optional tool for accountants to use.
D) The equation does not need to balance during a specific period.
Answer: A
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is an Account? (H1)

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5) Which of the following statements regarding the accounting equation is *incorrect*?
A) The equation is the basic tool of accounting.
B) The equation consists of three categories: assets, liabilities, and equity.
C) Each category of the accounting equation contains accounts.
D) The equation can be stated as assets plus liabilities equals equity.
Answer: D
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is an Account? (H1)

6) A payment of an expense in advance is called a prepaid expense.
Answer: TRUE
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets

7) An accounts receivable requires the business to pay cash in the future.
Answer: FALSE
Explanation: An accounts receivable represents a customer's promise to pay in the future for services or goods sold.
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets

8) An accounts receivable is often described as a sale "on account."
Answer: TRUE
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets

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9) A note receivable represents an oral promise that a customer will pay a fixed amount of money and interest by a certain date in the future.
Answer: FALSE
Explanation: A note receivable represents a *written* promise that a customer will pay a fixed amount of money and interest by a certain date in the future.
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets

10) The account title used for recording the payment of rent in advance for an office building is _____.
A) Prepaid Rent
B) Rent Payable
C) Rent Revenue
D) Rent Expense
Answer: A
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets

11) The account title used for recording a *written* promise that a customer will pay the business a fixed amount of money and interest by a certain date in the future is _____.
A) Prepaid Note
B) Notes Payable
C) Notes Receivable
D) Accounts Receivable
Answer: C
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets

12) Which of the following is an asset account?
A) Wages Payable
B) Notes Payable
C) Unearned Revenue
D) Accounts Receivable
Answer: D
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Assets

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13) A customer's promise to pay in the future for services or goods sold is called a(n) _____.
A) Accounts Receivable
B) Accounts Payable
C) Unearned Revenue
D) Notes Payable
Answer: A
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets

14) Which of the following accounts is an asset?
A) Salaries Expense
B) Accounts Payable
C) Service Revenue
D) Prepaid Expense
Answer: D
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Assets

15) Which of the following is classified as an asset account?
A) Prepaid Insurance
B) Notes Payable
C) Dividends
D) Unearned Revenue
Answer: A
Diff: 2
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Assets

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16) Provide an explanation for each of the follow asset accounts.

Account Name	Explanation
Accounts Receivable	
Prepaid Expense	
Notes Receivable	

Answer:

Account Name	Explanation
Accounts Receivable	A customer's promise to pay in the future for services or goods sold. Often described as "On Account."
Prepaid Expense	A payment of an expense in advance. It is considered an asset because the prepayment provides a benefit in the future.
Notes Receivable	A written promise that a customer will pay a fixed amount of money and interest by a certain date in the future. Often more formal than an Accounts Receivable.

Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets

17) Liabilities are economic resources that are expected to benefit the business in the future.
Answer: FALSE
Explanation: A liability is something the business owes.
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

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18) A payable involves a future receipt of cash.
Answer: FALSE
Explanation: A payable involves a future payment of cash.
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

19) Unearned Revenue is a liability account.
Answer: TRUE
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

20) Prepaid Rent is a liability account.
Answer: FALSE
Explanation: Prepaid Rent is an asset account.
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

21) _____ represents a debt owed for renting a building.
A) Prepaid Rent
B) Rent Payable
C) Rent Revenue
D) Rent Expense
Answer: B
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

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22) Which of the following is a liability account?
A) Prepaid Advertising
B) Cash
C) Building
D) Unearned Rent
Answer: D
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Liabilities

23) Which of the following is a liability account?
A) Accounts Payable
B) Prepaid Expense
C) Salaries Expense
D) Service Revenue
Answer: A
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Liabilities

24) A liability created when a business receives cash from customers in advance of providing services or delivering goods is called a(n) _____.
A) notes receivable
B) unearned revenue
C) accrued liability
D) service revenue
Answer: B
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

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25) Which of the following is a liability account?
A) Service Revenue
B) Building
C) Prepaid Rent
D) Unearned Revenue
Answer: D
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Liabilities

26) Provide an explanation for each of the follow liability accounts.

Account Name	Explanation
Accounts Payable	
Accrued Liability	
Unearned Revenue	

Answer:

Account Name	Explanation
Accounts Payable	A promise made by the business to pay a debt in the future. Arises from a credit purchase of goods or services.
Accrued Liability	An amount owed but not paid.
Unearned Revenue	Occurs when a company receives cash from a customer but has not provided the product or service. The promise to provide services or deliver goods in the future.

Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

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27) Explain the difference between Accounts Receivable and Accounts Payable.
Answer: Accounts Receivable is an asset account that represents a customer's promise to pay in the future for services or goods sold.

Accounts Payable is a liability account that represents a promise to pay a debt in the future which arises from the credit purchase of goods or services.

Both are described as "on account."
Diff: 2
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets, Liabilities

28) Explain the difference between Prepaid Rent and Unearned Revenue.
Answer: Prepaid Rent is an asset account that represents the payment of rent expense in advance. It is considered an asset because the prepayment provides a benefit in the future.

Unearned Revenue is a liability account that occurs when a company receives cash before providing a service or delivering a good. The company owes a service or good to the customer or a refund, thus making this a liability.
Diff: 2
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets, Liabilities

29) The stockholders' claim to the assets of a business is called equity or stockholders' equity.
Answer: TRUE
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

30) Dividends and expenses increase equity.
Answer: FALSE
Explanation: Dividends and expenses decrease equity.
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

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31) Revenues and stockholders' contributions in the business increase equity.
Answer: TRUE
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

32) Saturn, Inc. paid the rent for the current month in cash. Which of the following accounts will be used to record the transaction?
A) Prepaid Rent
B) Rent Payable
C) Rent Revenue
D) Rent Expense
Answer: D
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Equity

33) Amounts earned from delivering goods or services to customers are called _____.
A) notes receivable
B) unearned revenues
C) equity
D) revenues
Answer: D
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

34) Common Stock is a separate account in the _____ category of the accounting equation.
A) equity
B) asset
C) liability
D) revenue
Answer: A
Diff: 2
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

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35) Consider the following accounts and identify each as an asset (A), liability (L), or equity (E).

Common Stock	
Accounts Receivable	
Dividends	
Service Revenue	
Prepaid Rent	

Answer:

Common Stock	E
Accounts Receivable	A
Dividends	E
Service Revenue	E
Prepaid Rent	A

Diff: 2
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Assets, Liabilities, Equity

36) Consider the following accounts and identify each as an asset (A), liability (L), or equity (E).

Dividends	
Unearned Revenue	
Office Supplies	
Rent Expense	
Retained Earnings	

Answer:

Dividends	E
Unearned Revenue	L
Office Supplies	A
Rent Expense	E
Retained Earnings	E

Diff: 2
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Assets, Liabilities, Equity

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37) Consider the following accounts and identify each as an asset (A), liability (L), or equity (E).

Retained Earnings	
Unearned Revenue	
Building	
Interest Revenue	
Prepaid Advertising	

Answer:

Retained Earnings	E
Unearned Revenue	L
Building	A
Interest Revenue	E
Prepaid Advertising	A

Diff: 2
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Assets, Liabilities, Equity

38) A chart of accounts is a detailed record of the changes in a particular asset, liability, or equity account during a specified period.
Answer: FALSE
Explanation: A chart of accounts is a list of all of a company's accounts with their account numbers.
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Chart of Accounts

39) A chart of accounts is a list of all of a company's accounts with their account numbers.
Answer: TRUE
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Chart of Accounts

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40) The account names in the chart of accounts are standardized and thus are the same for all businesses.
Answer: FALSE
Explanation: The chart of accounts varies from business to business, though many account names are common to all companies.
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Chart of Accounts

41) Which of the following is provided in a typical chart of accounts?
A) Account balance
B) Account number
C) Dates of transactions
D) Transaction amounts
Answer: B
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Chart of Accounts

42) A listing of all accounts in numerical order is called a(n) _____.
A) Ledger
B) Journal
C) Income statement
D) Chart of accounts
Answer: D
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Chart of Accounts

43) Companies use a ledger to show all of the increases and decreases in each account along with their balances.
Answer: TRUE
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ledger

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44) A chart of accounts provides more detail than a ledger.
Answer: FALSE
Explanation: The ledger provides more detail than a chart of accounts.
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ledger

45) Which of the following is the record holding all the accounts, the changes in those accounts, and their balances?
A) Source document
B) Journal
C) Ledger
D) Trial balance
Answer: C
Diff: 1
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ledger

46) Regarding the ledger, which of the following statements is *incorrect*?
A) Both the chart of accounts and the ledger list the account names and numbers of the business.
B) Companies use the ledger to fulfill the task of showing all of the increases and decreases in each account.
C) Both the chart of accounts and the ledger provide the balance of each account at a specific point in time.
D) The ledger provides more detail than the chart of accounts.
Answer: C
Diff: 2
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ledger

47) Both the chart of accounts and the ledger _____.
A) provide the balance of each account at a specific point in time
B) list the account names and numbers of the business
C) fulfill the task of showing all of the increases and decreases in each account
D) All of the statements are correct.
Answer: B
Diff: 2
LO: 2-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ledger

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2.2 Learning Objective 2-2

1) The system of accounting in which every transaction affects at least two accounts is called the double-entry system.
Answer: TRUE
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is Double-Entry Accounting? (H1)

2) The accounting analysis system is used to record the dual effects of each transaction.
Answer: FALSE
Explanation: The double-entry system is used to record the dual effects of each transaction.
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is Double-Entry Accounting? (H1)

3) Regarding the double-entry system, which of the following statements is *incorrect*?
A) A transaction would be incomplete if only one side were recorded.
B) Because of technology, the use of the double-entry system of accounting is optional.
C) The double-entry system is a system of accounting in which every transaction affects at least two accounts.
D) If office supplies are purchased on account, the account Office Supplies increases and the account Accounts Payable increases.
Answer: B
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is Double-Entry Accounting? (H1)

4) Debit refers to the right side of the T-account, and credit refers to the left side.
Answer: FALSE
Explanation: Debit refers to the left side of the T-account, and credit refers to the right side.
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The T-Account

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5) A T-account is a summary device with credits posted on the left side of the vertical line.
Answer: FALSE
Explanation: Credits are posted on the right side of the vertical line.
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The T-Account

6) Debit is abbreviated as DE and Credit is abbreviated as CR.
Answer: FALSE
Explanation: Debit is abbreviated as DR and Credit is abbreviated as CR.
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The T-Account

7) The left side of the T-account for Accounts Receivable is the debit side and the left side of the T-account for Accounts Payable is the credit side.
Answer: FALSE
Explanation: The left-side of the T-account is always the debit side.
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The T-Account

8) The T-account is a summary device that is shaped like a capital T with debits posted on the right side of the vertical line and credits posted on the left side of the vertical line.
Answer: FALSE
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The T-Account

9) The T-account is a summary device that is shaped like a capital T with debits posted on the left side of the vertical line and credits posted on the right side of the vertical line.
Answer: TRUE
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The T-Account

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10) Regarding T-accounts, which of the following statements is correct?
A) A T-account is a more detailed form of an account in the journal.
B) The right side of a T-account is a debit for asset accounts and a credit for equity accounts.
C) Debits are posted on the right side of the vertical line.
D) A T-account is a summary device with credits posted on the right side of the vertical line.
Answer: D
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The T-Account

11) A shortened form of the ledger is called a _____.
A) working account
B) summary account
C) chart of accounts
D) T-account
Answer: D
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The T-Account

12) An asset account is increased by a debit.
Answer: TRUE
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Increases and Decreases in the Accounts

13) A liability account is increased by a debit.
Answer: FALSE
Explanation: A liability account is increased by a credit.
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Increases and Decreases in the Accounts

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14) A debit always means a decrease, and a credit always means an increase.
Answer: FALSE
Explanation: Debit always means left and credit always means right.
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Increases and Decreases in the Accounts

15) Which of the following accounts decreases with a debit?
A) Accounts Receivable
B) Notes Payable
C) Cash
D) Rent Expense
Answer: B
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Increases and Decreases in the Accounts

16) "All debits are increases and all credits are decreases." Is this a correct statement? Explain your answer.
Answer: This is not a correct statement. The double entry-system of accounting is a system of accounting in which every transaction affects at least two accounts. As transactions are analyzed and recorded, the rules of debits and credits keep the accounting equation in balance. Assets, expenses and dividends are increased with a debit and decreased with a credit. Liabilities, revenues, and common stock are increased with a credit and decreased with a debit.
Diff: 2
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Increases and Decreases in the Accounts

17) The Common Stock account is increased by a debit.
Answer: FALSE
Explanation: The Common Stock account is increased by a credit.
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Expanding the Rules of Debit and Credit

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18) The Dividends account is increased by a debit.
Answer: TRUE
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Expanding the Rules of Debit and Credit

19) All asset accounts and equity accounts increase with a debit.
Answer: FALSE
Explanation: Equity accounts increase with a credit.
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Expanding the Rules of Debit and Credit

20) The balances in the liability and revenue accounts are increased with a credit.
Answer: TRUE
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Expanding the Rules of Debit and Credit

21) Which of the following accounts increases with a credit?
A) Dividends
B) Common Stock
C) Accounts Receivable
D) Prepaid Expense
Answer: B
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Expanding the Rules of Debit and Credit

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22) Which of the following accounts decreases with a credit?
A) Cash
B) Common Stock
C) Accounts Payable
D) Unearned Revenue
Answer: A
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Expanding the Rules of Debit and Credit

23) Which of the following accounts increases with a debit?
A) Prepaid Rent
B) Interest Payable
C) Accounts Payable
D) Common Stock
Answer: A
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Expanding the Rules of Debit and Credit

24) Which one of the following account groups will decrease with a debit?
A) assets and expenses
B) revenues and expenses
C) liabilities and revenues
D) assets and liabilities
Answer: C
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Expanding the Rules of Debit and Credit

25) Which of the following statements is true of expenses?
A) Expenses increase equity, so an expense account's normal balance is a credit balance.
B) Expenses decrease equity, so an expense account's normal balance is a credit balance.
C) Expenses increase equity, so an expense account's normal balance is a debit balance.
D) Expenses decrease equity, so an expense account's normal balance is a debit balance.
Answer: D
Diff: 2
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Normal Balance of an Account

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26) An account that normally has a debit balance may occasionally have a credit balance.
Answer: TRUE
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Normal Balance of an Account

27) The normal balance of an account is the increase side of the account.
Answer: TRUE
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Normal Balance of an Account

28) Which one of the following account groups normally has a credit balance?
A) assets and liabilities
B) equity and assets
C) liabilities and revenues
D) assets and expenses
Answer: C
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Normal Balance of an Account

29) Which one of the following account groups normally has a debit balance?
A) assets and expenses
B) revenues and expenses
C) liabilities and revenues
D) assets and liabilities
Answer: A
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Normal Balance of an Account

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30) Accounts Receivable is a(n) _____ account and has a normal _____ balance.
A) liability; debit
B) asset; debit
C) liability; credit
D) asset; credit
Answer: B
Diff: 2
LO: 2-2
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Normal Balance of an Account

31) Accounts Payable is a(n) _____ account and has a normal _____ balance.
A) liability; debit
B) asset; debit
C) liability; credit
D) asset; credit
Answer: C
Diff: 2
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Normal Balance of an Account

32) Prepaid Rent is a(n) _____ account and has a normal _____ balance.
A) asset; debit
B) liability; credit
C) liability; debit
D) asset; credit
Answer: A
Diff: 2
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Normal Balance of an Account

33) Which of the following statements is true of the Common Stock account?
A) It is an equity account that has a normal credit balance.
B) It is a liability account that has a normal credit balance.
C) It is a liability account that has a normal debit balance.
D) It is an equity account that has a normal debit balance.
Answer: A
Diff: 2
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Normal Balance of an Account

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34) For Office Supplies, the category of account and its normal balance is _____.
A) liabilities and a debit balance
B) assets and a debit balance
C) liabilities and a credit balance
D) assets and a credit balance
Answer: B
Diff: 2
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Normal Balance of an Account

35) The Salaries Payable account is a(n) _____.
A) liability account with a normal debit balance
B) asset account with a normal debit balance
C) liability account with a normal credit balance
D) asset account with a normal credit balance
Answer: C
Diff: 2
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Normal Balance of an Account

36) For expenses, the category of account and its normal balance is _____.
A) equity and a credit balance
B) assets and a debit balance
C) assets and a credit balance
D) equity and a debit balance
Answer: D
Diff: 2
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Normal Balance of an Account

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37) For revenues, the category of account and its normal balance is _____.
A) equity and a credit balance
B) assets and a debit balance
C) assets and a credit balance
D) equity and a debit balance
Answer: A
Diff: 2
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Normal Balance of an Account

38) For Retained Earnings, the category of account and its normal balance is _____.
A) equity and a credit balance
B) assets and a debit balance
C) equity and a debit balance
D) assets and a credit balance
Answer: A
Diff: 2
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Normal Balance of an Account

39) Dividends is a(n) _____ account that has a normal _____ balance.
A) liability; credit
B) equity; debit
C) liability; debit
D) equity; credit
Answer: B
Diff: 2
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Normal Balance of an Account

40) Which of the following statements is true of revenues?
A) Revenues decrease equity, so a revenue account's normal balance is a credit balance.
B) Revenues decrease equity, so a revenue account's normal balance is a debit balance.
C) Revenues increase equity, so a revenue account's normal balance is a debit balance.
D) Revenues increase equity, so a revenue account's normal balance is a credit balance.
Answer: D
Diff: 2
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Normal Balance of an Account

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41) State whether the normal balance of each of the following accounts is a debit or credit.

Account	Normal Balance
Service Revenue	
Dividends	
Accounts Payable	
Prepaid Insurance	

Answer:

Account	Normal Balance
Service Revenue	Credit
Dividends	Debit
Accounts Payable	Credit
Prepaid Insurance	Debit

Diff: 2
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Normal Balance of an Account

42) State whether the normal balance of each of the following accounts is a debit or credit.

Account	Normal Balance
Common Stock	
Accounts Receivable	
Salaries Expense	
Unearned Revenue	

Answer:

Account	Normal Balance
Common Stock	Credit
Accounts Receivable	Debit
Salaries Expense	Debit
Unearned Revenue	Credit

Diff: 2
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Normal Balance of an Account

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43) In reviewing the T-account for Accounts Receivable, you find that the beginning balance is zero, the total increases are $5,200 and the total decreases are $2,400. This means that the ending balance of the account is a credit balance of $2,800.
Answer: FALSE
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Determining the Balance of a T-Account

44) In reviewing the T-account for Accounts Payable, you find that the beginning balance is zero, the total increases are $7,900 and the total decreases are $4,200. This means that the ending balance of the account is a credit balance of $3,700.
Answer: TRUE
Diff: 1
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Determining the Balance of a T-Account

45) The Accounts Receivable account of Brownstone, Inc. has the following postings:

Accounts Receivable	
23,000	3,000
2,000	

Calculate the ending balance of the account.
A) $28,000 debit
B) $25,000 debit
C) $3,000 credit
D) $22,000 debit
Answer: D
Diff: 2
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Determining the Balance of a T-Account

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46) The Accounts Payable account of Waterford, Inc. has the following postings:

Accounts Receivable	
17,000	27,000
8,000	12,000

Calculate the ending balance of the account.
A) $12,000 credit
B) $14,000 debit
C) $14,000 credit
D) $8,000 debit
Answer: C
Diff: 2
LO: 2-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Determining the Balance of a T-Account

2.3 Learning Objective 2-3

1) Source documents provide the evidence and data for accounting transactions.
Answer: TRUE
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Source Documents - The Origin of the Transactions

2) A bank deposit slip is a source document that shows the total of all checks written by a company.
Answer: FALSE
Explanation: A bank deposit slip is a source document that shows the amount of cash received by a company.
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Source Documents - The Origin of the Transactions

3) The first step in the flow of accounting data is the preparation of source documents.
Answer: FALSE
Explanation: The first step in the flow of accounting data is occurrence of the transaction.
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Source Documents - The Origin of the Transactions

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4) Which of the following is a source document that provides the evidence and data for accounting transactions?
A) Journal
B) Sales invoice
C) Ledger
D) Trial balance
Answer: B
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Source Documents - The Origin of the Transactions

5) Which of the following represents the correct flow of accounting data?
A) transactions occur; transactions are analyzed; transactions are journalized and posted; source documents are prepared
B) transactions occur; source documents are prepared; transactions are journalized and posted;
C) transactions occur; source documents are prepared; transactions are analyzed; transactions are journalized and posted
D) source documents are prepared; transactions occur; transactions are analyzed; transactions are journalized and posted
Answer: C
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Source Documents - The Origin of the Transactions

6) List the four steps in the flow of accounting data.
Answer:
1. Transactions occur.
2. Source documents are prepared.
3. Transactions are analyzed.
4. Transactions are journalized and posted.
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Source Documents - The Origin of the Transactions

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7) Briefly describe each of the following source documents:

Source Document	Description
Bank checks	
Sales invoices	

Answer:

Source Document	Description
Bank checks	Documents that illustrate the amounts and date of cash payments.
Sales invoices	Documents provided to clients when a business sells services or goods; tells the seller how much revenue to record.

Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Source Documents - The Origin of the Transactions

8) Briefly describe each of the following source documents:

Source Document	Description
Purchase invoices	
Bank deposit slips	

Answer:

Source Document	Description
Purchase invoices	Documents that tell the business how much and when to pay a vendor for purchases on account.
Bank deposit slips	Documents that show the amount of cash put in the business's bank account.

Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Source Documents - The Origin of the Transactions

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9) Debits in the journal are always posted as debits in the ledger.
Answer: TRUE
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

10) The process of transferring data from the ledger to the journal is called posting.
Answer: FALSE
Explanation: The process of transferring data from the journal to the ledger is called posting.
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

11) A compound journal entry has more than two accounts, but the total dollar value of the debits still must equal the total dollar value of the credits.
Answer: TRUE
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

12) When a business makes a cash payment, the Cash account is debited.
Answer: FALSE
Explanation: When a business makes a cash payment, the Cash account is credited.
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

13) When a business collects cash, the Cash account is debited.
Answer: TRUE
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

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14) When a business records an accrued utility liability, the Utilities Expense account is credited.
Answer: FALSE
Explanation: When a business records an accrued utility liability, the Utilities Expense account is debited.
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

15) When a business records the earning of service revenue, the Service Revenue account is credited.
Answer: TRUE
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

16) Transactions are first record in a _____.
A) chart of accounts
B) trial balance
C) journal
D) ledger
Answer: C
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

17) Journalizing a transaction involves _____.
A) calculating the balance in an account using journal entries
B) posting the account balances in the chart of accounts
C) preparing a summary of account balances
D) recording the data only in the journal
Answer: D
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

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18) Posting a transaction means _____.
A) calculating the balance in an account
B) transferring data from the journal to the ledger
C) preparing a summary of account balances
D) finding the account number in the chart of accounts
Answer: B
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

19) After initially recording a transaction, the data is then transferred to the _____.
A) chart of accounts
B) ledger
C) trial balance
D) journal
Answer: B
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

20) The accounting process of transferring data from the journal to the ledger is called _____.
A) journalizing
B) posting
C) compounding
D) sourcing
Answer: B
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

21) The first step in the journalizing and posting process is to _____.
A) post the journal entry to the ledger
B) identify the accounts involved and the account type
C) decide whether each account increases or decreases
D) record the transaction in the journal
Answer: B
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

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22) Which of the following is the order of steps to journalize an entry?
A) Identify the accounts and the account type → Decide whether each account increases or decreases, then apply the rules of debits and credits → Record the transaction
B) Identify the accounts and the account type → Record the transaction → Decide whether each account increases or decreases, then apply the rules of debits and credits
C) Record the transaction → Identify the accounts and the account type → Decide whether each account increases or decreases, then apply the rules of debits and credits
D) Decide whether each account increases or decreases, then apply the rules of debits and credits → Identify the accounts and the account type → Record the transaction
Answer: A
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

23) Which of the following is the final step in the journalizing and posting process?
A) Posting the accounts to the ledger
B) Identifying each account affected and its type
C) Determining whether the accounting equation is in balance
D) Determining whether each account has increased or decreased
Answer: C
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

24) Which of the following sequences is the normal sequence of flow of accounting data?
A) Ledger → Journal → Source document
B) Journal → Source document → Ledger
C) Source document → Journal → Ledger
D) Source document → Ledger → Journal
Answer: C
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

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25) A business renders services to a client and issues a sales invoice. The amount will be collected from the customer at a later time. Which of the following is true at the time the invoice is issued?
A) Equity will decrease.
B) Total liabilities will increase.
C) Total assets will decrease.
D) Net income will increase.
Answer: D
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

26) Wilson Furniture Company received cash of $40,000 and issued common stock. Which of the following accounts will be debited?
A) Accounts Receivable
B) Cash
C) Common Stock
D) Accounts Payable
Answer: B
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

27) Ranger Pool Company received cash of $40,000 and issued common stock. Which of the following accounts will be credited?
A) Accounts Receivable
B) Cash
C) Common Stock
D) Accounts Payable
Answer: C
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

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28) A business purchases equipment for $8,000 cash. Which of the following accounts is debited?
A) Cash
B) Accounts Payable
C) Common Stock
D) Equipment
Answer: D
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

29) A business purchases equipment for $8,000 cash. Which of the following accounts is credited?
A) Cash
B) Accounts Payable
C) Common Stock
D) Equipment
Answer: A
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

30) A business purchases equipment in exchange for a note payable. This transaction results in _____.
A) no journal entry because no cash has been paid
B) a debit to Notes Payable and a credit to Equipment
C) an increase in liabilities
D) a debit to Equipment and a credit to Accounts Payable
Answer: C
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

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31) A business makes a cash payment of $12,000 to a supplier for supplies purchased two weeks earlier. Which of the following accounts is debited?
A) Cash
B) Accounts Payable
C) Supplies
D) Accounts Receivable
Answer: B
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

32) A business makes a cash payment of $12,000 to a creditor. Which of the following accounts is credited?
A) Cash
B) Accounts Payable
C) Bank
D) Accounts Receivable
Answer: A
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

33) A business performs services for a customer for $26,000 on account. Which of the following accounts is debited?
A) Cash
B) Accounts Receivable
C) Service Revenue
D) Accounts Payable
Answer: B
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

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34) A business performs services for a customer for $26,000 on account. Which of the following accounts is credited?
A) Cash
B) Accounts Receivable
C) Service Revenue
D) Accounts Payable
Answer: C
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

35) A business performs services for $26,000 and collects cash from the customer. Which of the following accounts will be debited?
A) Cash
B) Accounts Receivable
C) Service Revenue
D) Accounts Payable
Answer: A
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

36) A business prepays four months' office rent. Which of the following accounts is debited?
A) Rent Expense
B) Cash
C) Prepaid Rent
D) Unearned Rent
Answer: C
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

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37) A business receives $40,000 for services that it will perform over the next four months. Which of the following accounts is credited?
A) Cash
B) Accounts Payable
C) Service Revenue
D) Unearned Revenue
Answer: D
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

38) Adams, Inc. recorded the following journal entry on March 2, 2018.

Cash	9,000	
Unearned Revenue		9,000

From the journal entry above, identify the transaction on March 2, 2018.
A) Adams purchased goods worth $9,000 and signed a one-year note for the same amount.
B) Adams sold goods for $9,000 cash.
C) Adams received $9,000 for services to be performed in a later period.
D) Adams paid $9,000 for services to be received at a later date.
Answer: C
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

39) A business buys $300 of office supplies on account. Which of the following accounts is debited?
A) Cash
B) Accounts Payable
C) Office Supplies
D) Accounts Receivable
Answer: C
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

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40) A business pays $800 cash for office supplies. Which of the following accounts is credited?
A) Cash
B) Accounts Payable
C) Office Supplies
D) Office Supplies Expense
Answer: A
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

41) A business purchases $1,000 of office supplies on account. Which of the following accounts is debited?
A) Cash
B) Accounts Payable
C) Office Supplies
D) Prepaid Asset
Answer: C
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

42) A business purchases $500 of office supplies on account. What is the effect on the accounting equation?
A) Office Supplies increase and Cash decreases.
B) Office Supplies increase and Accounts Payable increase.
C) Office Supplies increase and Accounts Payable decrease.
D) Total assets increase and total liabilities decrease.
Answer: B
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

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43) A business makes a cash payment to a supplier for office supplies that were purchased earlier on account. Which of the following accounts is debited?
A) Cash
B) Accounts Payable
C) Office Supplies
D) Office Supplies Expense
Answer: B
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

44) A business makes a cash payment to a supplier on account for office supplies that were purchased earlier. Which of the following accounts is credited?
A) Cash
B) Accounts Payable
C) Office Supplies
D) Office Supplies Expense
Answer: A
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

45) A business collects cash from a customer for services that were performed one month earlier. Which of the following accounts is debited?
A) Cash
B) Accounts Receivable
C) Service Revenue
D) Accounts Payable
Answer: A
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

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46) A business collects cash from a customer for services that were performed one month earlier. Which of the following accounts is credited?
A) Cash
B) Accounts Receivable
C) Service Revenue
D) Accounts Payable
Answer: B
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

47) A business borrows cash by signing a note payable. Which of the following accounts is debited?
A) Notes Payable
B) Accounts Payable
C) Notes Receivable
D) Cash
Answer: D
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

48) A business borrows cash by signing a note payable. Which of the following accounts is credited?
A) Notes Payable
B) Accounts Payable
C) Notes Receivable
D) Cash
Answer: A
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

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49) A business repays the amount borrowed on a note with cash. Which of the following accounts is debited?
A) Cash
B) Accounts Payable
C) Notes Payable
D) Notes Receivable
Answer: C
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

50) A business repays the amount borrowed on a note with cash. Which of the following accounts is credited?
A) Accounts Payable
B) Cash
C) Notes Payable
D) Notes Receivable
Answer: B
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

51) On October 31, a business pays $1,500 cash for television ads that appeared during October. Which of the following accounts is debited?
A) Cash
B) Accounts Payable
C) Prepaid Advertising
D) Advertising Expense
Answer: D
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

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52) A business makes a payment in cash for advertising expense. Which of the following accounts is credited?
A) Prepaid Advertising
B) Accounts Receivable
C) Cash
D) Advertising Expense
Answer: C
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

53) A cash payment of $5,000 was made for dividends. Which of the following accounts is debited?
A) Cash
B) Dividends
C) Dividend Expense
D) Common Stock
Answer: B
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

54) A business pays cash for dividends. Which of the following accounts is credited?
A) Common Stock
B) Dividends
C) Cash
D) Retained Earnings
Answer: C
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

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55) An accounting entry that is characterized by having multiple debits and/or multiple credits is called a _____ entry.
A) balanced
B) posted
C) chart of accounts
D) compound journal
Answer: D
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

56) A business makes a payment of $1,400 on a note payable. Which of the following journal entries would be recorded?
A) Cash is credited and Notes Payable is debited for $1,400.
B) Notes Payable is credited and Cash is debited for $1,400.
C) Cash is credited and Financing Expense is debited for $1,400.
D) Cash is debited and Financing Revenue is credited for $1,400.
Answer: A
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

57) A business purchases equipment by paying $6,276 in cash and issuing a note payable of $19,177. Which of the following occurs?
A) Cash is credited for $6,276, Equipment is credited for $25,453, and Notes Payable is debited for $19,177.
B) Cash is credited for $6,276, Equipment is debited for $25,453, and Notes Payable is credited for $19,177.
C) Cash is debited for $6,276, Equipment is debited for $19,177,and Notes Payable is credited for $25,453.
D) Cash is debited for $6,276, Equipment is credited for $19,177, and Notes Payable is debited for $12,901.
Answer: B
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

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58) Which of the following journal entries would be recorded if a business purchased $800 of office supplies on account?

A)

Accounts Payable	800	
Office Supplies		800

B)

Office Supplies	800	
Accounts Payable		800

C)

Office Supplies	800	
Cash		800

D)

Cash	800	
Office Supplies		800

Answer: B
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

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59) Which of the following journal entries would be recorded if a business performs services and receives cash of $900 from the customer?

A)

Service Revenue	900	
Cash		900

B)

Accounts Receivable	900	
Service Revenue		900

C)

Cash	900	
Service Revenue		900

D)

Service Revenue	900	
Accounts Receivable		900

Answer: C
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

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60) Which of the following journal entries would be recorded if a business purchased office supplies on account in a previous accounting period and now makes a cash payment of $750 to the supplier to settle the account?

A)

Cash	750	
Accounts Payable		750

B)

Accounts Payable	750	
Cash		750

C)

Office Supplies	750	
Cash		750

D)

Accounts Payable	750	
Office Supplies		750

Answer: B
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

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61) Which of the following journal entries would be recorded if a corporation issued common stock and received $3,000?

A)

Cash	3,000	
Common Stock		3,000

B)

Cash	3,000	
Service Revenue		3,000

C)

Common Stock	3,000	
Cash		3,000

D)

Cash	3,000	
Unearned Revenue		3,000

Answer: A
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

62) A business purchased land for $250,000 cash. Record the transaction in the journal.
Answer:

Land	250,000	
Cash		250,000
Purchased land for cash.		

Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

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63) A business performs services for its customer for $50,000 on account. Record the transaction in the journal.
Answer:

Accounts Receivable	50,000	
Service Revenue		50,000
Performed services on account.		

Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

64) Employees worked and a business paid salaries of $6,000 in cash. Record the transaction in the journal.
Answer:

Salaries Expense	6,000	
Cash		6,000
Paid salaries.		

Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

65) List the four parts of a journal entry.
Answer:
1. Date of the transaction
2. Debit account name and dollar amount
3. Credit account name and dollar amount
4. Brief explanation

Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

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66) List the five steps of the journalizing and posting process.
Answer:
1. Identify the accounts and the account type.
2. Decide whether each account increases or decreases, then apply the rules of debits and credits.
3. Record the transaction in the journal.
4. Post the journal entry to the ledger.
5. Determine whether the accounting equation is in balance.

Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Journalizing and Posting Transactions

67) For each transaction, identify which account is debited and which account is credited. Use proper account titles.

Transaction	Debit	Credit
Received cash on account from a customer		
Paid cash dividends to stockholders		
Purchased office supplies on account		
Received cash from customers for services to be performed next month		
Paid employee's salary		

Answer:

Transaction	Debit	Credit
Received cash on account from a customer	Cash	Accounts Receivable
Paid cash dividends to stockholders	Dividends	Cash
Purchased office supplies on account	Office Supplies	Accounts Payable
Received cash from customers for services to be performed next month	Cash	Unearned Revenue
Paid employee's salary	Salaries Expense	Cash

Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

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68) For each transaction, identify which account is debited and which account is credited. Use proper account titles.

Transaction	Debit	Credit
Received a bill for utilities to be paid next month		
Performed services on account		
Paid cash for a 12-month insurance policy, coverage starting next month		
Paid rent for the current month		
Borrowed cash from the bank for business use; a note was signed		

Answer:

Transaction	Debit	Credit
Received a bill for utilities to be paid next month	Utilities Expense	Utilities Payable or Accounts Payable
Performed services on account	Account Receivable	Service Revenue
Paid cash for a 12-month insurance policy, coverage starting next month	Prepaid Insurance	Cash
Paid rent for the current month	Rent Expense	Cash
Borrowed cash from the bank for business use; a note was signed	Cash	Notes Payable

Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

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69) Mason's Restaurant and Catering had the following transactions during the month of May.

May 1 Mason contributed $45,000 cash in exchange for common stock.
5 Paid monthly rent on the restaurant equipment, $1,650.
12 Purchased office supplies on account, $1,500.
15 Borrowed $25,000 from the bank for business use.
26 Paid $30,000 cash for a delivery van.
28 Paid $1,500 on account.
29 The business received $1,600 for catering services for a wedding on June 11.
31 Revenues earned during the month included $20,500 cash and $14,500 on account.
31 Received the May utility bill for $1,000. The amount is due on June 10 and will be paid on that date.
31 Paid employees' salaries $5,500; restaurant rent $3,000 and advertising for May $800. Record a compound entry.
31 Received the bill for catering food and supplies used in May, $8,500. The bill is due on June 15 and will be paid on that date.
31 Paid cash dividends of $6,000.

The business uses the following accounts: Cash; Accounts Receivable; Office Supplies; Delivery Van; Accounts Payable; Utilities Payable; Unearned Revenue; Notes Payable; Common Stock; Dividends; Service Revenue; Salaries Expense; Equipment Rent Expense; Restaurant Rent Expense; Utilities Expense; Catering Expense; and Advertising Expense.

Required: Journalize each transaction. Explanations are not needed.

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Answer:

Date	Accounts and Explanation	Debit	Credit
May			
1	Cash	45,000	
	Common Stock		45,000
5	Equipment Rent Expense	1,650	
	Cash		1,650
12	Office Supplies	1,500	
	Accounts Payable		1,500
15	Cash	25,000	
	Notes Payable		25,000
26	Delivery Van	30,000	
	Cash		30,000
28	Accounts Payable	1,500	
	Cash		1,500
29	Cash	1,600	
	Unearned Revenue		1,600
31	Cash	20,500	
	Accounts Receivable	14,500	
	Service Revenue		35,000
31	Utilities Expense	1,000	
	Utilities Payable		1,000
31	Salaries Expense	5,500	
	Restaurant Rent Expense	3,000	
	Advertising Expense	800	
	Cash		9,300
31	Catering Expense	8,500	
	Accounts Payable		8,500
31	Dividends	6,000	
	Cash		6,000

Diff: 3
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Journalizing and Posting Transactions

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70) After posting the journal entries from the journal to the ledger, the accounting equation should be in balance.
Answer: TRUE
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Ledger Accounts After Posting

71) A business purchases $3,500 of office supplies for cash. Which of the following sets of ledger accounts reflects the posting of this transaction?
A)

Office Supplies	Accounts Payable
3,500	3,500

B)

Office Supplies	Cash
3,500	3,500

C)

Office Supplies	Accounts Payable
3,500	3,500

D)

Office Supplies	Cash
3,500	3,500

Answer: D
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Ledger Accounts After Posting

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72) The following transactions for the month of March have been journalized and posted to the proper accounts.

Mar. 1 The business received $7,000 cash and issued common stock to stockholders.
Mar. 2 Paid the first month's rent of $700.
Mar. 3 Purchased equipment by paying $3,000 cash and executing a note payable for $8,000.
Mar. 4 Purchased office supplies for $700 cash.
Mar. 5 Billed a client for $10,000 of design services completed.
Mar. 6 Received $7,800 on account for the services previously recorded.

What is the balance in Cash on March 6?
A) $11,100
B) $10,400
C) $13,400
D) $11,800
Answer: B
Explanation: B) Cash is increased by the March 1 transaction of $7,000 and the March 6 amount of $7,800 and decreased by the March 2 payment of $700, March 3 payment of $3,000, and March 4 payment of $700 for a final cash balance of $10,400.
Diff: 3
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Ledger Accounts After Posting

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73) Watson Foods, Inc. reported the following transactions for September 2019.

a) The business received $22,000 cash and issued common stock. It was credited to Common Stock.
b) The business purchased office equipment for $9,000 for which $3,500 cash was paid and the balance was put on a note payable.
c) Paid insurance expense of $1,800 cash.
d) Paid the September utility bill for $900 cash.
e) Paid $2,000 cash for September rent.
f) The business had sales of $10,000 in September. Of these sales, 60% were cash sales, and the balance was credit sales.
g) The business paid $7,000 cash for office furniture.

What are the total liabilities at the end of September, 2019?
A) $10,000
B) $1,800
C) $5,500
D) $9,000
Answer: C
Explanation: C) $\text{Liability} = \text{Note payable} = \$9{,}000 - \$3{,}500 = \$5{,}500$
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Ledger Accounts After Posting

74) The following transactions for the month of March have been journalized and posted to the proper accounts.

Mar. 1 The business received $8,000 cash and issued common stock to stockholders.
Mar. 2 Paid the first month's rent of $600.
Mar. 3 Purchased equipment by paying $2,000 cash and executing a note payable for $6,000.
Mar. 4 Purchased office supplies for $750 cash.
Mar. 5 Billed a client for $14,000 of design services completed.
Mar. 6 Received $5,000 on account for the services previously recorded.

What is the balance in Accounts Receivable?
A) $5,000
B) $9,000
C) $6,000
D) $14,000
Answer: B
Explanation: B) Accounts Receivable is increased (debited) by the March 5 amount of $14,000 and decreased (credited) by the March 6 amount of $5,000.
Diff: 3
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Ledger Accounts After Posting

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75) The following transactions have been journalized and posted to the proper accounts. March is the first month of business operations.

Mar. 1 The business received $10,000 cash and issued common stock to stockholders.
Mar. 2 Paid the first month's rent of $800.
Mar. 3 Purchased equipment by paying $4,000 cash and executing a note payable for $5,000.
Mar. 4 Purchased office supplies for $700 cash.
Mar. 5 Billed a client for $14,000 of design services completed.
Mar. 6 Received $6,000 on account for the services previously recorded.

What is the ending balance in the Service Revenue account?
A) $16,000
B) $10,000
C) $14,000
D) $6,000
Answer: C
Explanation: C)

Service Revenue

Beg Bal.	0
Mar 5	14,000
End Bal.	14,000

Diff: 3
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Ledger Accounts After Posting

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76) A business has the following transactions:

The business receives $16,000 cash and issues common stock to stockholders.
The business purchases $500 of office supplies on account.
The business purchases $1,000 of furniture on account.
The business performs services for various clients totaling $14,000 on account.
The business pays $3,000 for salaries expense and $5,000 for rent expense.
The business pays $500 to a supplier for the office supplies purchased earlier.
The business collects $3,000 from one of its clients for services rendered earlier in the month.

At the end of the month, all journal entries are posted to the ledger. Accounts Receivable will appear as which of the following?

A) **Accounts Receivable**

	3,000	14,000	
		11,000	Bal.

B) **Accounts Receivable**

	14,000		
Bal.	14,000		

C) **Accounts Receivable**

	14,000	3,000	
Bal.	11,000		

D) **Accounts Receivable**

	14,000	3,000	
		11,000	Bal.

Answer: C
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Ledger Accounts After Posting

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77) A business has the following transactions:

The business received $16,000 cash and issued common stock to stockholders.
The business purchases $700 of office supplies on account.
The business purchases $2,000 of furniture on account.
The business performs services to various clients totaling $13,000 on account.
The business pays out $3,000 for salaries expense and $3,500 for rent expense.
The business pays $700 to a supplier for the office supplies purchased earlier.
The business collects $1,000 from one of its clients for services rendered earlier in the month.

At the end of the month, all journal entries are posted to the ledger. Accounts Payable will appear as which of the following?

A) **Accounts Payable**

700	700	
	2,000	
	2,000	Bal.

B) **Accounts Payable**

	700	
	2,000	
	2,700	Bal.

C) **Accounts Payable**

700		
2,000		
	700	
Bal. 2,000		

D) **Accounts Payable**

	700	
	2,000	
	700	
	3,400	Bal.

Answer: A
Diff: 2
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Ledger Accounts After Posting

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78) When using a four-column account, the posting reference column allows the user of the financial data to trace the amounts in the journal back to the ledger.
Answer: FALSE
Explanation: When using a four-column account, the posting reference column allows the user of the financial data to trace the amounts in the ledger back to the journal.
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Four-Column Account: An Alternative to the T-Account

79) In a computerized environment, the posting process is completed automatically when the user enters the journal entry.
Answer: TRUE
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Four-Column Account: An Alternative to the T-Account

80) A posting reference column is used _____.
A) while preparing the trial balance using the ledger
B) when the information is transferred from the journal to the ledger
C) when the information is transferred from the ledger to the post-closing trial balance
D) while preparing the balance sheet using the trial balance
Answer: B
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Four-Column Account: An Alternative to the T-Account

81) The four-column account _____.
A) is an alternative to using the ledger
B) includes the Post. Ref. column which allows a user of the financial data to trace the amount in the journal back to the ledger
C) is not frequently used in practice because it provides less information than T-accounts
D) adds two additional columns that are used to determine a running balance
Answer: D
Diff: 1
LO: 2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Four-Column Account: An Alternative to the T-Account

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2.4 Learning Objective 2-4

1) The trial balance is also known as the balance sheet.
Answer: FALSE
Explanation: The trial balance and the balance sheet are not the same.
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Trial Balance (H1)

2) The trial balance verifies the equality of debits and credits on a specific date.
Answer: TRUE
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Trial Balance (H1)

3) A trial balance is the list of only a company's asset and liability accounts, along with their account numbers, at a point in time.
Answer: FALSE
Explanation: The trial balance is a list of all ledger accounts with their balances at a point in time.
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Trial Balance (H1)

4) A trial balance is a list of all of the ledger accounts of a company with their balances at a point in time.
Answer: TRUE
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Trial Balance (H1)

5) In a trial balance, total debits must always equal total credits.
Answer: TRUE
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Trial Balance (H1)

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6) The trial balance is an internal document used only by employees of the company.
Answer: TRUE
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Trial Balance (H1)

7) A trial balance summarizes the ledger by listing all the accounts with their balances at a point in time.
Answer: TRUE
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Trial Balance (H1)

8) The trial balance reports the balances of assets, liabilities, and equity.
Answer: TRUE
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Trial Balance (H1)

9) Which of the following is used by both internal and external users?
A) Chart of Accounts
B) Trial Balance
C) Balance Sheet
D) Costing Reports
Answer: C
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Trial Balance (H1)

10) Which of the following statements is true of a trial balance?
A) A trial balance has the same format as a balance sheet.
B) A trial balance presents data in debit and credit format.
C) A trial balance shows the total amounts of assets and liabilities, but not equity.
D) A trial balance is prepared after the balance sheet.
Answer: B
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Trial Balance (H1)

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11) Which of the following sequences states the order in which accounts are listed on a trial balance?
A) Equity → Assets → Liabilities
B) Liabilities → Assets → Equity
C) Assets → Equity → Liabilities
D) Assets → Liabilities → Equity
Answer: D
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Trial Balance (H1)

12) Which of the following statements is true of a trial balance?
A) A trial balance is the first step in the accounting cycle.
B) A trial balance is also known as a balance sheet.
C) A trial balance is a list of all accounts with their balances.
D) A trial balance is also known as the chart of accounts.
Answer: C
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Trial Balance (H1)

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13) The following are the current month's balances for ABC Financial Services, Inc. before preparing the trial balance.

Accounts Payable	$5,000
Revenue	3,000
Cash	2,000
Expenses	15,500
Furniture	13,000
Accounts Receivable	12,000
Common Stock	?
Notes Payable	8,500

What amount should be shown for Common Stock on the trial balance?
A) $50,000
B) $26,000
C) $13,500
D) $27,000
Answer: B
Explanation: B) In a trial balance, the total of debits must match the total of credits. Therefore, the balance of Common Stock can be determined by totaling the debit and the credit balances and calculating the balancing amount.

	Debit	**Credit**
Cash	$2,000	
Accounts Receivable	12,000	
Furniture	13,000	
Accounts Payable		$5,000
Notes Payable		8,500
Common Stock		?
Revenues		3,000
Expenses	15,500	
Total	$42,500	$16,500

Common Stock = $42,500 - $16,500 = $26,000
Diff: 2
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Trial Balance (H1)

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14) The following are selected current month's balances for Morgan, Inc.

Accounts Payable	$9,000
Revenue	11,000
Cash	3,150
Expenses	1,600
Furniture	13,000
Accounts Receivable	16,000
Common Stock	7,250
Notes Payable	6,500

Based on this information, calculate the total amount of credits for the trial balance.
A) $26,500
B) $22,750
C) $24,750
D) $33,750
Answer: D
Explanation: D) Accounts Payable $9,000
Revenue 11,000
Common Stock 7,250
Notes Payable 6,500
Total credit amounts $33,750
Diff: 2
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Trial Balance (H1)

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15) The following are selected current month's balances for Allbright Enterprises.

Accounts Payable	$8,000
Revenue	12,000
Cash	6,000
Expenses	1,300
Furniture	10,000
Accounts Receivable	14,000
Common Stock	7,250
Notes Payable	4,050

Based on this information, calculate is the total amount of debits for the trial balance?
A) $24,000
B) $25,300
C) $30,000
D) $31,300
Answer: D
Explanation: D) Cash $6,000
Expenses 1,300
Furniture 10,000
Accounts Receivable 14,000
Total debits $31,300
Diff: 2
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Trial Balance (H1)

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16) Jackson Enterprises is a new corporation. The following transactions occurred during the first month of business.
Prepare journal entries and post the journal entries to T-accounts.
Prepare a trial balance at the end of the first month using the following transactions.

a) Received $15,000 cash and issued common stock.
b) Paid the first month's rent with $800 cash.
c) Purchased equipment by paying $4,000 cash and executing a note payable for $4,000.
d) Purchased office supplies for $200 cash. The supplies remain at the end of the month.
e) Billed clients for a total of $7,000 for design services rendered.
f) Received $1,000 cash from clients for services rendered above.

Answer:

	Accounts	Debit	Credit
(a)	Cash	15,000	
	Common Stock		15,000
(b)	Rent Expense	800	
	Cash		800
(c)	Equipment	8,000	
	Cash		4,000
	Notes Payable		4,000
(d)	Office Supplies	200	
	Cash		200
(e)	Accounts Receivable	7,000	
	Service Revenue		7,000
(f)	Cash	1,000	
	Accounts Receivable		1,000

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Cash	
	800(b)
15,000(a)	4,000(c)
1,000(f)	200(d)
Bal. 11,000	

Accounts Receivable	
	1,000(f)
7,000(e)	
Bal. 6,000	

Office Supplies	
200(d)	
Bal. 200	

Equipment	
8,000(c)	
Bal. 8,000	

Note Payable	
	4,000 (c)
	4,000 Bal.

Common Stock	
	15,000 (a)
	15,000 Bal.

Service Revenue	
	7,000(e)
	7,000 Bal.

Rent Expense	
800(b)	
Bal. 800	

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Jackson Enterprises
Trial Balance
Last Day of Month

Account Title	**Debit**	**Credit**
Cash	$11,000	
Accounts Receivable	6,000	
Office Supplies	200	
Equipment	8,000	
Notes Payable		$4,000
Common Stock		15,000
Service Revenue		7,000
Rent Expense	800	_____
Total	$26,000	$26,000

Explanation:
Note:
Cash balance is calculated as:

Common stock issued	$15,000
Rent paid	(800)
Cash paid for equipment	(4,000)
Office supplies purchased	(200)
Cash received from clients	1,000
Cash balance	$11,000

Diff: 3
LO: 2-1, 2-3, 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Trial Balance (H1)

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17) Musical Instruments, Inc. sells musical instruments. On December 31, 2019, after its first month of business, Musical Instruments, Inc. had the following balances in its accounts, listed alphabetically.

Accounts Receivable	$ 5,000
Accounts Payable	15,000
Advertising Expense	2,000
Building	16,500
Cash	?
Common Stock	50,000
Dividends	1,200
Equipment	2,000
Land	70,000
Notes Payable	60,000
Office Supplies	3,400
Prepaid Rent	1,200
Salaries Expense	4,000
Service Revenue	72,000
Utilities Expense	4,100

Determine the balance in the cash account and prepare the trial balance.

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Answer: The cash balance is the difference between the debit and credit columns of the Trial Balance.
Cash balance = $197,000 - $109,400 = $87,600

Musical Instruments
Trial Balance
December 31, 2019

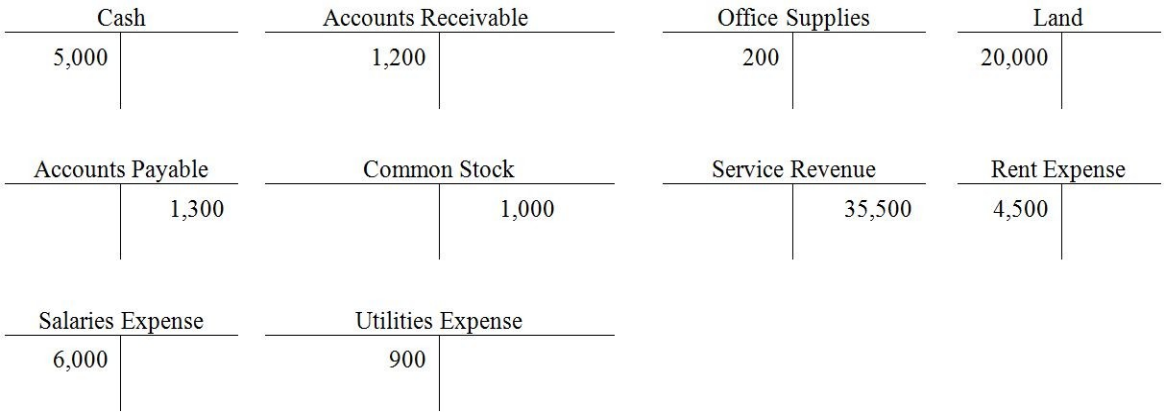
Account Title	Debit	Credit
Cash	$87,600	
Accounts Receivable	5,000	
Prepaid Rent	1,200	
Office Supplies	3,400	
Land	70,000	
Building	16,500	
Equipment	2,000	
Accounts Payable		$15,000
Notes Payable		60,000
Common Stock		50,000
Dividends	1,200	
Service Revenue		72,000
Utilities Expense	4,100	
Salaries Expense	4,000	
Advertising Expense	2,000	
Total	$197,000	$197,000

Diff: 3
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Trial Balance (H1)

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18) At the end of a month, a business shows the following balances in its ledger.



Use this data to prepare a trial balance.
Answer:

Trial Balance
Last Day of the Month

Account Title	**Debit**	**Credit**
Cash	$ 5,000	
Accounts Receivable	1,200	
Office Supplies	200	
Land	20,000	
Accounts Payable		$ 1,300
Common Stock		1,000
Service Revenue		35,500
Rent Expense	4,500	
Salaries Expense	6,000	
Utilities Expense	900	
Total	$37,800	$37,800

Diff: 2
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Trial Balance (H1)

19) Data from a trial balance is used to prepare the income statement, statement of retained earnings, and the balance sheet.
Answer: TRUE
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Preparing Financial Statements from the Trial Balance

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20) The trial balance is one of the basic financial statements that is issued to external users of the business.
Answer: FALSE
Explanation: The trial balance is used to prepare the basic financial statements - income statement, statement of retained earnings, and balance sheet. The trial balance is not a financial statement.
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Preparing Financial Statements from the Trial Balance

21) Which of the following is a financial statement that presents a business's accounting equation?
A) Chart of Accounts
B) Trial Balance
C) Income Statement
D) Balance Sheet
Answer: D
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Preparing Financial Statements from the Trial Balance

22) When is a trial balance usually prepared?
A) after each entry is journalized
B) before the financial statements are prepared
C) after the financial statements are prepared
D) at the beginning of an accounting period
Answer: B
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Preparing Financial Statements from the Trial Balance

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23) The following are the current month's balances for selected accounts of Sandlin Marketing Company.

Accounts Payable	$9,000
Revenue	8,000
Cash	7,650
Expenses	1,100
Furniture	11,000
Accounts Receivable	12,000
Common Stock	10,250
Notes Payable	4,500

What is the net income for Sandlin Marketing for the current month?
A) $8,000
B) $6,900
C) $9,100
D) $15,650
Answer: B
Explanation: B) Revenue $8,000
Expenses (1,100)
Net Income $6,900
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Preparing Financial Statements from the Trial Balance

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24) Randall's Service Company began operations on January 1, 2019. The following Trial Balance was prepared on December 31, 2019. Capital contributions during the year were $54,000.

Randall's Service Company
Trial Balance
December 31, 2019

Account Title	Debit	Credit
Cash	$25,400	
Accounts Receivable	5,000	
Prepaid Rent	1,200	
Office Supplies	3,400	
Land	45,000	
Building	16,500	
Equipment	23,000	
Accounts Payable		$15,000
Unearned Revenue		5,000
Notes Payable		25,000
Common Stock		54,000
Dividends	6,300	
Service Revenue		83,100
Salaries Expense	34,000	
Rent Expense	15,000	
Office Expense	6,000	
Repair Expense	1,300	
Total	$182,100	$182,100

What is the December 31, 2019 balance of Retained Earnings?
A) $33,100
B) $19,300
C) $20,500
D) $25,500
Answer: C
Explanation: C) Service Revenue $83,100 Less (Salaries Expense $34,000 + Rent Expense $15,000 + Office Expense $6,000 + Repair Expense $1,300) Equals Net Income $26,800

Beginning RE $0+ Net Income $26,800 - Randall, Withdrawals $6,300 = Ending RE $20,500
Diff: 2
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Preparing Financial Statements from the Trial Balance

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25) Donaldson's Delivery Company began operations on January 1, 2019. The following Trial Balance was prepared on December 31, 2019.

Donaldson's Delivery Service Company
Trial Balance
December 31, 2019

Account Title	Debit	Credit
Cash	$15,500	
Accounts Receivable	8,000	
Prepaid Rent	2,400	
Office Supplies	1,400	
Land	25,000	
Building	32,000	
Equipment	23,000	
Accounts Payable		$10,400
Unearned Revenue		2,500
Notes Payable		20,000
Common Stock		59,000
Dividends	6,800	
Service Revenue		78,400
Salaries Expense	34,000	
Rent Expense	15,000	
Truck Expense	5,700	
Office Expense	1,500	
Total	$170,300	$170,300

What is the net income for the year ended December 31, 2019?
A) $15,400
B) $22,200
C) $24,700
D) $74,400
Answer: B
Explanation: B) Service Revenue $78,400 Less (Salaries Expense $34,000 + Rent Expense $15,000 + Truck Expense $5,700 + Office Expense $1,500) Equals Net Income $22,200
Diff: 2
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Preparing Financial Statements from the Trial Balance

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26) Provide a definition of each of the follow accounting terms.

Accounting Term	Definition
Chart of accounts	
Posting	
Normal balance	

Answer:

Accounting Term	Definition
Chart of accounts	A list of all accounts with their account numbers
Posting	Transferring amounts from the journal to the ledger
Normal balance	Side of an account where increases are recorded

Diff: 2
LO: 2-1,2-2,2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Preparing Financial Statements from the Trial Balance

27) Provide a definition of each of the follow accounting terms.

Accounting Term	Definition
Ledger	
Trial Balance	
Debit	

Answer:

Accounting Term	Definition
Ledger	The record holding all the accounts of a business, the changes in those accounts, and their account balances
Trial Balance	A list of all accounts with their balances at a point in time
Debit	Left side of a T-account

Diff: 2
LO: 2-1,2-2,2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Preparing Financial Statements from the Trial Balance

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28) Provide a definition of each of the follow accounting terms.

Accounting Term	Definition
Compound journal entry	
Journal	
Account	

Answer:

Accounting Term	Definition
Compound journal entry	A journal entry that is characterized by having multiple debits and/or multiple credits
Journal	A record of transactions in date order
Account	A detailed record of all increases and decreases that have occurred in a particular asset, liability, or equity during a period

Diff: 2
LO: 2-1,2-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Preparing Financial Statements from the Trial Balance

29) Balancing errors can be detected by computing the difference between total debits and total credits on the trial balance.
Answer: TRUE
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Correcting Trial Balance Errors

30) If the total debits equal the total credits on the trial balance, the individual account balances will be error free.
Answer: FALSE
Explanation: Total debits can equal total credits on the trial balance; however, there still could be errors in individual account balances because an incorrect amount might have been recorded in an individual journal entry.
Diff: 1
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Correcting Trial Balance Errors

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31) A journal entry for a $65 payment for rent expense was posted as a debit to Salaries Expense and a credit to Cash. Which of the following statements correctly states the effect of the error on the trial balance?
A) The sum of the credits will equal the sum of the debits.
B) The sum of the debits will exceed the sum of the credits by $65.
C) The sum of the debits will exceed the sum of the credits by $130.
D) The sum of the credits will exceed the sum of the debits by $130.
Answer: A
Diff: 2
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Correcting Trial Balance Errors

32) A journal entry for a $220 payment to purchase office supplies was erroneously recorded as a debit to Office Supplies for $500 and a credit to Cash for $220. Which of the following statements correctly states the effect of the error on the trial balance?
A) The sum of the credits will exceed the sum of the debits by $280.
B) The sum of the debits will exceed the sum of the credits by $220.
C) The sum of the debits will exceed the sum of the credits by $280.
D) The sum of the debits will exceed the sum of the credits by $500.
Answer: C
Diff: 2
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Correcting Trial Balance Errors

33) Balancing errors can be detected by computing the difference between total debits and total credits on the trial balance. List three actions that can then be used to find the errors.
Answer:
1. Search the trial balance for a missing account.
2. Divide the difference between total debits and total credits by 2.
3. Divide the out-of-balance amount by 9.
Diff: 2
LO: 2-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Correcting Trial Balance Errors

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2.5 Learning Objective 2-5

1) The debt ratio shows the proportion of assets financed with debt.
Answer: TRUE
Diff: 1
LO: 2-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

2) The debt ratio is one indication of the ability of a company to fulfill its obligation to repay liabilities.
Answer: TRUE
Diff: 1
LO: 2-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

3) Baytown Paper Company has a debt ratio of 25%, which means that 75% of the assets are financed by creditors.
Answer: FALSE
Explanation: A debt ratio of 25% means that 25% of assets are financed with debt.
Diff: 1
LO: 2-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

4) The higher the debt ratio, the lower the risk of default.
Answer: FALSE
Explanation: The lower the debt ratio, the lower the risk of default.
Diff: 1
LO: 2-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

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5) Which of the following is the correct formula to calculate the debt ratio?
A) Debt ratio = Total liabilities × Total assets
B) Debt ratio = Total liabilities + Total assets
C) Debt ratio = Total liabilities - Total assets
D) Debt ratio = Total liabilities / Total assets
Answer: D
Diff: 1
LO: 2-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

6) The proportion of assets that are financed with debt can be calculated using the _____ ratio.
A) quick
B) debt
C) asset
D) cash
Answer: B
Diff: 1
LO: 2-5
AACSB: Interpersonal relations and teamwork
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

7) The ability of a company to pay its debts can be evaluated by using the _____.
A) earnings per share
B) return on assets ratio
C) debt ratio
D) fully diluted earnings per share
Answer: C
Diff: 1
LO: 2-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

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8) Converse Florists & Co. reported assets of $1,000 and equity of $450. What is its debt ratio? (Round your percentage answer to two decimal places.)
A) 55.00%
B) 45.00%
C) 100.00%
D) 60.00%
Answer: A
Explanation: A) Total liabilities = $1,000 − $450 = $550
Debt ratio = Total liabilities / Total assets
Debt ratio = $550 / $1,000 = 0.55 or 55.00%
Diff: 1
LO: 2-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

9) Durable Plastics Company had the following total assets, liabilities, and equity as of December 31.

Total Assets	$430,000
Total Liabilities	131,000
Total Equity	299,000

What is the company's debt ratio as of December 31? (Round your percentage answer to two decimal places.)
A) 30.47%
B) 69.53%
C) 100.00%
D) 43.81%
Answer: A
Explanation: A) Debt ratio = Total liabilities / Total assets
Debt ratio = $131,000 / $430,000 = 0.3047 or 30.47%
Diff: 1
LO: 2-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

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10) Which of the following is assessed using the debt ratio?
A) profitability
B) revenues
C) risk of default
D) net income
Answer: C
Diff: 1
LO: 2-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

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11) Calculate the debt ratio using the following trial balance of Superior Instruments, Inc. as of December 31, 2019.

Superior Instruments, Inc.
Trial Balance
December 31, 2019

Account Title	**Debit**	**Credit**
Cash	$88,800	
Accounts Receivable	5,000	
Office Supplies	3,400	
Land	70,000	
Building	16,500	
Equipment	2,000	
Accounts Payable		$ 15,000
Notes Payable		60,000
Common Stock		50,000
Dividends	1,200	
Service Revenue		72,000
Utilities Expense	4,100	
Salaries Expense	4,000	
Advertising Expense	2,000	
Total	$197,000	$197,000

Answer:

Liabilities	
Accounts Payable	$15,000
Notes Payable	60,000
Total Liabilities	$75,000
Assets	
Accounts Receivable	$ 5,000
Building	16,500
Cash	88,800
Equipment	2,000
Land	70,000
Office Supplies	3,400
Total assets	$185,700

Debt ratio = Total liabilities / Total assets
Debt ratio = $75,000 / $185,700 = 0.4039 or 40.39%
Diff: 3
LO: 2-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

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12) What are two ways in which a company can improve its debt ratio?
Answer: Increase assets
Reduce debt
Diff: 2
LO: 2-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

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