Financial Accounting 12th edition Thomas Test Bank

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Financial Accounting, 12e **(Thomas/Tietz/Harrison)**
Chapter 2 Transaction Analysis

Learning Objective 2-1

1) A transaction is any event that has a financial impact on the business and that can be measured reliably.
Answer: TRUE
Diff: 1
LO: 2-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

2) Business events are recorded even if the financial impact cannot be measured.
Answer: FALSE
Diff: 1
LO: 2-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

3) Transactions provide objective information about the financial impact of an exchange on an entity.
Answer: TRUE
Diff: 1
LO: 2-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

4) The account is the basic summary device of accounting.
Answer: TRUE
Diff: 1
LO: 2-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

5) An account receivable represents the promise of the business to pay a debt.
Answer: FALSE
Diff: 2
LO: 2-1
AACSB: Reflective Thinking
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6) Prepaid rent is an expense because the payment provides a future benefit of the company.
Answer: FALSE
Diff: 2
LO: 2-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

7) Assets include cash, land, and accounts payable.
Answer: FALSE
Diff: 2
LO: 2-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

8) Cost of goods sold is an example of a revenue account.
Answer: FALSE
Diff: 2
LO: 2-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

9) An accrued liability is a liability for an expense that has not yet been paid.
Answer: TRUE
Diff: 2
LO: 2-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

10) A prepaid expense is an asset.
Answer: TRUE
Diff: 2
LO: 2-1
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11) Which of the following is NOT a business transaction?
A) A company buys goods on account.
B) A company sells land for cash.
C) A company fired 10 percent of the employees due to lackluster sales.
D) A company borrows money from the bank.
Answer: C
Diff: 2
LO: 2-1
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

12) Which of the following is a business transaction?
A) A company signs a contract for services to be provided during the first quarter of the next fiscal year.
B) A company pays its employees a year-end bonus.
C) A company hires a new marketing manager.
D) A company applies for a mortgage that will be used to purchase a new office building.
Answer: B
Diff: 2
LO: 2-1
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

13) A record of all the changes in a particular asset during a period of time is found in a(n):
A) transaction.
B) trial balance.
C) prior period's balance sheet.
D) account.
Answer: D
Diff: 1
LO: 2-1
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14) All of the following accounts would be considered assets EXCEPT for:
A) Cash.
B) Retained Earnings.
C) Prepaid Expenses.
D) Notes Receivable.
Answer: B
Diff: 2
LO: 2-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

15) Which account includes balances in multiple checking accounts?
A) Accounts Receivable
B) Notes Receivable
C) Cash
D) Prepaid Expenses
Answer: C
Diff: 1
LO: 2-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

16) Which of the following is a CORRECT statement?
A) Shareholders' equity is also called proprietorship equity.
B) A proprietorship has more than one capital account.
C) A partnership has a separate owner's equity account for each partner.
D) Retained earnings is the owner's investment in the corporation.
Answer: C
Diff: 2
LO: 2-1
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

17) Interest payable, income tax payable and salary payable are all examples of:
A) accrued liabilities.
B) prepaid expenses.
C) expenses of future periods.
D) retained earnings.
Answer: A
Diff: 1
LO: 2-1
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18) Which transaction increases stockholders' equity?
A) sale of common stock
B) dividends that are declared and paid
C) expenses greater than revenues for the period
D) payment of operating expenses
Answer: A
Diff: 1
LO: 2-1
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

19) Which transaction decreases stockholders' equity?
A) sale of common stock
B) cash purchase of land
C) total revenues greater than total expenses for the period
D) total expenses greater than total revenues for the period
Answer: D
Diff: 1
LO: 2-1
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

20) Which transaction decreases stockholders' equity?
A) Inventory was purchased on account.
B) Services were performed on account.
C) Services were performed and cash was immediately received from the customers.
D) Employees worked one week and were paid at the end of the week.
Answer: D
Diff: 1
LO: 2-1
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21) List and briefly discuss the three major components of stockholders' equity.
Answer: 1. Common stock — This shows the owners' investment in the corporation.
2. Retained earnings — This shows the cumulative net income earned by a company over its lifetime minus its cumulative net losses and dividends.
3. Dividends — This includes dividends declared by the board of directors during the accounting period.
Diff: 2
LO: 2-1
AACSB: Reflective Thinking
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AICPA Functional: Measurement, Reporting

22) Define and provide an example of each of the following.

Account	**Definition**	**Example**
Asset		
Revenue		
Liability		

Answer:

Account	**Definition**	**Example** (Only one example is needed.) Answers include:
Asset	Economic resources that provide a future benefit for a business.	Cash, Accounts Receivable, Inventory, Prepaid Expenses, Investments, Buildings
Revenue	The increase in stockholders' equity from delivery of goods or services to customers	Sales Revenue, Legal Service Revenue, Rental Revenue, Interest Revenue
Liability	Debts owed by the business.	Accounts Payable, Notes Payable, Accrued Liabilities

Diff: 2
LO: 2-1
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Learning Objective 2-2

1) If a company declares and pays a dividend to its stockholders, both cash and expenses will decrease.
Answer: FALSE
Explanation: Cash and stockholder's equity decreases.
Diff: 2
LO: 2-2
AACSB: Analytical Thinking
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AICPA Functional: Measurement

2) Each transaction has either an equal effect on both the left- and right-sides of the accounting equation, or an offsetting effect (both positive and negative) on the same side of the equation.
Answer: TRUE
Diff: 2
LO: 2-2
AACSB: Reflective Thinking
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AICPA Functional: Measurement

3) If a company performs services on account, the revenue is not earned until the cash is collected.
Answer: FALSE
Diff: 2
LO: 2-2
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

4) An account payable is recorded when a formal promissory note is signed.
Answer: FALSE
Diff: 2
LO: 2-2
AACSB: Reflective Thinking
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AICPA Functional: Measurement

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5) As a practical matter most companies prepare financial statements:
A) after every transaction.
B) only when both the balance sheet and income statement are affected.
C) at the end of the accounting period.
D) at the close of every business day.
Answer: C
Diff: 1
LO: 2-2
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

6) When services are performed on account:
A) cash is increased.
B) revenue will not be recorded until the cash is received from the customer.
C) accounts receivable is increased.
D) accounts payable is increased.
Answer: C
Diff: 2
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

7) A company received cash in exchange for issuing stock. This transaction increased assets and:
A) increased expenses.
B) increased revenues.
C) increased liabilities.
D) increased stockholders' equity.
Answer: D
Diff: 2
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

8) When a business purchases land with a note payable:
A) both assets and stockholders' equity are increased.
B) assets are decreased and stockholder's equity is increased.
C) both assets and liabilities are increased.
D) assets are increased and liabilities are decreased.
Answer: C
Diff: 2
LO: 2-2
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9) The debt created by a business when it makes a purchase of inventory on account is a(n):
A) revenue.
B) account receivable.
C) note payable.
D) account payable.
Answer: D
Diff: 2
LO: 2-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

10) Which of the following transactions will increase stockholders' equity?
A) The company pays a dividend to its shareholders.
B) The company issues common stock to new shareholders.
C) The company purchases equipment.
D) The company makes a payment on account.
Answer: B
Diff: 2
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

11) Which of the following transactions will increase one asset and decrease another asset?
A) the purchase of office supplies on account
B) the performance of services on account
C) the purchase of equipment for cash
D) the performance of services for cash
Answer: C
Diff: 2
LO: 2-2
AACSB: Analytical Thinking
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12) A company performed services for a customer for cash. This transaction increased assets and:
A) decreased stockholders' equity.
B) increased liabilities.
C) increased expenses.
D) increased revenues.
Answer: D
Diff: 2
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

13) A company receives an utility bill and immediately pays it. With this transaction:
A) stockholders' equity is decreased.
B) expenses are decreased.
C) assets are increased.
D) liabilities are increased.
Answer: A
Diff: 2
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

14) Company Z sells land for cash for the same amount it paid for it three years ago. When the company records this transaction:
A) assets and stockholders' equity are increased.
B) one asset is increased and another asset is decreased.
C) one liability is increased and another liability is decreased.
D) assets are increased and liabilities are decreased.
Answer: B
Diff: 2
LO: 2-2
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15) When a company borrows money (cash) from the bank, which type of account(s) is(are) increased?
A) asset account only
B) retained earnings only
C) liability account only
D) both asset and liability accounts
Answer: D
Diff: 2
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

16) A company performs services for a client on account. When the company receives the cash from the customer one month later:
A) a revenue account is increased.
B) a liability account is decreased.
C) there is no change in total assets.
D) an expense account is decreased.
Answer: C
Diff: 2
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

17) When a company repays cash that is borrowed from the bank:
A) total assets remain the same.
B) liabilities are decreased.
C) retained earnings is decreased.
D) total liabilities remain the same.
Answer: B
Diff: 2
LO: 2-2
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AICPA Functional: Measurement

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18) When a company pays an amount it owes a creditor:
A) assets are decreased and net income is decreased.
B) assets are decreased and liabilities are increased.
C) liabilities are decreased and net income is increased.
D) assets are decreased and liabilities are decreased.
Answer: D
Diff: 2
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

19) Muddle Company performs a service for one of its customers and immediately collects the cash. This transaction will:
A) have no effect on liabilities.
B) decrease net income.
C) decrease Retained Earnings.
D) increase Accounts Receivable.
Answer: A
Diff: 2
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

20) Purchasing supplies on account would:
A) increase total assets and decrease total liabilities.
B) increase total liabilities and decrease total assets.
C) increase total assets and increase total liabilities.
D) increase total liabilities and increase stockholders' equity.
Answer: C
Diff: 2
LO: 2-2
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21) Paying a repair bill as soon as it was received would:
A) increase expenses.
B) increase liabilities.
C) increase stockholders' equity.
D) decrease revenues.
Answer: A
Diff: 2
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

22) If a company buys inventory on account:
A) cash decreases.
B) accounts payable increases.
C) net income increases.
D) total assets remain the same.
Answer: B
Diff: 2
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

23) Receiving a payment from a customer on account:
A) increases stockholders' equity.
B) has no effect on total assets.
C) decreases stockholders' equity.
D) decreases liabilities.
Answer: B
Diff: 2
LO: 2-2
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24) Which of the following transactions would decrease an asset and decrease stockholders' equity?
A) payment of an accounts payable
B) performance of a service for a client on account
C) borrowing money from the bank for thirty days
D) declaration and payment of a dividend to the shareholders
Answer: D
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

25) Performing services on account:
A) decreases both assets and liabilities.
B) increases assets and decreases stockholders' equity.
C) decreases revenues and decreases stockholders' equity.
D) increases both net income and stockholders' equity.
Answer: D
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

26) To compute the ending balance of retained earnings:
A) the beginning balance in retained earnings will be negative for a new business.
B) net loss for the period is subtracted from the beginning balance of retained earnings.
C) dividends are added to the beginning balance of retained earnings.
D) common stock sold during the period is added to the beginning balance of retained earnings.
Answer: B
Diff: 3
LO: 2-2
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27) To compute ending balance of retained earnings on the statement of retained earnings:
A) net loss is added to the beginning balance of retained earnings and dividends that were declared and paid are subtracted from the beginning balance of retained earnings.
B) net income and dividends are both added to the beginning balance of retained earnings.
C) net loss and dividends are both added to the beginning balance of retained earnings.
D) net income is added to the beginning balance of retained earnings.
Answer: D
Diff: 2
LO: 2-2
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

28) For a new business, the beginning balance of retained earnings equals:
A) cash invested by the stockholders.
B) beginning balance of the common stock account.
C) zero.
D) budgeted net income for the first year.
Answer: C
Diff: 2
LO: 2-2
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

29) When preparing the financial statements from a spreadsheet that shows the results of a transaction analysis:
A) a statement of retained earnings is not required.
B) the balance sheet reports the beginning balance of retained earnings.
C) assets, liabilities, and stockholders' equity are reported on the balance sheet.
D) revenues, expenses, and dividends are reported on the income statement.
Answer: C
Diff: 2
LO: 2-2
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30) Lori Nichols started an engineering firm, Engineering Enterprises P.C. During its first month of operations, the following transactions were completed:
I. Lori invested $33,000 in the business, which in turn issued common stock to her.
II. The business purchased equipment on account for $6,000.
III. The business provided engineering services on account, $12,000.
IV. The business paid salaries to the receptionist, $4,000.
V. The business received cash from a customer as payment on account $7,000.
VI. The business borrowed $9,000 from the bank, issuing a note payable.

At the end of the month, cash equals:
A) $33,000.
B) $38,000.
C) $45,000.
D) $71,000.
Answer: C
Explanation: Investment $33,000 - Salaries Paid $4,000 + Customer Collection $7,000 + Cash from Loan $9,000 = $45,000
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

31) Linda Keller opened a consulting firm, Keller Consulting P.C. During its first month of operations, the following transactions were completed:
I. Linda invested $30,000 in the business, which in turn issued common stock to her.
II. The business purchased equipment on account for $64,000.
III. The business provided consulting services on account, $13,000.
IV. The business paid cash salaries to the receptionist, $2,000.
V. The business received cash from a customer as payment on account $6,000.
VI. The business borrowed $9,000 from the bank, issuing a note payable.

At the end of the month, total liabilities are:
A) $9,000.
B) $64,000.
C) $73,000.
D) $77,000.
Answer: C
Explanation: Accounts Payable $64,000 + Note Payable $9,000 = $73,000
Diff: 3
LO: 2-2
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32) A company completed the following transactions during the month of October:
I. Purchased office supplies on account, $5,400.
II. Provided services for cash, $21,000.
III. Provided services on account, $36,000.
IV. Collected cash from a customer on account, $29,000.
V. Paid the monthly rent of $4,600.

What was the company's total revenue for the month?
A) $21,000
B) $36,000
C) $57,000
D) $86,000
Answer: C
Explanation: Service Revenue $21,000 + Service Revenue $36,000 = $57,000
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

33) A company completed the following transactions during the month of October:
I. Purchased office supplies on account, $4,400.
II. Provided services for cash, $22,000.
III. Provided services on account, $13,000.
IV. Collected cash from a customer on account, $8,800.
V. Paid the monthly rent of $16,000.

What was the company's net income for the month?
A) $13,000
B) $19,000
C) $35,000
D) $51,000
Answer: B
Explanation: Service Revenue $22,000 + Service Revenue $13,000 - Rent Expense $16,000 = $19,000
Diff: 3
LO: 2-2
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34) A company had credit sales of $33,000 and cash sales of $25,000 during the month of May. Also during May, the company paid wages of $22,000 and utilities of $8,000. It also received payments from customers on account totaling $5,800. What was the company's net income for the month?
A) $25,000
B) $28,000
C) $58,000
D) $88,000
Answer: B
Explanation: Sales Revenue $33,000 + Sales Revenue $25,000 - Wage Expense $22,000 - Utilities Expense $8,000 = $28,000
Diff: 2
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

35) A company had credit sales of $40,000 and cash sales of $14,000 during the month of May. Also during May, the company paid wages of $13,000 and utilities of $2,800. It also received payments from customers on account totaling $8,000. At the beginning of May, the company had a cash balance of $25,000. What is the company's cash balance at the end of May?
A) $23,200
B) $31,200
C) $39,000
D) $47,000
Answer: B
Explanation: Beginning Balance Cash $25,000 + Cash Sales $14,000 - Wages paid $13,000 - Utilities paid $2,800 + Cash Collected from Customers $8,000 = $31,200
Diff: 2
LO: 2-2
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36) Jenkins Company began business in June when stockholders invested $85,000 in the business, which in turn issued its common stock to them. Jenkins Company then purchased a building for $43,000 cash and inventory for $24,000 cash, performed services for clients for $15,000 cash, purchased supplies for $7,000 cash, and paid utilities of $4,000 cash. What is the amount of cash at the end of June?
A) $18,000
B) $22,000
C) $33,000
D) $46,000
Answer: B
Explanation: Issue Stock $85,000 - Buy Building $43,000 - Buy Inventory $24,000 + Service Revenue $15,000 - Supplies paid $7,000 - Utilities paid $4,000 = $22,000
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

37) A company received $35,000 cash and issued common stock in exchange. How does this transaction affect the accounting equation?
A) Add $35,000 to Cash and add $35,000 to Retained Earnings.
B) Add $35,000 to Cash and add $35,000 to Revenue.
C) Add $35,000 to Dividends and subtract $35,000 from Retained Earnings.
D) Add $35,000 to Cash and add $35,000 to Common Stock.
Answer: D
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

38) A company purchased supplies of $2,000 on account. How does this transaction affect the accounting equation?
A) Add $2,000 to Supplies and add $2,000 to Notes Payable.
B) Add $2,000 to Supplies and subtract $2,000 from Cash.
C) Add $2,000 to Supplies Expense and add $2,000 to Notes Payable.
D) Add $2,000 to Supplies and add $2,000 to Accounts Payable.
Answer: D
Diff: 3
LO: 2-2
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39) A company performed tax services for a client on account. The amount billed to the client was $7,000. How does this transaction affect the accounting equation?
A) Add $7,000 to Cash and add $7,000 to Service Revenue.
B) Add $7,000 to Cash and add $7,000 to Retained Earnings.
C) Add $7,000 to Accounts Receivable and add $7,000 to Retained Earnings.
D) Add $7,000 to Accounts Payable and add $7,000 to Service Revenue.
Answer: C
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
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AICPA Functional: Measurement

40) On May 1, a company provided legal services for a new client. The legal fee was $2,000 and the client paid, by check, before leaving the office that day. How does this transaction affect the accounting equation?
A) Add $2,000 to Cash and subtract $2,000 from Service Revenue.
B) Add $2,000 to Cash and add $2,000 to Retained Earnings.
C) Add $2,000 to Cash and subtract $2,000 from Accounts Receivable.
D) Add $2,000 to Cash and subtract $2,000 from Accounts Payable.
Answer: B
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

41) A company paid $3,000 for supplies that were purchased earlier in the month on account. How does this transaction affect the accounting equation?
A) Add $3,000 to Supplies and add $3,000 to Supplies Expense.
B) Add $3,000 to Supplies Expense and subtract $3,000 from Cash.
C) Add $3,000 to Supplies Expense and add $3,000 to Cash.
D) Subtract $3,000 from Accounts Payable and subtract $3,000 from Cash.
Answer: D
Diff: 3
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42) On August 15, a customer paid $5,000 for services provided a month earlier. The customer was billed on August 1. How does this transaction affect the accounting equation?
A) Add $5,000 to Cash and add $5,000 to Service Revenue.
B) Add $5,000 to Cash and add $5,000 to Retained Earnings.
C) Add $5,000 to Cash and subtract $5,000 from Accounts Receivable.
D) Add $5,000 to Accounts Payable and add $5,000 to Cash.
Answer: C
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

43) A company received a utility bill for $2,300 and decided to pay it next month due to a shortage of cash. How does this transaction affect the accounting equation?
A) Add $2,300 to Utilities Expense and add $2,300 to Cash.
B) Subtract $2,300 from Cash and add $2,300 to Accounts Payable.
C) Add $2,300 to Accounts Receivable and subtract $2,300 from Retained Earnings.
D) Add $2,300 to Accounts Payable and subtract $2,300 from Retained Earnings.
Answer: D
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

44) A company borrowed $15,000 from the bank by signing a long-term note. How does this transaction affect the accounting equation?
A) Add $15,000 to Cash and add $15,000 to Accounts Payable.
B) Add $15,000 to Cash and add $15,000 to Notes Payable.
C) Add $15,000 to Cash and add $15,000 to Retained Earnings.
D) Add $15,000 to Accounts Receivable and add $15,000 to Accounts Payable.
Answer: B
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
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AICPA Functional: Measurement

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45) A receptionist worked one month and was paid $3,800 on the last day of the month. How does this transaction affect the accounting equation?
A) Add $3,800 to Cash and add $3,800 to Accounts Payable.
B) Add $3,800 to Accounts Receivable and subtract $3,800 from Cash.
C) Add $3,800 to Salary Expense and subtract $3,800 from Retained Earnings.
D) Subtract $3,800 from Cash and subtract $3,800 from Retained Earnings.
Answer: D
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

46) A company declared and paid dividends of $1,300. How does this transaction affect the accounting equation?
A) Add $1,300 to Revenue and add $1,300 to Cash.
B) Add $1,300 to Dividends and add $1,300 to Accounts Receivable.
C) Subtract $1,300 from Retained Earnings and subtract $1,300 from Cash.
D) Add $1,300 to Dividend Expense and subtract $1,300 from Cash.
Answer: C
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

47) In transaction analysis, revenues and expenses that arise in different transactions are recorded in the _____ column of the accounting equation.
A) Multistep
B) Common Stock
C) Dividends
D) Retained Earnings
Answer: D
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

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48) In transaction analysis, the declaration and payment of dividends is recorded in the _____ and _____ columns of the accounting equation.
A) Dividends; Cash
B) Expenses; Accounts Receivable
C) Expenses; Accounts Payable
D) Retained Earnings; Cash
Answer: D
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

49) Transaction analysis and the accounting equation have been used to record several transactions for a company. The transactions are now recorded on a multi-column spreadsheet. When preparing an income statement with this spreadsheet, which column would be used?
A) Cash
B) Accounts Payable
C) Dividends
D) Retained Earnings
Answer: D
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

50) Transaction analysis and the accounting equation have been used to record several transactions for a company. The transactions are now recorded on a multi-column spreadsheet. When preparing a statement of retained earnings with this spreadsheet, which column would be used?
A) Cash
B) Accounts Receivable
C) Retained Earnings
D) Revenue
Answer: C
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

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51) Transaction analysis and the accounting equation have been used to record several transactions for a company. The transactions are now recorded on a multi-column spreadsheet. When preparing a balance sheet with this spreadsheet, which column(s) would be used?
A) final balances of asset columns only
B) final balances of liability columns only
C) final balances of stockholders' equity columns only
D) all of the above
Answer: D
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

52) A single-step income statement reports different types of revenue that include:
A) sales revenue and service revenue.
B) income tax expense, utilities expense, rent expense.
C) operating income, income before income taxes, and net income.
D) cost of goods sold and operating expenses.
Answer: A
Diff: 3
LO: 2-2
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

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53) Beckowsik Company began business in June and completed the following transactions:
A) Received $50,000 cash and issued common stock to the stockholders.
B) Purchased supplies for $5,000 on account.
C) Received and paid utilities bill of $2,000 for the month.
D) Performed services for a customer and billed the customer $6,000.
E) Received $3,000 from the customer on account.
F) Paid for the supplies purchased on account.
G) Purchased equipment for $10,000 on account.
H) Declared and paid dividends of $2,200.

Required:
1. Record the effects of the above transactions on the accounting equation.
2. Prove the accounting equation using the final balances in the accounts.
Answer:
1.

Trans.	Cash	Accts. Rec.	Supplies	Equip-ment	Accts. Pay.	Common Stock	Retained Earnings	
A	+50,000					+50,000		
B			+5,000		+5,000			
C	(2,000)						(2,000)	Utilities Expense
D		+ 6,000					+6,000	Service Revenue
E	+3,000	(3,000)						
F	(5,000)				(5,000)			
G				+10,000	+10,000			
H	(2,200)						(2,200)	Dividends
Totals	43,800	3,000	5,000	10,000	10,000	50,000	1,800	

2. Accounting Equation:
Cash $43,800 + Accounts Receivable $3,000 + Supplies $5,000 + Equipment $10,000 = Accounts Payable $10,000 + Common Stock $50,000 + Retained Earnings $1,800 = $61,800
Diff: 3
LO: 2-2
AACSB: Analytical Thinking
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AICPA Functional: Measurement, Reporting

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54) Indicate whether the account is an asset (A), liability (L), stockholders' equity (SE), revenue (R) or expense (E) account. Also indicate if the account would appear on the Balance Sheet (BS), Income Statement (IS), Statement of Cash Flows (CF) or the Statement of Retained Earnings (SRE).

	ACCOUNT	TYPE OF ACCOUNT	FINANCIAL STATEMENT
1.	Equipment		
2.	Common Stock		
3.	Accounts Payable		
4.	Service Revenue		
5.	Salary Expense		
6.	Inventory		
7.	Accounts Receivable		
8.	Retained Earnings		
9.	Notes Payable		
10.	Prepaid Insurance		
11.	Dividends		
12.	Cash		

Answer:

	ACCOUNT	TYPE OF ACCOUNT	FINANCIAL STATEMENT
1.	Equipment	A	BS
2.	Common Stock	SE	BS
3.	Accounts Payable	L	BS
4.	Service Revenue	R	IS
5.	Salary Expense	E	IS
6.	Inventory	A	BS
7.	Accounts Receivable	A	BS
8.	Retained Earnings	SE	BS, SRE
9.	Notes Payable	L	BS
10.	Prepaid Insurance	A	BS
11.	Dividends	SE	SRE, CF
12.	Cash	A	BS, CF

Diff: 2
LO: 2-2
AACSB: Analytical Thinking
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Learning Objective 2-3

1) The double-entry system of accounting records the dual effects of transactions on the entity.
Answer: TRUE
Diff: 1
LO: 2-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

2) When using the double-entry system of accounting each transaction affects only two accounts.
Answer: FALSE
Diff: 1
LO: 2-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

3) When using T-accounts, the difference between the total credits and the total debits is the balance in the account.
Answer: TRUE
Diff: 1
LO: 2-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

4) The left-hand side of a T account is the debit side and the right-hand side is the credit side.
Answer: TRUE
Diff: 1
LO: 2-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

5) Accounts Receivable is increased with a credit.
Answer: FALSE
Diff: 2
LO: 2-3
AACSB: Analytical Thinking
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AICPA Functional: Measurement

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6) Every business transaction involves at least one debit and at least one credit.
Answer: TRUE
Diff: 1
LO: 2-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

7) Assets, revenues, and dividends are all increased with debits.
Answer: FALSE
Diff: 2
LO: 2-3
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

8) Common stock and retained earnings are increased with debits.
Answer: FALSE
Diff: 2
LO: 2-3
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

9) If the sum of the credits to an account exceed the sum of the debits to the account, the account will have a credit balance.
Answer: TRUE
Diff: 1
LO: 2-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

10) The left side of a T-account is always the:
A) increase side.
B) decrease side.
C) debit side.
D) credit side.
Answer: C
Diff: 1
LO: 2-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

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11) When working with T accounts, an important rule to remember is:
A) when an account is debited, an amount is entered on the right-hand side on the T account.
B) an increase to accounts payable will be recorded as a debit.
C) to credit an account means to enter an amount on the right-hand side of the T account.
D) the debit side of a T account is on the right-hand side of the T account for assets and expenses.
Answer: C
Diff: 2
LO: 2-3
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

12) Which of the following statements, regarding the rules of debits and credits, is CORRECT?
A) An asset is increased by a credit.
B) Common stock is increased by a debit.
C) A liability is increased by a debit.
D) Revenue is increased by a credit.
Answer: D
Diff: 3
LO: 2-3
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

13) Decreases in stockholders' equity that result from the cost of operating the business are:
A) assets.
B) revenues.
C) expenses.
D) liabilities.
Answer: C
Diff: 2
LO: 2-3
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AICPA Functional: Measurement

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14) An important rule of debits and credits is:
A) credits increase revenue accounts.
B) debits decrease asset accounts.
C) debits increase liability accounts.
D) credits increase asset accounts.
Answer: A
Diff: 2
LO: 2-3
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

15) Which accounts are increased by debits?
A) Cash and Accounts Payable.
B) Salaries Expense and Common Stock.
C) Accounts Receivable and Utilities Expense.
D) Accounts Payable and Service Revenue.
Answer: C
Diff: 3
LO: 2-3
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

16) Company A received cash and issued stock to a new stockholder. In recording this transaction:
A) Cash would be debited.
B) Common Stock would be debited.
C) Cash would be credited.
D) Retained Earnings would be credited.
Answer: A
Diff: 2
LO: 2-3
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AICPA Functional: Measurement

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17) Complete the following chart indicating if the account is increased with a debit or a credit.

ACCOUNT	INCREASED WITH A:
Accounts Receivable	
Accounts Payable	
Common Stock	
Dividends	
Service Revenue	
Interest Expense	
Interest Revenue	
Note Payable	
Retained Earnings	
Inventory	
Short-term Investments	

Answer:

ACCOUNT	INCREASED WITH A:
Accounts Receivable	Debit
Accounts Payable	Credit
Common Stock	Credit
Dividends	Debit
Service Revenue	Credit
Interest Expense	Debit
Interest Revenue	Credit
Note Payable	Credit
Retained Earnings	Credit
Inventory	Debit
Short-term Investments	Debit

Diff: 2
LO: 2-3
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18) Indicate whether the account is increased with a debit or a credit. Also indicate if the account would appear on the Balance Sheet (BS), Income Statement (IS), or the Statement of Retained Earnings (SRE).

ACCOUNT:	INCREASED WITH A:	FINANCIAL STATEMENT:
Prepaid Rent		
Interest Payable		
Retained Earnings		
Dividends		
Common Stock		
Cost of Goods Sold		

Answer:

ACCOUNT:	INCREASED WITH A:	FINANCIAL STATEMENT:
Prepaid Rent	Debit	BS
Interest Payable	Credit	BS
Retained Earnings	Credit	BS, SRE
Dividends	Debit	SRE
Common Stock	Credit	BS
Cost of Goods Sold	Debit	IS

Diff: 2
LO: 2-3
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

Learning Objective 2-4

1) In the journalizing process, the credit side is entered on the left margin, and the debit side is indented to the right.
Answer: FALSE
Diff: 1
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

2) The journal is the book of original entry.
Answer: TRUE
Diff: 1
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

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3) Posting is the process of copying data from the ledger to the journal.
Answer: FALSE
Diff: 2
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

4) The total debits to an account must equal the total credits to the account.
Answer: FALSE
Diff: 2
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

5) In a journal entry, the sum of the debits must always equal the sum of the credits.
Answer: TRUE
Diff: 1
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

6) Journal entries can have more than two accounts as long as the total debits equal the total credits.
Answer: TRUE
Diff: 2
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

7) Each journal entry should contain a brief description of the transaction.
Answer: TRUE
Diff: 1
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

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8) The balance of an account is the difference between the account's total debits and total credits.
Answer: TRUE
Diff: 1
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

9) Entering a transaction in the journal is also known as booking the journal entry.
Answer: TRUE
Diff: 1
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

10) The journal is a grouping of all the T-accounts, with their balances.
Answer: FALSE
Diff: 1
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

11) Posting accounting transactions avoids the necessity of journalizing transactions.
Answer: FALSE
Diff: 1
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

12) Accounting transactions are initially recorded in the:
A) T-account.
B) ledger.
C) journal.
D) financial statements.
Answer: C
Diff: 2
LO: 2-4
AACSB: Reflective Thinking
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AICPA Functional: Measurement

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13) The first step in recording a transaction in the journal is:
A) determining whether each account is increased or decreased by the transaction.
B) copying the information from the journal to the ledger.
C) entering the debit side of the journal entry on the left margin and the credit side, which is indented to the right.
D) specifying each account affected by the transaction and classifying the account by type.
Answer: D
Diff: 2
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

14) The process of copying the information from the journal to the trial balance is:
A) called posting.
B) not part of the accounting process.
C) called journalizing.
D) used to prepare the financial statements.
Answer: B
Diff: 2
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

15) In order to see a complete transaction in one place, you would need to look at the:
A) trial balance.
B) ledger.
C) journal.
D) financial statements.
Answer: C
Diff: 2
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

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16) Entries are listed in the journal:
A) alphabetically.
B) chronologically.
C) with income statement accounts first and then balance sheet accounts.
D) in order of importance.
Answer: B
Diff: 2
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

17) An account will have a debit balance if:
A) the amount of the credits exceeds the amount of the debits.
B) the amount of the debits exceeds the amount of the credits.
C) the account has more debit entries than credit entries.
D) it is a liability account.
Answer: B
Diff: 2
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

18) What is the last step in the journalizing process?
A) Record the transaction in the journal.
B) Post the journal entry to the ledger.
C) Determine whether each account is increased or decreased by the transaction.
D) Specify each account affected by the transaction and classify each account by type.
Answer: A
Diff: 2
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

19) Which of the following items would NOT be included in the journal entry for a transaction?
A) the names of the employees involved in recording the transaction
B) the date the transaction occurred
C) the titles of the accounts debited
D) the dollar amount of the transaction
Answer: A
Diff: 2
LO: 2-4
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20) The proper order for the accounting process is:
A) posting, transaction occurs, journalizing.
B) transaction occurs, posting, journalizing.
C) transaction occurs, transaction analyzed, journalizing, and posting.
D) transaction occurs**,** posting, transaction analyzed, journalizing.
Answer: C
Diff: 2
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

21) The ledger:
A) is a grouping of all of the balance sheet accounts only.
B) is a grouping of all the income statement accounts only.
C) contains all the accounts used by a business.
D) contains only the permanent accounts used by a business.
Answer: C
Diff: 2
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

22) Posting is:
A) copying the information from the journal to the trial balance.
B) entering the data into the journal.
C) copying the information from the journal to the ledger.
D) copying the information from the ledger to the financial statements.
Answer: C
Diff: 2
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

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23) Every journal entry:
A) must increase at least one account and decrease at least one account.
B) must debit at least one account and credit at least one account.
C) is recorded in either the journal or the ledger.
D) affects both an income statement account and a balance sheet account.
Answer: B
Diff: 2
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

24) In order to determine the balance in an account, you must look at the:
A) source documents.
B) journals.
C) ledger.
D) book of original entry.
Answer: C
Diff: 2
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

25) When an expense account is increased:
A) an amount is entered on the credit side of the expense account.
B) an amount is entered on the debit side of the expense account.
C) cash must always be credited.
D) stockholders' equity is not affected.
Answer: B
Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

26) The entry to record the purchase of supplies on account includes a credit to:
A) Supplies.
B) Accounts Payable.
C) Supplies Expense.
D) Cash.
Answer: B
Diff: 2
LO: 2-4
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27) Which of the following transactions includes a credit to cash?
A) the purchase of supplies on account
B) the payment of an accounts payable
C) the collection of cash from an accounts receivable
D) receipt of cash from a customer when service is provided
Answer: B
Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

28) If a journal entry includes a debit to Accounts Payable and a credit to Cash:
A) Cash will have a credit balance.
B) Accounts Payable is increased.
C) Cash is increased.
D) Accounts Payable is decreased.
Answer: D
Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

29) On March 31, Baker Company received a bill and paid for advertising costs for the current month. This payment results in a:
A) debit to Cash.
B) debit to Prepaid Advertising.
C) debit to Advertising Expense.
D) credit to Advertising Revenue.
Answer: C
Diff: 2
LO: 2-4
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30) A journal entry that debits Cash and credits Accounts Receivable indicates that:
A) payment was received on account.
B) payment was made on account.
C) revenue increased.
D) revenue decreased.
Answer: A
Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

31) An owner makes an investment of cash into the business and receives shares of stock. This transaction is recorded as a:
A) debit to Common Stock and a credit to Cash.
B) debit to Cash and a credit to Common Stock.
C) debit to Cash and a credit to Retained Earnings.
D) debit to Cash and a credit to Stockholder Revenue.
Answer: B
Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

32) A transaction that includes a debit to an expense and a credit to a liability indicates that:
A) revenues increased.
B) expenses decreased.
C) liabilities increased.
D) liabilities decreased.
Answer: C
Diff: 3
LO: 2-4
AACSB: Analytical Thinking
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AICPA Functional: Measurement

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33) The purchase of equipment, involving a cash down payment and a promise to pay the balance in the future, includes:
A) a debit to Cash and a credit to Equipment.
B) a debit to Note Payable and a credit to Cash.
C) a credit to Cash and a credit to Accounts Payable.
D) a debit to Cash and a debit to Note Payable.
Answer: C
Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

34) The purchase of office computers for cash includes a debit to:
A) Cash and a credit to Office Equipment.
B) Office Equipment and a credit to Accounts Payable.
C) Accounts Receivable and credit to Office Equipment.
D) Office Equipment and a credit to Cash.
Answer: D
Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

35) A company sold land for the same price that they paid for it last year. When entering this transaction in the journal, there will be a:
A) credit to Land.
B) debit to Land.
C) debit to Accounts Payable.
D) credit to Accounts Receivable.
Answer: A
Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

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36) A partner in Sturm Company purchased a new yacht, for personal use, with his own funds. Sturm Company would:
A) debit an asset account.
B) credit a revenue account.
C) credit a liability account.
D) not record the transaction in its books.
Answer: D
Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

37) Jaye Company purchased a new building by signing a note for $25,000. The entry to record the transaction is:
A)

Cash	25,000	
Note Payable		25,000

B)

Building	25,000	
Cash		25,000

C)

Note Payable	25,000	
Cash		25,000

D)

Building	25,000	
Notes Payable		25,000

Answer: D
Diff: 3
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

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38) When posting a journal entry to the ledger, transfer:
A) the dollar amount of debits in the journal entry to the appropriate accounts.
B) the dollar amounts of credits in the journal entry to the appropriate accounts.
C) the name of the person who prepared the journal entry.
D) A and B.
Answer: D
Diff: 2
LO: 2-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

39) A business paid $50,000 cash to purchase equipment. The business would:
A) debit Equipment for $50,000 and credit Accounts Payable for $50,000.
B) debit Equipment for $50,000 and credit Cash for $50,000.
C) debit Cash for $50,000 and credit Notes Payable for $50,000.
D) debit Accounts Payable for $50,000 and credit Cash for $50,000.
Answer: B
Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

40) A business purchased office supplies of $23,000 by signing a note. The business would:
A) debit Supplies for $23,000 and credit Accounts Payable for $23,000.
B) debit Supplies for $23,000 and credit Notes Payable for $23,000.
C) debit Notes Receivable for $23,000 and credit Supplies for $23,000.
D) debit Notes Payable for $23,000 and credit Supplies Expense for $23,000.
Answer: B
Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

41) A business purchased office supplies of $28,000 on account. The business would:
A) debit Accounts Receivable for $28,000 and credit Supplies for $28,000.
B) debit Supplies for $28,000 and credit Cash for $28,000.
C) debit Accounts Payable for $28,000 and credit Supplies for $28,000.
D) debit Supplies for $28,000 and credit Accounts Payable for $28,000.
Answer: D
Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

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42) A business paid $2,500 on account. The journal entry would:
A) debit Accounts Receivable for $2,500 and credit Revenue for $2,500.
B) debit Accounts Payable for $2,500 and credit Cash for $2,500.
C) debit Cash for $2,500 and credit Retained Earnings for $2,500.
D) debit Cash for $2,500 and credit Accounts Payable for $2,500.
Answer: B
Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

43) Two employees worked one week and were paid salaries of $2,500. The journal entry would:
A) debit Cash for $2,500 and credit Salaries Payable for $2,500.
B) debit Cash for $2,500 and credit Salary Expense for $2,500.
C) debit Accounts Payable for $2,500 and credit Salary Payable for $2,500.
D) debit Salary Expense for $2,500 and credit Cash for $2,500.
Answer: D
Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

44) A business sold equipment for $44,900 cash. The equipment was purchased one month earlier for $44,900 but the plans for the equipment changed.
A) Debit Equipment for $44,900 and credit Cash for $44,900.
B) Debit Equipment for $44,900 and credit Retained Earnings for $44,900.
C) Debit Cash for $44,900 and credit Equipment for $44,900.
D) Debit Retained Earnings for $44,900 and credit Equipment for $44,900.
Answer: C
Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

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45) On May 1, a business provided legal services to a client and billed the client $4,000. The client promised to pay the business in one month. Which journal entry should the business record on May 1?
A) Debit Cash for $4,000 and credit Service Revenue for $4,000.
B) Debit Cash for $4,000 and credit Retained Earnings for $4,000.
C) Debit Accounts Receivable for $4,000 and credit Service Revenue for $4,000.
D) Debit Accounts Payable for $4,000 and credit Service Revenue for $4,000.
Answer: C
Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

46) On May 10, a business collected $4,200 on account. What journal entry is needed on that date?
A) Debit Cash for $4,200 and credit Revenue for $4,200.
B) Debit Accounts Receivable for $4,200 and credit Revenue for $4,200.
C) Debit Cash for $4,200 and credit Accounts Receivable for $4,200.
D) Debit Accounts Payable for $4,200 and credit Revenue for $4,200.
Answer: C
Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

47) A business received the current month's utility bill for $2,125, and immediately paid it. Which journal entry is prepared?
A) Debit Accounts Payable for $2,125 and credit Cash for $2,125.
B) Debit Utilities Payable for $2,125 and credit Cash for $2,125.
C) Debit Utilities Expense for $2,125 and credit Cash for $2,125.
D) Debit Operating Expense for $2,125 and credit Accounts Payable for $2,125.
Answer: C
Diff: 2
LO: 2-4
AACSB: Analytical Thinking
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AICPA Functional: Measurement

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48) Prepare the journal entry for the following transaction:
The business acquired land by paying $50,000 in cash and signing a promissory note for $250,000.

Accounts and Explanation	Debit	Credit

Answer:

Accounts and Explanation	Debit	Credit
Land	300,000	
Cash		50,000
Notes Payable		250,000
Acquired land; paid cash and signed a note payable.		

Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

49) Prepare the journal entry for the following transaction:
The Board of Directors of XYZ Corporation declared dividends of $6,000. These dividends were paid to the stockholders on the same date.

Accounts and Explanation	Debit	Credit

Answer:

Accounts and Explanation	Debit	Credit
Dividends	6,000	
Cash		6,000
Declared and paid dividends.		

Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

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50) Prepare the journal entry(ies) for the following transactions:
May 2, 2019: Main Street Enterprises purchased office supplies, for $2,000, on account.
June 2, 2019: Main Street paid for the supplies.

Date	Accounts and Explanation	Debit	Credit

Answer:

Date	Accounts and Explanation	Debit	Credit
May 2	Office Supplies	2,000	
	Accounts Payable		2,000
	Purchased office supplies on account.		
June 2	Accounts Payable	2,000	
	Cash		2,000
	Paid for supplies purchased on May 2nd		

Diff: 2
LO: 2-4
AACSB: Analytical Thinking
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AICPA Functional: Measurement, Reporting

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51) Prepare the necessary journal entry(ies) for the following transactions:
Feb 10, 2019: Jones Consulting performed services for clients. These clients were billed $2,500.
March 8, 2019: Jones received full payment from these clients.

Date	Accounts and Explanation	Debit	Credit

Answer:

Date	Accounts and Explanation	Debit	Credit
Feb 10	Accounts Receivable	2,500	
	Service Revenue		2,500
	Performed services on account.		
March 8	Cash	2,500	
	Accounts Receivable		2,500
	Received cash from clients billed Feb 10th		

Diff: 2
LO: 2-4
AACSB: Analytical Thinking
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AICPA Functional: Measurement, Reporting

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52) Prepare the journal entry for the following transaction:
On June 12, the business paid $4,500 for the following expenses: employee salary, $3,000; utilities, $1,000, and repairs, $500.

Date	Accounts and Explanation	Debit	Credit

Answer:

Date	Accounts and Explanation	Debit	Credit
June 12	Salary Expense	3,000	
	Utilities Expense	1,000	
	Repairs Expense	500	
	Cash		4,500
	Paid expenses		

Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

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53) Latinovich Legal Services had the following transactions during its first month of operations:

May 1 Latinovich Legal Services received $20,000 cash and issued common stock to the stockholders.
May 1 Paid the May rent, $5,000.
May 3 Purchased equipment on account for $3,000.
May 5 Purchased supplies for $2,000 on account.
May 8 Performed services for a client and received cash of $11,800.
May 12 Performed services for a client and billed the client $12,200. The client promised to pay within 10 days.
May 15 Paid for the equipment purchased May 3 on account.
May 22 Received payment from a client on account, $12,200.
May 28 Borrowed $10,000, by signing a promissory note, from First National Bank for use in the business.
May 31 Employees were paid $3,000 for working during the current month.
May 31 Received and paid the utility bill of $1,800.

Required: Record the transactions of the business in a journal. Include an explanation for each entry.
Answer:

Date	Account	Dr	Cr
May 1	Cash	20,000	
	Common Stock		20,000
	Issued common stock.		
1	Rent expense	5,000	
	Cash		5,000
	Paid May rent.		
3	Equipment	3,000	
	Accounts Payable		3,000
	Purchased equipment on account.		
5	Supplies	2,000	
	Accounts payable		2,000
	Purchased supplies on account.		
8	Cash	11,800	
	Service Revenue		11,800
	Performed services for cash.		
12	Accounts Receivable	12,200	
	Service Revenue		12,200
	Performed services on account.		

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15	Accounts payable	3,000	
	Cash		3,000
	Paid cash on account.		
22	Cash	12,200	
	Accounts Receivable		12,200
	Collected cash on account.		
28	Cash	10,000	
	Note Payable		10,000
	Borrowed from bank.		
31	Salary Expense	3,000	
	Cash		3,000
	Paid salaries for month.		
31	Utility Expense	1,800	
	Cash		1,800
	Paid utility expense.		

Diff: 2
LO: 2-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

Learning Objective 2-5

1) Accounts are listed in random order in a trial balance.
Answer: FALSE
Diff: 1
LO: 2-5
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

2) A trial balance is a required financial statement.
Answer: FALSE
Diff: 1
LO: 2-5
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

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3) Although a trial balance can be prepared at any time, the most common time is at the end of the accounting period.
Answer: TRUE
Diff: 2
LO: 2-5
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

4) The trial balance summarizes all the account balances for the financial statements and shows whether total debits equal total credits.
Answer: TRUE
Diff: 2
LO: 2-5
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

5) The trial balance for James Corporation shows that the total debits equal the total credits. This indicates that all of the accounts are free from errors.
Answer: FALSE
Diff: 2
LO: 2-5
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

6) When a trial balance is out of balance due to a transposition error, the difference between total debits and total credits will be evenly divisible by 2.
Answer: FALSE
Diff: 2
LO: 2-5
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

7) When a trial balance is out of balance due to a slide-type error, the difference between total debits and total credits will be evenly divisible by 9.
Answer: TRUE
Diff: 2
LO: 2-5
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AICPA Functional: Measurement

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8) A bookkeeper posted the same journal entry twice. This will cause the trial balance to be out of balance.
Answer: FALSE
Diff: 2
LO: 2-5
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

9) The financial statements can be prepared from the trial balance.
Answer: TRUE
Diff: 2
LO: 2-5
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

10) An account with a normal debit balance is most often an asset or revenue account.
Answer: FALSE
Diff: 2
LO: 2-5
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

11) The normal balance of an expense account is a _____ because expenses decrease _____.
A) debit; assets
B) debit; expenses
C) debit; retained earnings
D) credit; retained earnings
Answer: C
Diff: 2
LO: 2-5
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

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12) The normal balance of an account:
A) falls on the side where decreases are recorded.
B) falls on the side where increases are recorded.
C) must be computed after every transaction.
D) cannot be computed in a manual accounting system.
Answer: B
Diff: 2
LO: 2-5
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

13) The normal balance of a revenue account is a _____ because revenues increase _____.
A) credit; assets
B) debit; expenses
C) debit; retained earnings
D) credit; retained earnings
Answer: D
Diff: 2
LO: 2-5
AACSB: Analytical Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

14) When computing the normal balance of an account:
A) salaries expense should have a credit balance.
B) accounts payable should have a credit balance.
C) equipment should have a credit balance.
D) notes payable should have a debit balance.
Answer: B
Diff: 2
LO: 2-5
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AICPA Functional: Measurement

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15) Which error will be uncovered by a trial balance?
A) The bookkeeper recorded the same journal entry three times.
B) The bookkeeper forgot to record a journal entry for a large amount.
C) The bookkeeper recorded both the debit and credit of a journal entry as $200 instead of $700.
D) The bookkeeper recorded a journal entry with a debit of $400 and a credit of $400, as a debit of $400 and a credit of $40.
Answer: D
Diff: 2
LO: 2-5
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

16) The trial balance is used to determine if:
A) total assets equal total liabilities.
B) total debits of all the accounts equal total credits of all the accounts.
C) total debits of the income statement accounts equal the total credits of the income statement accounts.
D) total debits of the balance sheet accounts equal the total credits of the balance sheet accounts.
Answer: B
Diff: 2
LO: 2-5
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

17) A bookkeeper forgot to post a credit to Accounts Receivable, but did post the debit part of the journal entry correctly. Then:
A) the trial balance would still balance.
B) total debits would exceed total credits on the trial balance.
C) total credits would exceed total debits on the trial balance.
D) total debits and total credits would both be incorrect on the trial balance.
Answer: B
Diff: 3
LO: 2-5
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18) If a posting error has occurred whereby a debit is treated as a credit, then the out-of-balance amount on the trial balance will be evenly divisible by:
A) 11.
B) 9.
C) 2.
D) 5.
Answer: C
Diff: 2
LO: 2-5
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

19) If the trial balance does not balance, several steps can be taken to find the error. Which step will probably NOT help you find the error?
A) Tracing each account back and forth from the journal to the ledger.
B) Divide the out-of-balance amount by 2.
C) Divide the out-of-balance amount by 9.
D) Divide the out-of-balance amount by 5.
Answer: D
Diff: 2
LO: 2-5
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

20) A chart of accounts:
A) is used by an organization to determine the balance in all of their accounts.
B) lists all of the accounts of an organization in alphabetical order.
C) must be the same for all organizations.
D) lists all of an organization's accounts and account numbers.
Answer: D
Diff: 2
LO: 2-5
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

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21) Which of the following statements regarding a trial balance is TRUE?
A) A trial balance may be prepared at any time during the accounting period.
B) A trial balance is a list of all accounts used in a business with their balances.
C) A trial balance shows whether total debits equal total credits.
D) All of the above are true.
Answer: D
Diff: 2
LO: 2-5
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

22) A trial balance has which of the following features?
A) Totals for balance sheet accounts only.
B) Totals for income statement accounts only.
C) Totals for all accounts listed in the ledger.
D) Accounts are listed in alphabetical order.
Answer: C
Diff: 1
LO: 2-5
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

23) Which of the following is a CORRECT statement about a chart of accounts?
A) It lists the income statement accounts first.
B) It can be used to determine the balance in an account.
C) It is a tool used by accountants to help prepare the financial statements.
D) It lists the balance sheet accounts first.
Answer: D
Diff: 2
LO: 2-5
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

24) Which account has a normal debit balance?
A) Salaries Payable
B) Common Stock
C) Advertising Expense
D) Service Revenue
Answer: C
Diff: 2
LO: 2-5
AACSB: Analytical Thinking
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AICPA Functional: Measurement

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25) The normal balance of the Accounts Receivable account is a _____ because it is a(n) _____ account.
A) credit; liability
B) debit; stockholders' equity
C) credit; expense
D) debit; asset
Answer: D
Diff: 2
LO: 2-5
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

26) Accounts with normal debit balances include:
A) Cash, Accounts Receivable, and Accounts Payable.
B) Cash, Supplies, and Accounts Payable.
C) Cash, Accounts Receivable, and Supplies.
D) Cash, Supplies, and Notes Payable.
Answer: C
Diff: 2
LO: 2-5
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

27) Andy Company had a cash balance on May 1 of $27,000. At the end of May, the cash balance has increased to $31,000. During the month of May, Andy received cash of $48,000 from various sources. Based on this information, cash payments for the month of May were:
A) $27,000.
B) $31,000.
C) $44,000.
D) $75,000.
Answer: C
Explanation: $27,000 + $48,000 - $31,000 = $44,000
Diff: 3
LO: 2-5
AACSB: Analytical Thinking
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AICPA Functional: Measurement

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28) Yellow Company had a balance of $31,000 in Accounts Payable at the beginning of June, and purchased $104,000 of merchandise on account during the month. At the end of June, Yellow's Accounts Payable balance was $29,000. What amount did Yellow pay on account during June?
A) $44,000
B) $75,000
C) $104,000
D) $106,000
Answer: D
Explanation: $31,000 + $104,000 - $29,000 = $106,000
Diff: 3
LO: 2-5
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

29) The Accounts Receivable account for Johnny's Mechanic Shop had a beginning balance of $36,000. During the month, Johnny made sales on account of $46,000. The ending balance in the Accounts Receivable account is $32,000. What are cash collections for the month?
A) $36,000
B) $46,000
C) $50,000
D) $82,000
Answer: C
Explanation: $36,000 + $46,000 - $32,000 = $50,000
Diff: 3
LO: 2-5
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

30) The Diamond Store began business on June 1. During the month of June, Diamond had cash payments of $8,000. At the end of June, it had a $20,000 cash balance. Based on this information, the cash receipts for the month of June were:
A) $12,000.
B) $20,000.
C) $28,000.
D) $36,000.
Answer: C
Explanation: 0 + x - $8,000 = $20,000; x = $28,000
Diff: 3
LO: 2-5
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

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31) Simmons Company began the month with a balance of $84,000 in Accounts Receivable. An analysis of the account determined that sales on account for the month totaled $113,000. At the end of the month, the balance in Accounts Receivable was $86,000. From this information, it can be determined that Simmons Company had collections from customers on account of:
A) $29,000.
B) $57,000.
C) $115,000.
D) $111,000.
Answer: D
Explanation: $84,000 + $113,000 - $86,000 = $111,000
Diff: 3
LO: 2-5
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

32) The accounts of Local Company at May 31, 2019 are as follows:

Account	**Balance**
Accounts Payable	$23,500
Accounts Receivable	$15,600
Cash	$68,000
Common Stock	$32,000
Dividends	$3,000
Insurance Expense	$2,100
Retained Earnings	$25,800
Salary Expense	$1,100
Sales Revenue	$10,000
Supplies	$1,500

What are the first four lines, in proper order, on the trial balance at May 31, 2019?
A) Accounts Payable, Accounts Receivable, Cash, Common Stock
B) Sales Revenue, Salary Expense, Insurance Expense, Supplies
C) Cash, Accounts Receivable, Supplies, Accounts Payable
D) Accounts Payable, Dividends, Common Stock, Retained Earnings
Answer: C
Diff: 3
LO: 2-5
AACSB: Reflective Thinking
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33) The accounts of Yardy Company are as follows on November 30, 2019:

Account	Balance
Accounts Payable	$26,500
Accounts Receivable	$16,600
Cash	$73,000
Common Stock	$37,000
Dividends	$8,000
Insurance Expense	$4,100
Retained Earnings	$28,800
Salary Expense	$14,000
Sales Revenue	$11,000
Supplies	$1,500

What is the total of the debit column in the trial balance at November 30, 2019?
A) $100,300
B) $109,200
C) $117,200
D) $220,500
Answer: C
Explanation: Cash $73,000 + Accounts Receivable $16,600 + Supplies $1,500 + Dividends $8,000 + Insurance Expense $4,100 + Salary Expense $14,000 = $117,200
Diff: 3
LO: 2-5
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

34) When listing the accounts on the trial balance, list the _____ accounts first and then the _____ accounts.
A) income statement; cash flow statement
B) asset; liability
C) income statement; balance sheet
D) revenues; stockholders' equity
Answer: B
Diff: 3
LO: 2-5
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

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35) An example of a transposition error is writing:
A) $500 as $50.
B) $2,000 as $4,000.
C) $300 as $600.
D) $1,400 as $4,100.
Answer: D
Diff: 3
LO: 2-5
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

36) An example of a slide-type error is writing:
A) $1,300 as $3,100.
B) $300 as $600.
C) $5,000 as $10,000.
D) $500 as $50.
Answer: D
Diff: 3
LO: 2-5
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

37) A company did not record the receipt and payment of an utility bill for $2,500. Is the trial balance out of balance?
A) No.
B) Yes, by $2,500.
C) Yes, by $5,000.
D) Yes, by an indeterminate amount.
Answer: A
Explanation: The trial balance will still balance as no entry was written for debit or credit.
Diff: 3
LO: 2-5
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38) A company posted a $8,000 debit to Cash as $800. The credit of $8,000 to Service Revenue in the entry was posted correctly. Is the trial balance out of balance?
A) No.
B) Yes, by $800.
C) Yes, by $7,200.
D) Yes, by $8,000.
Answer: C
Explanation: $8,000 - $800 = $7,200
Diff: 3
LO: 2-5
AACSB: Analytical Thinking
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39) A company omitted a journal entry to record service revenue of $12,000 on account. Is the trial balance out of balance?
A) No.
B) Yes, by $12,000.
C) Yes, by $24,000.
D) Yes, by an indeterminate amount.
Answer: A
Explanation: The trial balance will still balance as no entry was written for debit or credit.
Diff: 3
LO: 2-5
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
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40) A company incorrectly recorded a receipt of cash on account. Accounts Receivable was debited for $1,400 and Cash was credited for $1,400. Is the trial balance out of balance?
A) No.
B) Yes, by $1,400.
C) Yes, by $2,800.
D) Yes, by $4,200.
Answer: A
Explanation: The debit and credit amounts are the same in the journal entry, so the trial balance will balance.
Diff: 3
LO: 2-5
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41) When listing the assets in the trial balance, the balance for Accounts Receivable was transposed. The correct balance is $4,100 and the amount was written as $1,400. Is the trial balance out of balance?
A) No.
B) Yes, by $1,400.
C) Yes, by $2,700.
D) Yes, by $4,100.
Answer: C
Explanation: $4,100 - $1,400 = $2,700
Diff: 3
LO: 2-5
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

42) A company recorded a cash payment incorrectly. Accounts Receivable was debited for $1,900 and Cash was credited for $1,900. The correct entry would debit Accounts Payable for $1,900 and credit Cash for $1,900. Is the trial balance out of balance?
A) No.
B) Yes, by $1,900.
C) Yes, by $3,800.
D) Yes, by an indeterminate amount.
Answer: A
Explanation: The debit and credit amounts are the same in the journal entry, so the trial balance will balance.
Diff: 3
LO: 2-5
AACSB: Analytical Thinking
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43) When listing the accounts on the trial balance, where is the dividends account listed?
A) It is not listed on the trial balance.
B) After Retained Earnings.
C) After Service Revenue or Sales Revenue.
D) As part of the expense accounts.
Answer: B
Diff: 3
LO: 2-5
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44) Information for the trial balance is obtained from the:
A) journal.
B) ledger.
C) balance sheet.
D) income statement.
Answer: B
Diff: 3
LO: 2-5
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45) The dollar amounts listed on the trial balance are obtained from the:
A) beginning balances in the ledger accounts.
B) ending balances in the ledger accounts.
C) last period's balance sheet and income statement.
D) this period's balance sheet and income statement.
Answer: B
Diff: 3
LO: 2-5
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46) The trial balance is used to prepare the:
A) balance sheet only.
B) income statement only.
C) statement of retained earnings only.
D) all of the above.
Answer: D
Diff: 3
LO: 2-5
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47) Put an "X" in the appropriate box to indicate if the normal balance of an account is a debit or a credit balance.

	NORMAL BALANCE IS A DEBIT	NORMAL BALANCE IS A CREDIT
ACCOUNTS		
Cash		
Service Revenue		
Accounts Receivable		
Accounts Payable		
Utilities Expense		
Common Stock		
Notes Payable		
Land		
Retained Earnings		
Dividends		
Rent Expense		

Answer:

	NORMAL BALANCE IS A DEBIT	NORMAL BALANCE IS A CREDIT
ACCOUNTS		
Cash	**X**	
Service Revenue		**X**
Accounts Receivable	**X**	
Accounts Payable		**X**
Utilities Expense	**X**	
Common Stock		**X**
Notes Payable		**X**
Land	**X**	
Retained Earnings		**X**
Dividends	**X**	
Rent Expense	**X**	

Diff: 2
LO: 2-5
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48) Wrobell Company has the following incorrect trial balance available on December 31, 2019:

Account	Debit	Credit
Cash	$27,900	
Accounts Receivable	$12,800	
Inventory	$17,300	
Supplies	$400	
Land	$41,000	
Accounts Payable		$21,600
Common Stock		$47,100
Sales Revenue		$33,800
Salary Expense	$2,200	
Rent Expense	$1,000	
Utility Expense	$1,000	
Totals	$103,600	$102,500

The following errors in the trial balance were made:
1. Recorded $200 cash revenue received by debiting Accounts Receivable for $200 and crediting Sales Revenue for $200.
2. Posted a $1,000 credit to Accounts Payable as $100.
3. Understated Common Stock by $200.
4. Omitted a journal entry that debits Insurance Expense for $3,700 and credits Cash for $3,700.

Prepare a corrected trial balance at December 31, 2019. A proper heading is not required.
Answer:

Account	Debit	Credit
Cash	$24,400	
Accounts Receivable	$12,600	
Inventory	$17,300	
Supplies	$400	
Land	$41,000	
Accounts Payable		$22,500
Common Stock		$47,300
Sales Revenue		$33,800
Salary Expense	$2,200	
Rent Expense	$1,000	
Utility Expense	$1,000	
Insurance Expense	$3,700	
Totals	$103,600	$103,600

Diff: 3
LO: 2-5
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49) Timothy Company has the following trial balance at December 31, 2019:

Account	Debit	Credit
Cash	$31,200	
Accounts Receivable	4,000	
Supplies	300	
Land	40,000	
Accounts Payable		1,300
Short-term Notes Payable		45,000
Common Stock		10,000
Retained Earnings		18,500
Dividends	1,800	
Service Revenue		7,600
Salary Expense	3,000	
Rent Expense	1,500	
Interest Expense	400	
Utilities Expense	200	
Totals	$82,400	$82,400

Prepare a balance sheet at December 31, 2019. Include a proper heading.

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Answer: Timothy Company
Balance Sheet
December 31, 2019

Assets:

Current Assets:		
Cash	$31,200	
Accounts Receivable	4,000	
Supplies	300	
Total Current Assets		$35,500
Long-term Assets:		
Land		40,000
Total Assets		$75,500
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts Payable	**$1,300**	
Short-term Notes Payable	45,000	
Total Current Liabilities		$46,300
Stockholders' Equity:		
Common Stock	**10,000**	
Retained Earnings*	**19,200**	
Total Stockholders' Equity		29,200
Total Liabilities & Stockholders' Equity		$75,500

*Retained Earnings = Beginning Balance Retained Earnings $18,500 - Dividends $1,800 + Service Revenue $7,600 - Salary Expense $3,000 - Rent Expense $1,500 - Interest Expense $400 - Utilities Expense $200 = $19,200
Diff: 3
LO: 2-5
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50) Martin Company had the following transactions during its first month of operations:

June	1	The company received cash of $35,000 and issued common stock to the shareholders.
	2	Borrowed $20,000 from the bank and signed a long-term note payable.
	8	Purchased equipment with a short-term note payable for $10,000.
	9	Performed services billed at $3,000 and received cash of $3,000.
	10	Performed services for a client on account, $6,500.
	12	Employees worked two weeks and were paid salaries of $1,000.
	15	Paid the short-term note payable from the June 8 purchase.
	22	Purchased office supplies on account for $7,000.
	30	Paid amount due for office supplies.
	30	Paid June's monthly rent of $500.
	30	Paid the monthly income taxes of $2,200.
	30	The Board of Directors declared and paid dividends of $1,000.

Required:
1. Journalize the entries. Omit the explanations.
2. Prepare a single-step income statement for the first month of operations. Include a proper heading.
3. Prepare a statement of retained earnings for the first month of operations. Include a proper heading.

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Answer:
1.

June 1	Cash	35,000	
	Common Stock		35,000
June 2	Cash	20,000	
	Long-Term Note Payable		20,000
June 8	Equipment	10,000	
	Short-Term Note Payable		10,000
June 9	Cash	3,000	
	Service Revenue		3,000
June 10	Accounts Receivable	6,500	
	Service Revenue		6,500
June 12	Salary Expense	1,000	
	Cash		1,000
June 15	Short-Term Note Payable	10,000	
	Cash		10,000
June 22	Supplies	7,000	
	Accounts Payable		7,000
June 30	Accounts Payable	7,000	
	Cash		7,000
June 30	Rent Expense	500	
	Cash		500
June 30	Income Tax Expense	2,200	
	Cash		2,200
June 30	Dividends	1,000	
	Cash		1,000

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2. Martin Company
Income Statement
For the Month Ended June 30

Service Revenue	$9,500
Expenses:	
Salary Expense	1,000
Rent Expense	500
Total Expenses	1,500
Income Before Taxes	8,000
Income Tax Expense	2,200
Net Income	$5,800

3. Martin Company
Statement of Retained Earnings
For the Month Ended June 30

Retained Earnings, June 1	$0
Add: Net Income	5,800
Subtotal	5,800
Less: Dividends Declared	1,000
Retained Earnings, June 30	$4,800

Diff: 3
LO: 2-5
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