Cornerstones of Financial Accounting (Canadian) 2nd edition Rich Test Bank

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Chapter 2 The Accounting Information System and Financial Statements

TRUEFALSE

1. The time period assumption assumes that a company prepares its financial statements every month.

(A) True

(B) False

Answer : (B)

2. Because it tends to provide the most reliable measure of activity, all assets are reported on the balance sheet at their fair market values.

(A) True

(B) False

Answer : (B)

3. As long as a company keeps a record of supporting calculations, recorded amounts are verifiable.

(A) True

(B) False

Answer : (B)

4. The going-concern assumption infers that a company will continue to operate into the near future.

(A) True

(B) False

Answer : (A)

5. A company expected to go bankrupt in the near future is considered to be operating under the going-concern assumption.

(A) True

(B) False

Answer : (B)

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6. For each transaction, the number of accounts debited must equal the number of accounts credited.

(A) True

(B) False

Answer : (B)

7. The initial step in the accounting cycle is to journalize transactions.

(A) True

(B) False

Answer : (B)

8. When a company issues (i.e., sells) common shares to investors in exchange for cash, the effect of this transaction is an increase in assets and an increase in shareholders' equity.

(A) True

(B) False

Answer : (A)

9. Because dividends are a distribution of a company's net income, they are recorded as an adjustment to net income.

(A) True

(B) False

Answer : (B)

10. According to the historical cost principle, assets are measured at the exchange price at the time the activity occurs.

(A) True

(B) False

Answer : (A)

11. An accounting transaction may impact only a single financial statement or multiple financial statements.

(A) True

(B) False

Answer : (A)

12. The accounting equation must be in balance before and after every accounting transaction.

(A) True

(B) False

Answer : (A)

13. A chart of accounts is prepared to determine whether the accounting records have gotten out of balance.

(A) True

(B) False

Answer : (B)

14. A company's chart of accounts can be changed over time as the nature of the business activities change.

(A) True

(B) False

Answer : (A)

15. A T-account for Cash cannot contain any credits.

(A) True

(B) False

Answer : (B)

16. A debit entry increases assets and revenue accounts.

(A) True

(B) False

Answer : (B)

17. The Dividends Declared account has a normal debit balance.

(A) True

(B) False

Answer : (A)

18. Under the double-entry system of accounting, every transaction affects at least two accounts.

(A) True

(B) False

Answer : (A)

19. Under the double-entry system of accounting, a debit represents a decrease to a liability account.

(A) True

(B) False

Answer : (A)

20. Income statement accounts affect Retained Earnings.

(A) True

(B) False

Answer : (A)

21. When an event impacts a financial statement element, it should be recognized in the accounting records even if reliability of the amount is questionable.

(A) True

(B) False

Answer : (B)

22. The process of transferring information from the general ledger to the general journal is called posting.

(A) True

(B) False

Answer : (B)

23. The accounting cycle differs depending on whether a company uses IFRS or ASPE accounting standards.

(A) True

(B) False

Answer : (B)

24. A trial balance is the listing of each active account and its corresponding debit or credit balance at a particular point in time.

(A) True

(B) False

Answer : (A)

25. Even though a trial balance reveals that the debits equal the credits, there may still be errors in the company's books.

(A) True

(B) False

Answer : (A)

26. Depreciation is to IFRS as amortization is to ASPE.

(A) True

(B) False

Answer : (A)

27. It is necessary to account for company transactions separately from personal transactions of the owner only if the company has more than one shareholder.

(A) True

(B) False

Answer : (B)

28. The full disclosure principle requires that all information that would make a difference to financial statement users should be revealed.

(A) True

(B) False

Answer : (A)

29. If a company performed services for credit, then the debit side of the journal entry would be to accounts payable and the credit would be to service revenue.

(A) True

(B) False

Answer : (B)

30. If a company made a payment on account, then assets and liabilities would both decrease.

(A) True

(B) False

Answer : (A)

SHORTANSWER

31. The _____ of accounting is designed to support the development of a consistent set of accounting standards and provide a consistent body of thought for financial reporting.**Answer :** Conceptual framework

32. The concept that assumes that assets are recorded at the amount paid to acquire them is called the _____ principle.**Answer :** historical cost

33. The concept that assumes that an entity is NOT in the process of bankruptcy is called the _____ concept.**Answer :** going-concern (or "continuity")

34. The _____ includes the sequence of procedures used to transform the effects of a company's activities into financial statements.**Answer :** accounting cycle

35. Information is _____ if it adds either predictive or confirmatory value to help users make business decisions.**Answer :** relevant

36. _____ is the magnitude of an omission or misstatement in accounting information that could influence the decision of someone relying on the information.**Answer :** Materiality

37. _____ is the capacity of information to make a difference in a decision by helping make timely predictions of future events or providing feedback about prior expectations.**Answer :** Relevance

38. Accounting should be a(n) _____ representation of the real-world economic event that it is intending to portray.**Answer :** faithful

39. Information is _____ if it is available to users before it loses its ability to influence business decisions.**Answer :** Timely

40. _____ is the quality of accounting information that allows a user to analyze two or more companies and look for similarities and differences.**Answer :** Comparability

41. _____ is the quality of accounting information that involves applying the same accounting principles to allow a user to compare two or more accounting periods for a single company, or multiple companies for a single accounting period.**Answer :** Consistency

42. In order for an internal or external event to be _____ in an accounting system, the items making up the event must impact a financial statement element and they must be measured with sufficiently reliability.**Answer :** recognized/recorded

43. _____ documents provide the evidence needed in an accounting system to support the recording of transactions.**Answer :** Source

44. Receipt of cash as advance payment from a customer for services not yet performed has the effect of increasing both assets and _____.**Answer :** liabilities

45. Borrowing from the bank in order to acquire computer equipment for $1,500 has the effect of increasing both assets and _____.**Answer :** liabilities

46. If a law firm provides services on account for its clients, both _____ and retained earnings will increase.**Answer :** assets

47. The payment of salaries to employees will result in a debit to an expense account and a credit to the _____ account.**Answer :** cash

48. The _____ principle says that assets of a company are initially recorded at their original cost.**Answer :** historical cost

49. The _____ is a list of all the accounts used by an entity.**Answer :** chart of accounts

50. The _____ is the file or book that contains all of the company's accounts.**Answer :** general ledger

51. The _____ side, or left side, of a liability account is used to record decreases in the account balance.**Answer :** debit

52. For assets and expenses, a credit will _____ the balance in the account.**Answer :** decrease

53. For liabilities, shareholders' equity, and revenue accounts, debits will _____ the account balance.**Answer :** decrease

54. Credits are always on the _____ side of a T-account.**Answer :** right

55. A revenue account has a normal _____ balance.**Answer :** credit

56. The _____ is a chronological record of transactions entered into by a business.**Answer :** journal

57. The _____ is a list of each active account and its debit or credit balance at a specific point in time.**Answer :** trial balance

MULTICHOICE

58. Which of the following statements describes an economic event from an accounting perspective?

(A) The signing of a service contract is an example of an external event that should usually be recorded in the accounting records.

(B) Every event that affects an entity should be recorded in the accounting records.

(C) Internal events affect the accounting records; external events do not.

(D) External events involve exchanges between an entity and another entity outside the company.

Answer : (D)

59. Which of these underlying assumptions for the conceptual framework is the reason the dollar is used when preparing financial statements?

(A) separate entity

(B) continuity

(C) time period

(D) monetary unit

Answer : (D)

60. Which of the following is a valid assumption from an accounting perspective?

(A) Financial statements are prepared for a specific entity that is distinct from the entity's owners.

(B) Financial statements should be prepared on a calendar-year basis.

(C) A company that has declared bankruptcy is referred to as a going concern.

(D) The results of customer satisfaction surveys should be reported in the financial statements because such results could impact decisions of financial statement users.

Answer : (A)

61. For which of the following reasons is the time-period assumption necessary?

(A) Inflation exists and causes confusing swings in financial statement amounts over time.

(B) External users of financial statements want accurately reported net income for a specific fiscal year.

(C) Financial statement users expect full disclosure of all economic events throughout the entire time period.

(D) The federal government requires companies to report financial results each calendar year.

Answer : (B)

62. Which of the following statements is characteristic of assets?

(A) Assets are measured using a time-period approach.

(B) Assets are initially recorded at market value and then adjusted for inflation.

(C) Assets are initially recorded using the historical cost principle.

(D) Assets are initially recorded at market value, since historical cost tends to be too arbitrary.

Answer : (C)

63. Homevestors paid $400,000 at an auction to purchase land that had an appraised value of $900,000. The next highest bid on the land was $380,000. At what amount should the land be recorded on the company's current financial statements?

(A) $380,000

(B) $400,000

(C) $500,000

(D) $900,000

Answer : (B)

64. Which of the following statements is characteristic of double-entry accounting?

(A) Transactions should be recorded first in units, then in dollars.

(B) For each transaction, the number of accounts debited must be equal to the number of accounts credited.

(C) Each recorded transaction will affect at least two accounts.

(D) Each recorded transaction will affect both sides of the accounting equation.

Answer : (C)

65. Which qualitative characteristic of useful information is materiality an aspect of?

(A) faithful representation

(B) comparability

(C) relevance

(D) timeliness

Answer : (C)

66. What is a simple, orderly process based on a series of steps and conventions used to record economic events?

(A) financial statements

(B) posting

(C) general ledger

(D) accounting cycle

Answer : (D)

67. Which of the following characteristics must exist for accounting information to be useful in making informed decisions?

(A) internal and relevant

(B) relevant and precise

(C) precise and reliable

(D) relevant and reliable

Answer : (D)

68. What is the term for information if its omission or misstatement could influence a decision?

(A) conservative

(B) material

(C) relevant

(D) comparable

Answer : (B)

69. Which of the following is the principle of full disclosure concerned with?

(A) Financial statements should include all material information.

(B) All monetary and non-monetary items should be reported in the accounting records.

(C) There should be a detailed disclosure of the effect of each transaction on the accounting equation.

(D) The company should disclose its full chart of accounts in the financial statement notes.

Answer : (A)

70. Which of the following is a characteristic of the going-concern assumption?

(A) the company's ability to continue operations long enough to carry out its existing obligations

(B) any information that is capable of influencing the decisions of anyone using the financial statements

(C) measuring ongoing business activities at their exchange price at the time of the initial external transaction

(D) disclosing all information in the financial statements that could influence users

Answer : (A)

71. Which of the following statements is characteristic of faithful representation?

(A) Market values are used to record purchase of assets regardless of the amount actually paid for them.

(B) External events are not recorded in the accounting records.

(C) Management may have a bias to overstate assets and understate liabilities.

(D) Recorded amounts should be as accurate as possible, but may still contain errors.

Answer : (D)

72. Which of the following is an internal event for a business entity?

(A) Caddie salaries are paid by a country club.

(B) Dividends are distributed to a company's shareholders.

(C) Potatoes for making French fries in a fast-food restaurant are purchased.

(D) Products are transferred from the assembly area to the painting station.

Answer : (D)

73. Which of the following is an internal event for a business entity?

(A) A grocery store recognizes losses from spoilage.

(B) A grocery store runs ads in a local newspaper.

(C) A grocery store purchases produce from a local farmer.

(D) A grocery store sells groceries to customers on credit.

Answer : (A)

74. Which of the following is an internal event for a business entity?

(A) An attorney provides services for clients.

(B) An attorney purchases computer equipment.

(C) A lawyer uses computer equipment to maintain business records.

(D) An attorney receives cash payments from clients who were billed for legal services.

Answer : (C)

75. Which of the following statements is characteristic of transactions?

(A) Only the effects of internal transactions must be recognized and recorded in the accounting system.

(B) An internal transaction represents a business activity between an entity and its environment.

(C) Evidence used to record transactions affecting a business entity comes from source documents.

(D) Only the effects of external events must be recognized, measured, and recorded in an entity's accounting system.

Answer : (C)

76. Which of the following statements is characteristic of the use of source documents?

(A) Cheques and deposit slips are the main source documents backing up the bank statement.

(B) Source documents will exist for only material items.

(C) All source documents should have a signature.

(D) There will be no source documents for online transactions.

Answer : (A)

77. What effect does the purchase of office equipment on credit have on the accounting equation?

(A) Assets and shareholders' equity decrease.

(B) Liabilities increase and shareholders' equity decreases.

(C) Assets and liabilities increase.

(D) Assets and liabilities decrease.

Answer : (C)

78. What effect does the payment of employee salaries (for hours they worked during the current period) have on the accounting equation?

(A) Assets and shareholders' equity decrease.

(B) Liabilities and shareholders' equity decrease.

(C) Assets decrease and liabilities increase.

(D) Assets increase and liabilities decrease.

Answer : (A)

79. During March, Honeybaked Spam purchased supplies for cash. The supplies will be used in April. What effect does this transaction have on the accounting equation at the time the supplies are purchased?

(A) Assets increase and shareholders' equity decrease.

(B) Assets and liabilities increase.

(C) There is no net effect on the accounting equation, as one asset account increases while another asset account decreases.

(D) There is no effect on the accounting equation, as the transaction should not be recognized until April.

Answer : (C)

80. High Point Furniture Company manufactures furniture. High Point is a defendant in a class action lawsuit related to defective products. It is alleged that serious injuries were caused by the company's infant high chairs overturning. The outcome of the lawsuit has not yet been determined, but management is concerned the company may lose the lawsuit and may have to pay a significant amount in legal fees and damages. Which of the following statements reflects most appropriate application of qualitative characteristics of accounting information in this case?

(A) No transaction should be recorded in the accounting records because the lawsuit is not relevant.

(B) The lawsuit should at least be disclosed in the notes to the financial statements because it would be material.

(C) The company is a going concern because of the class action lawsuit.

(D) The lawsuit is a non-monetary transaction so should not be disclosed.

Answer : (B)

81. An investor can use accounting information from two different companies to evaluate the types and amounts of expenses. What quality does this information possess?

(A) comparability

(B) consistency

(C) neutrality

(D) materiality

Answer : (A)

82. Hunsinger Enterprises purchases many small pieces of office furniture, such as trash cans, that cost less than $100 each. The company accounts for these items as expenses when acquired instead of reporting them as property, plant, and equipment on its balance sheet. The company's accountant states that no accounting principle has been violated. What is the justification for expensing these furniture items, aside from cost vs. benefit considerations?

(A) predictive value

(B) materiality

(C) neutrality

(D) verifiability

Answer : (B)

83. Which of the following statements is an example of application of the qualitative characteristic of consistency?

(A) For expenses, a company uses the same account names as used by its competitors.

(B) A company has elected certain accounting principles that can never be changed.

(C) A company applies the same accounting principles each period.

(D) A company applies the same accounting principles as its competitors.

Answer : (C)

84. What is the impact of material information in accounting?

(A) It will likely affect the judgment of someone relying on the financial statements.

(B) It will not affect the decisions of financial statement users.

(C) It is a non-monetary item that should not be recorded.

(D) It will be reported as a separate line item on the financial statements.

Answer : (A)

85. An accountant is uncertain about the best estimate of an amount for a business transaction, but expects it will be material. Management decides to disclose the transaction in the notes to the financial statements. Which of the following qualities is characterized by this action?

(A) comparability

(B) full disclosure

(C) understandability

(D) neutrality

Answer : (B)

86. Which of the following is a qualitative characteristic of accounting information?

(A) reliability

(B) cash flow information

(C) accounting principles

(D) reported assets

Answer : (A)

87. A novelties company makes cash sales to customers. What effect does this transaction have on the accounting equation?

(A) Liabilities and retained earnings increase.

(B) Assets and liabilities increase.

(C) Assets and retained earnings increase.

(D) Assets and liabilities decrease.

Answer : (C)

88. Two friends launch a new business by each investing $25,000 cash. They are given shares as evidence of their ownership interest. What effect does this transaction have on the accounting equation?

(A) Assets and liabilities increase.

(B) Assets and share capital increase.

(C) Liabilities increase and retained earnings decrease.

(D) Assets and liabilities decrease.

Answer : (B)

89. Machinery is purchased on credit. What effect does this transaction have on the accounting equation?

(A) Assets and liabilities increase.

(B) Assets and shareholders' equity increase.

(C) Liabilities increase and shareholders' equity decreases.

(D) Assets and liabilities decrease.

Answer : (A)

90. A company provided services to customers and then sent them invoices for the amounts owed. What effect does this transaction have on the accounting equation?

(A) Assets and liabilities increase.

(B) Assets and retained earnings increase.

(C) Liabilities decrease and share capital increases.

(D) Assets and liabilities decrease.

Answer : (B)

91. Hypnosis Institute received payments from customers who had been billed earlier for services provided. What effect does this transaction have on the accounting equation?

(A) Assets and liabilities increase.

(B) Assets and shareholders' equity increase.

(C) Assets and liabilities decrease.

(D) There is no net effect on the accounting equation.

Answer : (D)

92. Payment is made for machinery purchased previously on credit. What effect does this transaction have on the accounting equation?

(A) Assets and liabilities increase.

(B) Assets and share capital increase.

(C) Liabilities decrease and retained earnings increase.

(D) Assets and liabilities decrease.

Answer : (D)

93. The telephone bill for the current period is received and recorded, but payment will be made later. What effect does this transaction have on the accounting equation?

(A) Assets and liabilities increase.

(B) Assets and share capital increase.

(C) Liabilities increase and retained earnings decrease.

(D) Assets and liabilities decrease.

Answer : (C)

94. Payment is made for a previously recorded telephone bill. What effect does this transaction have on the accounting equation?

(A) Assets and liabilities increase.

(B) Assets and retained earnings increase.

(C) Liabilities increase and contributed decreases.

(D) Assets and liabilities decrease.

Answer : (D)

95. Services are provided for customers who pay for their services immediately. What effect does this transaction have on the accounting equation?

(A) Assets and liabilities increase.

(B) Assets and retained earnings increase.

(C) Liabilities increase and retained earnings decreases.

(D) Assets and liabilities decrease.

Answer : (B)

96. Dividends are declared and paid to the company's shareholders. What effect does this

transaction have on the company's accounting equation?

(A) Assets and liabilities decrease.

(B) Assets and retained earnings decrease.

(C) Liabilities decrease and retained earnings increase.

(D) Liabilities increase and contributed capital decreases.

Answer : (B)

97. When a firm borrows money, what is one effect on the accounting equation?

(A) decrease in share capital

(B) increase in assets

(C) decrease in liabilities

(D) decrease in assets

Answer : (B)

98. Which of the following statements best describes the effects of recognizing revenue earned by a business entity?

(A) Assets increase only when cash sales are collected.

(B) Shareholders' equity increases only when credit sales are made.

(C) Assets and shareholders' equity increase when either cash or credit sales are made.

(D) Assets increase and shareholders' equity decrease when either cash or credit sales are made.

Answer : (C)

99. When a firm recognizes expenses incurred, what is one effect on the balance sheet equation?

(A) Assets will increase.

(B) Liabilities will decrease.

(C) Share capital will increase.

(D) Retained earnings will decrease.

Answer : (D)

100. What effect do revenues and expenses have on the balance sheet equation?

(A) Revenues decrease shareholders' equity; expenses increase shareholders' equity.

(B) Revenues increase shareholders' equity; expenses increase shareholders' equity.

(C) Revenues increase shareholders' equity; expenses decrease shareholders' equity.

(D) Revenues decrease shareholders' equity; expenses decrease shareholders' equity.

Answer : (C)

101. Which of the following transactions does NOT affect total assets?

(A) A bill is received for last month's utilities.

(B) Dividends are paid to shareholders.

(C) Customers are billed for services provided on credit.

(D) New equipment is purchased on credit.

Answer : (A)

102. Which of the following transactions affects total liabilities?

(A) Equipment is purchased for cash.

(B) Services are provided to a customer for credit.

(C) Payment is made on a bank loan.

(D) Common shares are issued.

Answer : (C)

103. A company purchased equipment for $150,000 cash. What is the effect on total assets?

(A) an increase of $150,000

(B) a decrease of $150,000

(C) no net effect

(D) an increase of $300,000

Answer : (C)

104. A consulting firm provided services last month and billed its client. This month, the company received payment from the customer. What impact does this month's transaction have on the accounting equation?

(A) Assets increase and retained earnings decrease.

(B) Assets decrease and retained earnings decrease.

(C) There is no net effect on the accounting equation.

(D) Assets increase and liabilities decrease.

Answer : (C)

105. Which type of account is increased with a debit but represents a decrease in retained earnings?

(A) Liability

(B) Asset

(C) Revenue

(D) Dividends Declared

Answer : (D)

106. Which of the following statements is characteristic of the accounting cycle?

(A) If a debit entry is made to an account in the general journal, the same account will receive a credit entry when the amount is posted to the general ledger.

(B) If all transactions are correctly posted to the general ledger, the sum of the accounts with debit balances should be equal to the sum of the accounts with credit balances.

(C) Posting occurs when numbers in the general ledger accounts are transferred to the general journal.

(D) If the sum of the debit balances equals the sum of the credit balances, this proves there were no mistakes made in the accounting records.

Answer : (B)

107. What is the term for the list of all asset, liability, shareholders' equity, revenue, expense, and dividend accounts used by the company?

(A) general ledger

(B) general journal

(C) chart of accounts

(D) trial balance

Answer : (C)

108. In the trial balance, if the sum of the debits is NOT equal to the sum of the credits, what does

this signify?

(A) There is no concern, because the two amounts are not meant to be equal.

(B) The chart of accounts does not balance.

(C) It is safe to proceed with the preparation of financial statements.

(D) An error was probably made in journalizing or posting transactions or in computing the account balance.

Answer : (D)

109. What is the chronological record in which transactions are initially recorded?

(A) T-account

(B) chart of accounts

(C) trial balance

(D) journal

Answer : (D)

110. What is a list of all active accounts and their balances at a particular date, which is used to prove the equality of debits and credits?

(A) chart of accounts

(B) general ledger

(C) journal

(D) trial balance

Answer : (D)

111. What is the process of transferring amounts from the book of original entry into specific account records?

(A) journalizing

(B) posting

(C) analyzing

(D) classifying

Answer : (B)

112. What is the correct term for the entry made to the left side of a T-account?

(A) debit

(B) credit

(C) post

(D) journal item

Answer : (A)

113. What is the process of recording the effect of a transaction into the accounting records?

(A) analyzing

(B) journalizing

(C) posting

(D) classifying

Answer : (B)

114. What is the term used for the system of accounting in which at least two accounts are affected in every transaction so that the accounting equation stays in balance?

(A) debit scoring

(B) credit scoring

(C) double-entry accounting

(D) full disclosure accounting

Answer : (C)

115. Which of the following signifies a credit?

(A) The event had a favourable impact on the entity's financial statements.

(B) The event had an unfavourable impact on the entity's financial statements.

(C) The event had an effect on the right side of the T-account.

(D) The event increased the account balance.

Answer : (C)

116. When the amount for an entry on the left column in a journal is transferred to a specific account in the general ledger, which of the following must it be posted as?

(A) debit to the account in the general ledger

(B) credit to the account in the general ledger

(C) total amount, without regard to debit or credit

(D) decrease to the account in the general ledger

Answer : (A)

117. What is the correct term for the entry made to the right side of a T-account?

(A) debit

(B) credit

(C) increase

(D) decrease

Answer : (B)

118. Which of the following will NOT cause a trial balance to be out of balance?

(A) A credit entry was posted in the wrong account, but still as a credit.

(B) A debit entry was posted as a credit.

(C) The balance for the account was incorrectly computed.

(D) An account was accidentally omitted from the trial balance.

Answer : (A)

119. Which of the following statements are true?

(A) Debit entries increase asset accounts.

(B) Debit entries increase liability accounts.

(C) Debit entries increase share capital.

(D) Debit entries increase retained earnings.

Answer : (A)

120. Which of the following statements are true?

(A) Credit entries increase asset accounts.

(B) Credit entries increase liability accounts.

(C) Credit entries increase expense accounts.

(D) Credit entries increase the Dividends Declared account.

Answer : (B)

121. Which of the following accounts is decreased by a debit entry?

(A) Unearned Revenue

(B) Prepaid Insurance

(C) Cash

(D) Insurance Expense

Answer : (A)

122. Which of the following accounts is increased by a debit entry?

(A) Cash

(B) Loan Payable

(C) Accounts Payable

(D) Revenue

Answer : (A)

123. Which of the following accounts is increased by a debit entry?

(A) Common Shares

(B) Equipment

(C) Notes Payable

(D) Service Revenue

Answer : (B)

124. Which of the following accounts is increased by a credit entry?

(A) Cash

(B) Dividends Declared

(C) Common Shares

(D) Salary Expense

Answer : (C)

125. Which of the following accounts does NOT have a normal debit balance?

(A) Accounts Receivable

(B) Dividends Declared

(C) Supplies Expense

(D) Service Revenue

Answer : (D)

126. Which of the following accounts does NOT have a normal credit balance?

(A) Accounts Payable

(B) Unearned Revenue

(C) Common Shares

(D) Inventory

Answer : (D)

127. What two accounts have the same rules for debit and credit entries?

(A) Common Shares and Accounts Payable

(B) Salary Expense and Retained Earnings

(C) Cash and Notes Payable

(D) Sales Revenue and Accounts Receivable

Answer : (A)

128. What two accounts have the same rules for debit and credit entries?

(A) Service Revenue and Rent Expense

(B) Dividends Declared and Retained Earnings

(C) Equipment and Salary Expense

(D) Accounts Receivable and Accounts Payable

Answer : (C)

129. Happy Heights Country Club

Selected accounts at July 31 for Happy Heights Country Club are provided below:

CASH			UNEARNED LESSON REVENUE	
July 1 bal.	12,000		July 3	1,000
July 3	1,000			
July 5	3,600			
July 7	1,800			

ACCOUNTS RECEIVABLE					MEMBERSHIP REVENUE	
July 2	3,500		July 7	1,800	July 2	3,500
					July 5	3,600

Refer to Happy Heights Country Club. When did the country club sell a club membership on account?

(A) July 2

(B) July 3

(C) July 5

(D) July 7

Answer : (A)

130. Happy Heights Country Club

Selected accounts at July 31 for Happy Heights Country Club are provided below:

CASH			UNEARNED LESSON REVENUE	
July 1 bal.	12,000		July 3	1,000
July 3	1,000			
July 5	3,600			
July 7	1,800			

ACCOUNTS RECEIVABLE					MEMBERSHIP REVENUE	
July 2	3,500		July 7	1,800	July 2	3,500
					July 5	3,600

Refer to Happy Heights Country Club. When did the country club sell a club membership for cash?

(A) July 2

(B) July 3

(C) July 5

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(D) July 7

Answer : (C)

131. Happy Heights Country Club

Selected accounts at July 31 for Happy Heights Country Club are provided below:

CASH			UNEARNED LESSON REVENUE	
July 1 bal.	12,000			July 3 1,000
July 3	1,000			
July 5	3,600			
July 7	1,800			

ACCOUNTS RECEIVABLE			MEMBERSHIP REVENUE	
July 2	3,500	July 7 1,800		July 2 3,500
				July 5 3,600

Refer to Happy Heights Country Club. When did the country club collect golf lessons revenue in advance?

(A) July 2

(B) July 3

(C) July 5

(D) July 7

Answer : (B)

132. Happy Heights Country Club

Selected accounts at July 31 for Happy Heights Country Club are provided below:

CASH			UNEARNED LESSON REVENUE	
July 1 bal.	12,000			July 3 1,000
July 3	1,000			
July 5	3,600			
July 7	1,800			

ACCOUNTS RECEIVABLE			MEMBERSHIP REVENUE	
July 2	3,500	July 7 1,800		July 2 3,500
				July 5 3,600

Refer to Happy Heights Country Club. Which of the following describes the transactions that

occurred on July 7?

(A) sold club membership on credit

(B) collected revenue in advance

(C) sold club membership for cash

(D) collected accounts receivable

Answer : (D)

133. Happy Heights Country Club

Selected accounts at July 31 for Happy Heights Country Club are provided below:

CASH			UNEARNED LESSON REVENUE	
July 1 bal.	12,000			
July 3	1,000			July 3 1,000
July 5	3,600			
July 7	1,800			

ACCOUNTS RECEIVABLE					MEMBERSHIP REVENUE	
July 2	3,500		July 7	1,800		July 2 3,500
						July 5 3,600

Refer to Happy Heights Country Club. Assuming that there are no other transactions, how much was owed to the country club by its members at the end of the month?

(A) $5,300

(B) $3,500

(C) $1,800

(D) $1,700

Answer : (D)

134. HVAC Service

The following transactions occurred during November:

Nov. 1	The company sent bills to clients for services provided in August in the amount of $12,000.
Nov. 9	The company purchased office equipment of $4,000 and office supplies of $150 from Office Depot, receiving an invoice for $4,150. None of the office supplies were used during November.

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Nov. 15	The company paid for the office furniture and supplies purchased from Office Depot.
Nov. 23	The company received a $350 bill from CKRP Radio for advertising. The bill will be paid next month.
Nov. 30	The company paid salaries of $2,500 to employees for their work during the month of November.

Refer to HVAC Service. The Nov. 1 journal entry to record the bills sent to clients will include a debit of $12,000. What account will be debited?

(A) Service Revenue

(B) Cash

(C) Accounts Receivable

(D) Retained Earnings

Answer : (C)

135. HVAC Service
The following transactions occurred during November:

Nov. 1	The company sent bills to clients for services provided in August in the amount of $12,000.
Nov. 9	The company purchased office equipment of $4,000 and office supplies of $150 from Office Depot, receiving an invoice for $4,150. None of the office supplies were used during November.
Nov. 15	The company paid for the office furniture and supplies purchased from Office Depot.
Nov. 23	The company received a $350 bill from CKRP Radio for advertising. The bill will be paid next month.
Nov. 30	The company paid salaries of $2,500 to employees for their work during the month of November.

Refer to HVAC Service. The Nov. 9 journal entry to record the purchase of office equipment and supplies will include a credit. What account will be credited?

(A) Furniture and Supplies

(B) Cash

(C) Accounts Receivable

(D) Accounts Payable

Answer : (D)

136. HVAC Service
The following transactions occurred during November:

Nov. 1	The company sent bills to clients for services provided in August in the amount of $12,000.
Nov. 9	The company purchased office equipment of $4,000 and office supplies of $150 from Office Depot, receiving an invoice for $4,150. None of the office supplies were used during November.
Nov. 15	The company paid for the office furniture and supplies purchased from Office Depot.
Nov. 23	The company received a $350 bill from CKRP Radio for advertising. The bill will be paid next month.
Nov. 30	The company paid salaries of $2,500 to employees for their work during the month of November.

Refer to HVAC Service. The Nov. 15 journal entry to record payment for the office equipment and supplies will include a debit. What account will be debited?

(A) Furniture and Supplies

(B) Cash

(C) Accounts Receivable

(D) Accounts Payable

Answer : (D)

137. HVAC Service
The following transactions occurred during November:

Nov. 1	The company sent bills to clients for services provided in August in the amount of $12,000.
Nov. 9	The company purchased office equipment of $4,000 and office supplies of $150 from Office Depot, receiving an invoice for $4,150. None of the office supplies were used during November.
Nov. 15	The company paid for the office furniture and supplies purchased from Office Depot.
Nov. 23	The company received a $350 bill from CKRP Radio for advertising. The bill will be paid next month.

Nov. 30	The company paid salaries of $2,500 to employees for their work during the month of November.

Refer to HVAC Service. The Nov. 23 journal entry to record the bill received from CKRP Radio will include a debit. What account will be debited?

(A) Accounts Receivable

(B) Cash

(C) Advertising Expense

(D) Advertising Payable

Answer : (C)

138. HVAC Service
The following transactions occurred during November:

Nov. 1	The company sent bills to clients for services provided in August in the amount of $12,000.
Nov. 9	The company purchased office equipment of $4,000 and office supplies of $150 from Office Depot, receiving an invoice for $4,150. None of the office supplies were used during November.
Nov. 15	The company paid for the office furniture and supplies purchased from Office Depot.
Nov. 23	The company received a $350 bill from CKRP Radio for advertising. The bill will be paid next month.
Nov. 30	The company paid salaries of $2,500 to employees for their work during the month of November.

Refer to HVAC Service. The Nov. 30 journal entry to record payment of the salaries will include a credit. What account will be credited?

(A) Salary Expense

(B) Salary Payable

(C) Prepaid Salaries

(D) Cash

Answer : (D)

139. HVAC Service
The following transactions occurred during November:

Nov. 1	The company sent bills to clients for services provided in August in the amount of $12,000.
Nov. 9	The company purchased office equipment of $4,000 and office supplies of $150 from Office Depot, receiving an invoice for $4,150. None of the office supplies were used during November.
Nov. 15	The company paid for the office furniture and supplies purchased from Office Depot.
Nov. 23	The company received a $350 bill from CKRP Radio for advertising. The bill will be paid next month.
Nov. 30	The company paid salaries of $2,500 to employees for their work during the month of November.

Refer to HVAC Service. Based on these transactions, what is the total amount of expenses that should be reported on the company's income statement for the month of November?

(A) $350

(B) $2,500

(C) $2,850

(D) $3,000

Answer : (C)

140. Hesson Properties, Inc.
The following transactions occurred during June for Hesson Properties, Inc.:

June 1	The company purchased two new maintenance carts on account for $750 each. Payment is due in 30 days.
June 8	The company accepted $500 of advance payments from customers for services to be provided next month.
June 15	The company received a utility bill for $300. Payment is due in 30 days.
June 20	The company billed customers $1,500 for services provided during the month of June. Payment is due in 30 days.
June 30	The company received $500 from customers who were billed earlier.

Refer to Hesson Properties, Inc. Which journal entry is required to record the purchase of the carts on June 1?

(A) Equipment 1,500 Accounts Payable 1,500

(B) Equipment 1,500 Cash 1,500

(C) Cash 1,500 Equipment 1,500

(D) Accounts Payable 1,500 Equipment 1,500

Answer : (A)

141. Hesson Properties, Inc.
The following transactions occurred during June for Hesson Properties, Inc.:

June 1	The company purchased two new maintenance carts on account for $750 each. Payment is due in 30 days.
June 8	The company accepted $500 of advance payments from customers for services to be provided next month.
June 15	The company received a utility bill for $300. Payment is due in 30 days.
June 20	The company billed customers $1,500 for services provided during the month of June. Payment is due in 30 days.
June 30	The company received $500 from customers who were billed earlier.

Refer to Hesson Properties, Inc. Which journal entry is required to record the cash collected in advance on June 8?

(A) Cash 500 Unearned Revenue 500

(B) Accounts Receivable 500 Service Revenue 500

(C) Cash 500 Service Revenue 500

(D) Unearned Revenue 500 Accounts Receivable 500

Answer : (A)

142. Hesson Properties, Inc.
The following transactions occurred during June for Hesson Properties, Inc.:

June 1	The company purchased two new maintenance carts on account for $750 each. Payment is due in 30 days.
June 8	The company accepted $500 of advance payments from customers for services to be provided next month.
June 15	The company received a utility bill for $300. Payment is due in 30 days.

June 20	The company billed customers $1,500 for services provided during the month of June. Payment is due in 30 days.
June 30	The company received $500 from customers who were billed earlier.

Refer to Hesson Properties, Inc. Which journal entry is required to record the utility bill received on June 15?

(A) Utilities Expense 300 Cash 300

(B) Utilities Expense 300 Accounts Payable 300

(C) Accounts Receivable 300 Utilities Expense 300

(D) Cash 300 Utilities expense 300

Answer : (B)

143. Hesson Properties, Inc.
The following transactions occurred during June for Hesson Properties, Inc.:

June 1	The company purchased two new maintenance carts on account for $750 each. Payment is due in 30 days.
June 8	The company accepted $500 of advance payments from customers for services to be provided next month.
June 15	The company received a utility bill for $300. Payment is due in 30 days.
June 20	The company billed customers $1,500 for services provided during the month of June. Payment is due in 30 days.
June 30	The company received $500 from customers who were billed earlier.

Refer to Hesson Properties, Inc. Which journal entry is required to record the services provided to customers during the month of June?

(A) Cash 1,500 Accounts Receivable 1,500

(B) Accounts Receivable 1,500 Service Revenue 1,500

(C) Service Revenue 1,500 Cash 1,500

(D) Service 1,500 Accounts Payable 1,500

Answer : (B)

144. Hesson Properties, Inc.
The following transactions occurred during June for Hesson Properties, Inc.:

June 1	The company purchased two new maintenance carts on account for $750 each. Payment is due in 30 days.
June 8	The company accepted $500 of advance payments from customers for services to be provided next month.
June 15	The company received a utility bill for $300. Payment is due in 30 days.
June 20	The company billed customers $1,500 for services provided during the month of June. Payment is due in 30 days.
June 30	The company received $500 from customers who were billed earlier.

Refer to Hesson Properties, Inc. Which journal entry is required to record the June 30 collections on account from customers?

(A) Cash 500 Accounts Receivable 500

(B) Accounts Receivable 500 Service Revenue 500

(C) Accounts Payable 500 Cash 500

(D) Service Revenue 500 Cash 500

Answer : (A)

145. Heart & Hands Clinic

Heart & Hands Clinic began business as a corporation in Year 1. Several transactions that occurred early in Year 1 are described below.

Jan 23	Shareholders invested $700,000 cash in the business and received 500,000 common shares as evidence of ownership.
Feb 1	An operations building was purchased for $160,000 cash.
Feb 7	Equipment with a cost of $3,000 was purchased on credit. Payment is due in 30 days.
Feb 14	Fees totalling $5,400 were billed to patients; $2,900 was collected immediately and the balance of $2,500 is due within 30 days.
Feb 18	Full payment was made for the equipment purchased on Feb 7.
Feb 22	Fees in the amount of $1,900 were collected from patients with balances due from Feb 14.
Feb 28	Employee salaries of $3,000 (for work performed during the month of Feb.) were paid.

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Refer to Heart & Hands Clinic. Which journal entry is required to record the investment by shareholders on Jan. 23?

(A) Investments 500,000 Cash 500,000

(B) Cash 500,000 Common Shares 500,000

(C) Cash 700,000 Investments 700,000

(D) Cash 700,000 Common Shares 700,000

Answer : (D)

146. Heart & Hands Clinic

Heart & Hands Clinic began business as a corporation in Year 1. Several transactions that occurred early in Year 1 are described below.

Jan 23	Shareholders invested $700,000 cash in the business and received 500,000 common shares as evidence of ownership.
Feb 1	An operations building was purchased for $160,000 cash.
Feb 7	Equipment with a cost of $3,000 was purchased on credit. Payment is due in 30 days.
Feb 14	Fees totalling $5,400 were billed to patients; $2,900 was collected immediately and the balance of $2,500 is due within 30 days.
Feb 18	Full payment was made for the equipment purchased on Feb 7.
Feb 22	Fees in the amount of $1,900 were collected from patients with balances due from Feb 14.
Feb 28	Employee salaries of $3,000 (for work performed during the month of Feb.) were paid.

Refer to Heart & Hands Clinic. Which journal entry is required to record the purchase of the operations building on Feb. 1?

(A) Building 160,000 Cash 160,000

(B) Cash 160,000 Building 160,000

(C) Accounts Payable 160,000 Building 160,000

(D) Building 160,000 Accounts Payable 160,000

Answer : (A)

147. Heart & Hands Clinic

Heart & Hands Clinic began business as a corporation in Year 1. Several transactions that occurred early in Year 1 are described below.

Jan 23	Shareholders invested $700,000 cash in the business and received 500,000 common shares as evidence of ownership.
Feb 1	An operations building was purchased for $160,000 cash.
Feb 7	Equipment with a cost of $3,000 was purchased on credit. Payment is due in 30 days.
Feb 14	Fees totalling $5,400 were billed to patients; $2,900 was collected immediately and the balance of $2,500 is due within 30 days.
Feb 18	Full payment was made for the equipment purchased on Feb 7.
Feb 22	Fees in the amount of $1,900 were collected from patients with balances due from Feb 14.
Feb 28	Employee salaries of $3,000 (for work performed during the month of Feb.) were paid.

Refer to Heart & Hands Clinic. Which journal entry is required to record the purchase of equipment on Feb. 7?

(A) Accounts Receivable 3,000 Equipment 3,000

(B) Equipment 3,000 Accounts Receivable 3,000

(C) Accounts Payable 3,000 Equipment 3,000

(D) Equipment 500 Accounts Payable 500

Answer : (D)

148. Heart & Hands Clinic

Heart & Hands Clinic began business as a corporation in Year 1. Several transactions that occurred early in Year 1 are described below.

Jan 23	Shareholders invested $700,000 cash in the business and received 500,000 common shares as evidence of ownership.
Feb 1	An operations building was purchased for $160,000 cash.
Feb 7	Equipment with a cost of $3,000 was purchased on credit. Payment is due in 30 days.
Feb 14	Fees totalling $5,400 were billed to patients; $2,900 was collected immediately and the balance of $2,500 is due within 30 days.

Feb 18	Full payment was made for the equipment purchased on Feb 7.
Feb 22	Fees in the amount of $1,900 were collected from patients with balances due from Feb 14.
Feb 28	Employee salaries of $3,000 (for work performed during the month of Feb.) were paid.

Refer to Heart & Hands Clinic. Which journal entry is required to record client billings on Feb. 14?

(A) Cash 2,500
Accounts Receivable 2,900
Service Revenue 5,400

(B) Cash 2,900
Accounts Receivable 2,500
Service Revenue 5,400

(C) Service Revenue 5,400
Cash 2,900
Accounts Receivable 2,500

(D) Service Revenue 5,400
Cash 2,500
Accounts Receivable 2,900

Answer : (B)

149. Heart & Hands Clinic

Heart & Hands Clinic began business as a corporation in Year 1. Several transactions that occurred early in Year 1 are described below.

Jan 23	Shareholders invested $700,000 cash in the business and received 500,000 common shares as evidence of ownership.
Feb 1	An operations building was purchased for $160,000 cash.
Feb 7	Equipment with a cost of $3,000 was purchased on credit. Payment is due in 30 days.
Feb 14	Fees totalling $5,400 were billed to patients; $2,900 was collected immediately and the balance of $2,500 is due within 30 days.
Feb 18	Full payment was made for the equipment purchased on Feb 7.
Feb 22	Fees in the amount of $1,900 were collected from patients with balances due from Feb 14.

Feb 28	Employee salaries of $3,000 (for work performed during the month of Feb.) were paid.

Refer to Heart & Hands Clinic. Which journal entry is required to record the Feb. 18 payment for the equipment?

(A) Equipment 3,000
Accounts Receivable 3,000

(B) Accounts Payable 3,000
Equipment 3,000

(C) Accounts Payable 3,000
Cash 3,000

(D) Cash 3,000
Accounts Payable 3,000

Answer : (C)

150. Heart & Hands Clinic

Heart & Hands Clinic began business as a corporation in Year 1. Several transactions that occurred early in Year 1 are described below.

Jan 23	Shareholders invested $700,000 cash in the business and received 500,000 common shares as evidence of ownership.
Feb 1	An operations building was purchased for $160,000 cash.
Feb 7	Equipment with a cost of $3,000 was purchased on credit. Payment is due in 30 days.
Feb 14	Fees totalling $5,400 were billed to patients; $2,900 was collected immediately and the balance of $2,500 is due within 30 days.
Feb 18	Full payment was made for the equipment purchased on Feb 7.
Feb 22	Fees in the amount of $1,900 were collected from patients with balances due from Feb 14.
Feb 28	Employee salaries of $3,000 (for work performed during the month of Feb.) were paid.

Refer to Heart & Hands Clinic. Which journal entry is required to record the Feb. 22 collections from patients?

(A) Cash 1,900
Accounts Receivable 1,900

(B) Accounts Receivable 1,900

Service Revenue 1,900

(C) Cash 1,900
Service Revenue 1,900

(D) Service Revenue 1,900
Cash 1,900

Answer : (A)

151. Heart & Hands Clinic

Heart & Hands Clinic began business as a corporation in Year 1. Several transactions that occurred early in Year 1 are described below.

Jan 23	Shareholders invested $700,000 cash in the business and received 500,000 common shares as evidence of ownership.
Feb 1	An operations building was purchased for $160,000 cash.
Feb 7	Equipment with a cost of $3,000 was purchased on credit. Payment is due in 30 days.
Feb 14	Fees totalling $5,400 were billed to patients; $2,900 was collected immediately and the balance of $2,500 is due within 30 days.
Feb 18	Full payment was made for the equipment purchased on Feb 7.
Feb 22	Fees in the amount of $1,900 were collected from patients with balances due from Feb 14.
Feb 28	Employee salaries of $3,000 (for work performed during the month of Feb.) were paid.

Refer to Heart & Hands Clinic. Which journal entry is required to record the Feb. 28 payment of employee salaries?

(A) Cash 3,300
Salaries Expense 3,300

(B) Cash 3,300
Salaries Revenue 3,300

(C) Salaries Revenue 3,300
Cash 3,300

(D) Salaries Expense 3,300
Cash 3,300

Answer : (D)

152. Heart & Hands Clinic

Heart & Hands Clinic began business as a corporation in Year 1. Several transactions that occurred early in Year 1 are described below.

Jan 23	Shareholders invested $700,000 cash in the business and received 500,000 common shares as evidence of ownership.
Feb 1	An operations building was purchased for $160,000 cash.
Feb 7	Equipment with a cost of $3,000 was purchased on credit. Payment is due in 30 days.
Feb 14	Fees totalling $5,400 were billed to patients; $2,900 was collected immediately and the balance of $2,500 is due within 30 days.
Feb 18	Full payment was made for the equipment purchased on Feb 7.
Feb 22	Fees in the amount of $1,900 were collected from patients with balances due from Feb 14.
Feb 28	Employee salaries of $3,000 (for work performed during the month of Feb.) were paid.

Refer to Heart & Hands Clinic. How much is still owed to the company by its patients at the end of Feb.?

(A) $0

(B) $400

(C) $600

(D) $1,000

Answer : (C)

153. The following transactions occurred during May for Holiday Marina:

May 5	Fees totalling $1,600 were billed to customers for services completed.
May 11	Fees in the amount of $500 were collected from customers with balances due on May 5.
May 15	Furniture with a cost of $700 was purchased on credit. Payment is due in 30 days.
May 25	Full payment was made for the furniture purchased on May 15.

Refer to Holiday Marina. Which journal entry is required to record customer billings on May 5?

(A) Cash 1,600

Service Revenue 1,600

(B) Accounts Receivable 1,600
Service Revenue 1,600

(C) Service Revenue 1,600
Cash 1,600

(D) Service Revenue 1,600
Accounts Receivable 1,600

Answer : (B)

154. The following transactions occurred during May for Holiday Marina:

May 5	Fees totalling $1,600 were billed to customers for services completed.
May 11	Fees in the amount of $500 were collected from customers with balances due on May 5.
May 15	Furniture with a cost of $700 was purchased on credit. Payment is due in 30 days.
May 25	Full payment was made for the furniture purchased on May 15.

Refer to Holiday Marina. Which journal entry is required to record the May 11 collections from customers?

(A) Cash 500
Accounts Receivable 500

(B) Accounts Receivable 500
Service Revenue 500

(C) Cash 500
Service Revenue 500

(D) Service Revenue 500
Cash 500

Answer : (A)

155. The following transactions occurred during May for Holiday Marina:

May 5	Fees totalling $1,600 were billed to customers for services completed.
May 11	Fees in the amount of $500 were collected from customers with balances due on May 5.
May 15	Furniture with a cost of $700 was purchased on credit. Payment is due in 30 days.
May 25	Full payment was made for the furniture purchased on May 15.

Refer to Holiday Marina. Which journal entry is required to record the purchase of furniture on Feb. 7?

(A) Accounts Receivable 700
Furniture 700

(B) Furniture 700
Accounts Receivable 700

(C) Accounts Payable 700
Furniture 700

(D) Furniture 700
Accounts Payable 700

Answer : (D)

156. The following transactions occurred during May for Holiday Marina:

May 5	Fees totalling $1,600 were billed to customers for services completed.
May 11	Fees in the amount of $500 were collected from customers with balances due on May 5.
May 15	Furniture with a cost of $700 was purchased on credit. Payment is due in 30 days.
May 25	Full payment was made for the furniture purchased on May 15.

Refer to Holiday Marina. Which journal entry is required to record the May 25 payment for the Furniture?

(A) Furniture 700
Accounts Receivable 700

(B) Accounts Payable 700
Furniture 700

(C) Accounts Payable 700
Cash 700

(D) Cash 700
Accounts Payable 700

Answer : (C)

157. The following transactions occurred during May for Holiday Marina:

May 5	Fees totalling $1,600 were billed to customers for services completed.
May 11	Fees in the amount of $500 were collected from customers with balances due on May 5.

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May 15	Furniture with a cost of $700 was purchased on credit. Payment is due in 30 days.
May 25	Full payment was made for the furniture purchased on May 15.

Refer to Holiday Marina. How much is still owed to the company by its customers at the end of May?

(A) $0

(B) $500

(C) $1,100

(D) $1,600

Answer : (C)

158. The following transactions occurred during May for Holiday Marina:

May 5	Fees totalling $1,600 were billed to customers for services completed.
May 11	Fees in the amount of $500 were collected from customers with balances due on May 5.
May 15	Furniture with a cost of $700 was purchased on credit. Payment is due in 30 days.
May 25	Full payment was made for the furniture purchased on May 15.

Refer to Holiday Marina. What would be the effect on the accounting equation if the following incorrect journal entry had been posted to the general ledger to reflect the May 25 payment for the furniture?
Incorrect journal entry posted to general ledger

Furniture 700
    Cash 500

(A) Assets and liabilities would be overstated.

(B) Assets would be understated; liabilities would be overstated.

(C) Assets and liabilities would be understated.

(D) Assets would be overstated; liabilities would be understated.

Answer : (A)

159. The following transactions were incurred during July Year 1 for H&R Clock Company:

July 1	The company raised $30,000 by issuing a note to the bank for $15,000 and issuing $15,000 of common shares.

July 5	The company purchased $5,100 of office supplies inventory on credit; payment is due in 30 days.
July 12	The company performed $18,000 of services for customers on credit; collection is due in 30 days.
July 13	The company performed services for customers and collected $8,800.
July 20	The company paid for the supplies purchased on July 5.
July 22	The company collected $15,000 of the amounts due from customers.
July 30	The company received and paid the utility bill for the month of July in the amount of $640.
July 31	The company paid employee salaries of $3,800 for the month of July.

Refer to H&R Clock Company. Which journal entry is required to record the capital raised on July 1?

(A) Cash 30,000
Investment 30,000

(B) Cash 30,000
Bank Loan Payable 15,000
Common shares 15,000

(C) Bank Loan Payable 15,000
Common Shares 15,000
Cash 30,000

(D) Investment 30,000
Cash 30,000

Answer : (B)

160. The following transactions were incurred during July Year 1 for H&R Clock Company:

July 1	The company raised $30,000 by issuing a note to the bank for $15,000 and issuing $15,000 of common shares.
July 5	The company purchased $5,100 of office supplies inventory on credit; payment is due in 30 days.
July 12	The company performed $18,000 of services for customers on credit; collection is due in 30 days.
July 13	The company performed services for customers and collected $8,800.
July 20	The company paid for the supplies purchased on July 5.

July 22	The company collected $15,000 of the amounts due from customers.
July 30	The company received and paid the utility bill for the month of July in the amount of $640.
July 31	The company paid employee salaries of $3,800 for the month of July.

Refer to H&R Clock Company. Which journal entry is required to record the purchase of office supplies inventory on July 5?

(A) Office Supplies Inventory 5,100
Accounts Receivable 5,100

(B) Office Supplies Inventory 5,100
Accounts Payable 5,100

(C) Accounts Payable 5,100
Office Supplies Inventory 5,100

(D) Accounts Receivable 5,100
Office Supplies Inventory 5,100

Answer : (B)

161. The following transactions were incurred during July Year 1 for H&R Clock Company:

July 1	The company raised $30,000 by issuing a note to the bank for $15,000 and issuing $15,000 of common shares.
July 5	The company purchased $5,100 of office supplies inventory on credit; payment is due in 30 days.
July 12	The company performed $18,000 of services for customers on credit; collection is due in 30 days.
July 13	The company performed services for customers and collected $8,800.
July 20	The company paid for the supplies purchased on July 5.
July 22	The company collected $15,000 of the amounts due from customers.
July 30	The company received and paid the utility bill for the month of July in the amount of $640.
July 31	The company paid employee salaries of $3,800 for the month of July.

Refer to H&R Clock Company. Which of the following statements most accurately reflects the proper accounting treatment for the services performed on July 12?

(A) The transaction would not be accounted for until payment from the customer is received.

(B) The transaction would be recorded in the journal on July 12 and posted to the general ledger on July 12.

(C) The transaction would be recorded in the journal on July 12 but not posted to the general ledger until payment from the customer is received.

(D) The transaction would be accounted for evenly over the next 30 days, since that is the time period for collection.

Answer : (B)

162. The following transactions were incurred during July Year 1 for H&R Clock Company:

July 1	The company raised $30,000 by issuing a note to the bank for $15,000 and issuing $15,000 of common shares.
July 5	The company purchased $5,100 of office supplies inventory on credit; payment is due in 30 days.
July 12	The company performed $18,000 of services for customers on credit; collection is due in 30 days.
July 13	The company performed services for customers and collected $8,800.
July 20	The company paid for the supplies purchased on July 5.
July 22	The company collected $15,000 of the amounts due from customers.
July 30	The company received and paid the utility bill for the month of July in the amount of $640.
July 31	The company paid employee salaries of $3,800 for the month of July.

Refer to H&R Clock Company. Which journal entry is required to record the July 13 collections from customers?

(A) Cash 8,800
Accounts Receivable 8,800

(B) Accounts Receivable 8,800
Service Revenue 8,800

(C) Service Revenue 8,800
Cash 8,800

(D) Cash 8,800
Service Revenue 8,800

Answer : (D)

163. The following transactions were incurred during July Year 1 for H&R Clock Company:

July 1	The company raised $30,000 by issuing a note to the bank for $15,000 and issuing $15,000 of common shares.
July 5	The company purchased $5,100 of office supplies inventory on credit; payment is due in 30 days.
July 12	The company performed $18,000 of services for customers on credit; collection is due in 30 days.
July 13	The company performed services for customers and collected $8,800.
July 20	The company paid for the supplies purchased on July 5.
July 22	The company collected $15,000 of the amounts due from customers.
July 30	The company received and paid the utility bill for the month of July in the amount of $640.
July 31	The company paid employee salaries of $3,800 for the month of July.

Refer to H&R Clock Company. Which journal entry is required to record the July 20 payment for office supplies inventory?

(A) Accounts Payable 5,100
Cash 5,100

(B) Office Supplies Inventory 5,100
Accounts Payable 5,100

(C) Accounts Payable 5,100
Office Supplies Inventory 5,100

(D) Cash 5,100
Office Supplies Inventory 5,100

Answer : (A)

164. The following transactions were incurred during July Year 1 for H&R Clock Company:

July 1	The company raised $30,000 by issuing a note to the bank for $15,000 and issuing $15,000 of common shares.
July 5	The company purchased $5,100 of office supplies inventory on credit; payment is due in 30 days.
July 12	The company performed $18,000 of services for customers on credit; collection is due in 30 days.

July 13	The company performed services for customers and collected $8,800.
July 20	The company paid for the supplies purchased on July 5.
July 22	The company collected $15,000 of the amounts due from customers.
July 30	The company received and paid the utility bill for the month of July in the amount of $640.
July 31	The company paid employee salaries of $3,800 for the month of July.

Refer to H&R Clock Company. Which journal entry is required to record the July 22 collections from customers?

(A) Cash 15,000
Accounts Receivable 15,000

(B) Accounts Receivable 15,000
Service Revenue 15,000

(C) Service Revenue 18,000
Cash 15,000
Accounts Receivable 3,000

(D) Cash 15,000
Accounts Receivable 3,000
Service revenue 18,000

Answer : (A)

165. The following transactions were incurred during July Year 1 for H&R Clock Company:

July 1	The company raised $30,000 by issuing a note to the bank for $15,000 and issuing $15,000 of common shares.
July 5	The company purchased $5,100 of office supplies inventory on credit; payment is due in 30 days.
July 12	The company performed $18,000 of services for customers on credit; collection is due in 30 days.
July 13	The company performed services for customers and collected $8,800.
July 20	The company paid for the supplies purchased on July 5.
July 22	The company collected $15,000 of the amounts due from customers.
July 30	The company received and paid the utility bill for the month of July in the amount of $640.

July 31	The company paid employee salaries of $3,800 for the month of July.

Refer to H&R Clock Company. Which journal entry is required to record the utility bill on July 30?

(A) Cash 640
Utilities Expense 640

(B) Utilities Expense 640
Cash 640

(C) Accounts Payable 640
Utilities Expense 640

(D) Utilities Expense 640
Accounts Payable 640

Answer : (B)

166. The following transactions were incurred during July Year 1 for H&R Clock Company:

July 1	The company raised $30,000 by issuing a note to the bank for $15,000 and issuing $15,000 of common shares.
July 5	The company purchased $5,100 of office supplies inventory on credit; payment is due in 30 days.
July 12	The company performed $18,000 of services for customers on credit; collection is due in 30 days.
July 13	The company performed services for customers and collected $8,800.
July 20	The company paid for the supplies purchased on July 5.
July 22	The company collected $15,000 of the amounts due from customers.
July 30	The company received and paid the utility bill for the month of July in the amount of $640.
July 31	The company paid employee salaries of $3,800 for the month of July.

Refer to H&R Clock Company. Which journal entry is required to record the July 30 payment of employee salaries?

(A) Cash 3,800
Salaries Expense 3,800

(B) Cash 3,800
Salaries Revenue 3,800

(C) Salaries Revenue 3,800
Cash 3,800

(D) Salaries Expense 3,800
Cash 3,800

Answer : (D)

MATCH

167. For each transaction provided, choose the appropriate account from the list that would receive a debit entry as a result of the transaction. *(Choices may be used more than once.)*

MATCH

168. Several transactions are listed. Use the choices to identify the effect on the accounting equation for each transaction listed. *(Choices may be used more than once.)*

MATCH

169. Select the choice that describes the type of transaction and whether it should be recorded in the accounting system. *(Choices may be used more than once.)*

MATCH

170. Several accounts from the financial records of Wynn Linders, Inc. are listed. Indicate its normal balance and the debit/credit rules for increasing the account. *(Choices may be used more than once.)*

MATCH

171. Match the following principles with their correct description.

MATCH

172. Match the following terms with their correct description.

ESSAY

173. Listed below are selected accounts. In the blank spaces provided for each account, indicate what type of account it is, its normal balance, and the debit/credit rules for increasing and decreasing it. Use the following abbreviations for your answer:

Type of Account	**Normal Account Balance**	**Rules to Increase or Decrease the Account**
A = Asset	Dr = Debit	Dr = Debit
L = Liability	Cr = Credit	Cr = Credit
SE = Shareholders' Equity		
R = Revenue		
E = Expense		

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D = Dividend Declared

		Type of Account		Normal Balance		Rule to Increase	Rule to Decrease
Example: Cash	A		Dr		Dr		Cr
a.	Accounts Payable	_____		_____		_____	_____
b.	Retained Earnings	_____		_____		_____	_____
c.	Prepaid Insurance	_____		_____		_____	_____
d.	Service Revenues	_____		_____		_____	_____
e.	Notes Payable	_____		_____		_____	_____
f.	Investments	_____		_____		_____	_____
g.	Common Shares	_____		_____		_____	_____
h.	Salary Expense	_____		_____		_____	_____
i.	Accounts Receivable	_____		_____		_____	_____
j.	Unearned Revenues	_____		_____		_____	_____

Graders Info :

		Type of Account		Normal Balance		Rule to Increase	Rule to Decrease
Example: Cash	A		Dr		Dr		Cr
a.	Accounts Payable	L		Cr		Cr	Dr
b.	Retained Earnings	SE		Cr		Cr	Dr
c.	Prepaid Insurance	A		Dr		Dr	Cr
d.	Service Revenues	R		Cr		Cr	Dr
e.	Notes Payable	L		Cr		Cr	Dr
f.	Investments	A		Dr		Dr	Cr
g.	Common Shares	SE		Cr		Cr	Dr
h.	Salary Expense	E		Dr		Dr	Cr
i.	Accounts Receivable	A		Dr		Dr	Cr
j.	Unearned Revenues	L		Cr		Cr	Dr

174. Presented below are accounts from the general ledger:

	Account
1.	Cash
2.	Accounts Receivable
3.	Prepaid Insurance
4.	Accounts Payable
5.	Common Shares
6.	Service Revenues
7.	Advertising Expense
8.	Salary Expense
9.	Interest Expense
10.	Income Tax Expense

Each of the accounts has been assigned an identification number, which you will use as answers for the transactions described below. Enter the account numbers in the blank spaces under the headings **Debit** and **Credit** to indicate the accounts debited and credited when each transaction is recorded in a general journal.

	Debit	Credit

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A)	issues common shares to investors for cash	_____	_____
B)	receives a bill for advertisements run on a local radio station; payment is due in 30 days	_____	_____
C)	purchases a six-month insurance policy	_____	_____
D)	provides services to a customer and agrees to accept payment in 30 days	_____	_____

Graders Info :

		Debit	Credit
A)	issues common shares to investors for cash	1	5
B)	receives a bill for advertisements run on a local radio station; payment is due in 30 days	7	4
C)	purchases a six-month insurance policy	3	1
D)	provides services to a customer and agrees to accept payment in 30 days	2	6

175. Heart & Hands Clinic began business as a corporation in Year 1. Several transactions that occurred early in Year 1 are described below. Record each transaction in proper journal form, including a written explanation for each journal entry.

A)	Jan. 23, Year 1	Shareholders invested $700,000 cash in the business and received 500,000 common shares as evidence of ownership.
B)	Feb. 1, Year 1	An operations building was purchased for $160,000 cash.
C)	Feb. 7, Year 1	Equipment with a cost of $3,000 was purchased on credit; payment is due in 30 days.
D)	Feb. 14, Year 1	Fees totalling $5,400 were billed to patients; $2,900 was collected immediately and the balance of $2,500 is due within 30 days.
E)	Feb. 18, Year 1	Full payment was made for the equipment purchased on Feb. 7th.
F)	Feb. 22, Year 1	Fees in the amount of $1,900 were collected from patients with balances due from Feb. 14th.
G)	Feb. 28, Year 1	Employee salaries of $3,300 (for work performed during the month of February) were paid.

Graders Info :

	Date	Account	Debit	Credit
A)	Jan. 23, Year 1	Cash	700,000	
		Common Shares		700,000
		To record shareholder investment (cash for 500,000 common shares)		

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B)	Feb. 1, Year 1	Operations Building	160,000		
		Cash		160,000	
		To record purchase of operations building			
C)	Feb. 7, Year 1	Equipment	3,000		
		Accounts Payable		3,000	
		To record purchase of equipment on account (on credit)			
D)	Feb. 14, Year 1	Cash	2,900		
		Accounts Receivable	2,500		
		Service Revenue		5,400	
		To record service revenue			
E)	Feb. 18, Year 1	Accounts Payable	3,000		
		Cash		3,000	
		To record payment to settle account payable (re: equipment purchased Feb 7)			
F)	Feb. 22, Year 1	Cash	1,900		
		Accounts Receivable		1,900	
		To record receipt of amounts from customers, on account			
G)	Feb. 28, Year 1	Salary Expense	3,300		
		Cash		3,300	
		To record payment of February salaries			

176. Described below are several transactions that might be recorded by a music supply company. Several accounts from the company's chart of accounts are also listed below. Using these account titles, record each transaction in proper journal entry format, including a written explanation for each journal entry.

Accounts:

Cash	Common Shares
Accounts Receivable	Retained Earnings
Inventory	Sales Revenue
Accounts Payable	Selling Expenses
Unearned Revenue	Administrative Expenses

A) Bills are mailed for musical instruments sold to customers: $225,000

B) Customers pay for musical instruments in advance: $130,000

C) Administrative employees are paid their monthly salaries: $14,000

D) An invoice is received for $15,200 of new musical instruments purchased for sale to customers: payment is due in 30 days

E) Payments are received from customers for amounts billed in a previous transaction: $135,000

F) Full payment is made for the musical instruments invoice received in a previous transaction

Graders Info :

	Account	Debit	Credit
A)	Accounts Receivable	225,000	
	Sales Revenue		225,000

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	To record sale of musical instruments to customers			
B)	Cash	130,000		
	Unearned Revenue			130,000
	To record receipt of advance payments received from customers for musical instruments			
C)	Administrative Expenses	14,000		
	Cash			14,000
	To record administrative salaries			
D)	Inventory	15,200		
	Accounts Payable			15,200
	To record purchase of musical instruments (inventory) on account (on credit)			
E)	Cash	135,000		
	Accounts Receivable			135,000
	To record receipt of payments from customers on account			
F)	Accounts Payable	15,200		
	Cash			15,200

To record receipt of remaining balance due from customers on account

177. Several transactions are listed below, with the accounting equation stated to the right side of each. Use the following identification codes to indicate the effects of each transaction on the accounting equation: I = Increase; D = Decrease; NE = No Net Effect. Write your answers in the space provided under the accounting equation, being sure to include an identification code for each element of the accounting equation. An example is provided before the first transaction.

		Assets	=	**Liabilities**	+	**Shareholders' Equity**
Example: Common shares are issued to investors in the company in exchange for cash	I		NE		I	
A)	Services are sold for cash.	_____		_____		_____
B)	Equipment is purchased on credit.	_____		_____		_____
C)	Payment is made for equipment purchased on credit.	_____		_____		_____
D)	Services are sold for credit.	_____		_____		_____
E)	Cash is collected from customers for accounts receivable balances.	_____		_____		_____
F)	Dividends are declared and paid to shareholders.	_____		_____		_____
G)	Land and building are acquired in exchange for common shares.	_____		_____		_____
H)	Utility bill is received and recorded; it will be paid later.	_____		_____		_____

Graders Info :

		Assets	=	**Liabilities**	+	**Shareholders' Equity**
Example: Common shares are issued to investors in the company in exchange for cash	I		NE		I	
A)	Services are sold for cash.	I		NE		I
B)	Equipment is purchased on credit.	I		I		NE
C)	Payment is made for equipment purchased on credit.	D		D		NE

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D)	Services are sold for credit.	I	NE	I
E)	Cash is collected from customers for accounts receivable balances.	NE	NE	NE
F)	Dividends are declared and paid to shareholders.	D	NE	D
G)	Land and building are acquired in exchange for common shares.	I	NE	I
H)	Utility bill is received and recorded; it will be paid later.	NE	I	D

178. Several transactions are listed below, with an expanded accounting equation stated to the right side of each. Use the following identification codes to indicate the effects of each transaction on the accounting equation: I = Increase; D = Decrease; NE = No Net Effect. Write your answers in the space provided under the accounting equation, being sure to include an identification code for each element of the accounting equation. An example is provided before the first transaction.

		Assets	**=**	**Liabilities**	**+**	**Share Capital**	**+**	**Retained Earnings**
Example: Services sold for cash	**I**		**NE**		**NE**		**I**	
A)	Issue common shares in exchange for cash	_____		_____		_____		_____
B)	Borrow money from the bank	_____		_____		_____		_____
C)	Purchase land for cash	_____		_____		_____		_____
D)	Purchase a one-year insurance policy	_____		_____		_____		_____
E)	Purchase supplies inventory on credit	_____		_____		_____		_____
F)	Provide services for cash	_____		_____		_____		_____
G)	Receive cash in advance for services to be provided next month	_____		_____		_____		_____
H)	Pay utilities	_____		_____		_____		_____
I)	Pay employee salaries for work they performed in the current month	_____		_____		_____		_____

Graders Info :

		Assets	**=**	**Liabilities**	**+**	**Contributed Capital**	**+**	**Retained Earnings**
Example: Services sold for cash	**I**		**NE**		**NE**		**I**	
A)	Issue common shares in exchange for cash	I		NE		I		NE
B)	Borrow money from the bank	I		I		NE		NE
C)	Purchase land for cash	NE		NE		NE		NE
D)	Purchase a one-year insurance policy	NE		NE		NE		NE
E)	Purchase supplies inventory on credit	I		I		NE		NE
F)	Provide services for cash	I		NE		NE		I

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G)	Receive cash in advance for services to be provided next month	I	I	NE	NE
H)	Pay utilities	D	NE	NE	D
I)	Pay employee salaries for work they performed in the current month	D	NE	NE	D

179. Several accounts from the financial statements of Hotlanta Promotions, Inc. are listed below. In the two columns provided for answers, indicate the type of account and the normal account balance. Use the following identification codes for your answers:

Type of Account	**Normal Balance**
A = Asset	Dr = Debit
L = Liability	Cr = Credit
SE = Shareholders' Equity	
R = Revenue	
E = Expense	

		Type of Account	**Normal Balance**
A)	Prepaid Rent	_____	_____
B)	Television Equipment	_____	_____
C)	Unearned Revenue	_____	_____
D)	Service Revenue	_____	_____
E)	Common Shares	_____	_____
F)	Accounts Payable	_____	_____
G)	Income Tax Expense	_____	_____
H)	Interest Income	_____	_____
I)	Salary Expense	_____	_____
J)	Notes Payable	_____	_____

Graders Info :

		Type of Account	**Normal Balance**
A)	Prepaid Rent	A	Dr
B)	Television Equipment	A	Dr
C)	Unearned Revenue	L	Cr
D)	Service Revenue	R	Cr
E)	Common Shares	SE	Cr
F)	Accounts Payable	L	Cr
G)	Income Tax Expense	E	Dr
H)	Interest Income	R	Cr
I)	Salary Expense	E	Dr
J)	Notes Payable	L	Cr

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180. The bookkeeper prepared the following journal entries during May for Holiday Marina. Assume that the descriptions of the entries are correct.

Journal (partial):

Date	Accounts and Descriptions	Debit	Credit
May 5	Accounts Receivable	1,600	
	Service Revenue		1,600
	Billed customers for services completed		
May 11	Cash	500	
	Service Revenue		500
	Collected from a customer billed on May 5 for services rendered		
May 15	Office Supplies	700	
	Accounts Payable		700
	Purchased furniture on credit; payment due in 30 days		
May 25	Office Furniture	700	
	Cash		500
	Paid the $700 furniture bill received on May 15		

Refer to Holiday Marina. Identify the transactions that the bookkeeper recorded incorrectly in the journal. Prepare the journal entry that the bookkeeper should have made for each transaction that you identify as being made incorrectly.

Graders Info :

The May 11, 15, and 25 entries were recorded incorrectly. The correct entries are as follows:

Date	Accounts and Descriptions	Debit	Credit
May 11	Cash	500	
	Accounts Receivable		500
	Collected from a customer for services billed earlier		
May 15	Office Furniture	700	
	Accounts Payable		700
	Purchased furniture on credit; payment due in 30 days		
May 25	Accounts Payable	700	
	Cash		700
	Paid the furniture bill		

181. The bookkeeper prepared the following journal entries during May for Holiday Marina. Assume that the descriptions of the entries are correct.

Journal (partial):

Date	Accounts and Descriptions	Debit	Credit
May 5	Accounts Receivable	1,600	
	Service Revenue		1,600
	Billed customers for services completed		
May 11	Cash	500	
	Service Revenue		500
	Collected from a customer billed on May 5 for services rendered		

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May 15	Office Supplies	700		
	Accounts Payable			700
	Purchased furniture on credit; payment due in 30 days			
May 25	Office Furniture	700		
	Cash			500
	Paid the $700 furniture bill received on May 15			

Refer to Holiday Marina. Assume that the incorrect journal entries have been posted to the general ledger. For each incorrect journal entry, explain why the error would or would not be discovered during the process of preparing a trial balance.

Graders Info :

May 11: Because equal dollar amounts were recorded in the journal entry, preparation of a trial balance would not help discover the error.

May 15: Because equal dollar amounts were recorded in the journal entry, preparation of a trial balance would not help discover the error.

May 25: This error would be discovered by preparing a trial balance because the total debits would be $200 higher than the total credits.

182. The following transactions occurred during June Year 1 for Hatcher Tool Service:

June 1	The company purchased a service truck for $25,500, paying $5,500 now and issuing a note payable for the balance; the note is due in monthly installments of $500 plus interest on the unpaid principal balance.
June 8	The company performed services of $30,400. It received $6,400 cash from customers and $24,000 for customers billed for completed services.
June 22	The company issued common shares in exchange for land having a fair value of $70,000.
June 30	The company received an invoice for $2,400 from the company's advertising agency for radio and television ads that were run during the month; the invoice is due in 30 days.

Refer to Hatcher Tool Service. Indicate the economic effects of each transaction on the accounting equation. Use the following format for your answers. Show the dollar amounts in the appropriate columns and use a plus (+) sign to indicate an increase and a minus (−) sign to indicate a decrease.

Transaction Date	**Assets**	**=**	**Liabilities**	**+**	**Shareholders' Equity**

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Graders Info :

Transaction Date	Assets	=	Liabilities	+	Shareholders' Equity
June 1	+20,000 (25,500 − 5,500)		+20,000		
June 8	+30,400 (6,400 + 24,000)				+30,400
June 22	+70,000				+70,000
June 30			+2,400		−2,400

183. The following transactions occurred during June Year 1 for Hatcher Tool Service:

June 1	The company purchased a service truck for $25,500, paying $5,500 now and issuing a note payable for the balance; the note is due in monthly installments of $500 plus interest on the unpaid principal balance.
June 8	The company performed services of $30,400. It received $6,400 cash from customers and $24,000 for customers billed for completed services.
June 22	The company issued common shares in exchange for land having a fair value of $70,000.
June 30	The company received an invoice for $2,400 from the company's advertising agency for radio and television ads that were run during the month; the invoice is due in 30 days.

Refer to Hatcher Tool Service. Record each transaction in proper journal entry format in the journal provided, including a written explanation for each journal entry.

JOURNAL

Date	Accounts	Debit	Credit

Graders Info :

JOURNAL

Date	Accounts	Debit	Credit
June 1	Vehicles	25,500	
	Cash		5,500
	Note Payable		20,000
	To record purchase of service truck		
June 8	Cash	6,400	
	Accounts Receivable	24,000	
	Service Revenue		30,400
	To record service revenue		
June 22	Land	70,000	
	Common Shares		70,000
	To record issuance of common shares in exchange for land		

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June 30	Advertising Expense	2,400	
	Accounts Payable		2,400
	To record invoice received for radio and television advertising, on account		

184. The following transactions occurred during June Year 1 for Hatcher Tool Service:

June 1	The company purchased a service truck for $25,500, paying $5,500 now and issuing a note payable for the balance; the note is due in monthly installments of $500 plus interest on the unpaid principal balance.
June 8	The company performed services of $30,400. It received $6,400 cash from customers and $24,000 for customers billed for completed services.
June 22	The company issued common shares in exchange for land having a fair value of $70,000.
June 30	The company received an invoice for $2,400 from the company's advertising agency for radio and television ads that were run during the month; the invoice is due in 30 days.

Refer to Hatcher Tool Service. Set up T-accounts and post each transaction to the T-accounts.

Graders Info :

Vehicles	
June 1	
25,500	

Cash	
June 8	June 1
6,400	5,500

Notes Payable	
	June 1
	20,000

Accounts Receivable	
June 8	
24,000	

Service Revenue	
	June 8
	30,400

Land	
June 22	
70,000	

Common Shares	
	June 22
	70,000

Advertising Expense	
June 30	
2,400	

Accounts Payable	
	June 30
	2,400

185. The following transactions occurred during June Year 1 for Hatcher Tool Service:

June 1	The company purchased a service truck for $25,500, paying $5,500 now and issuing a note payable for the balance; the note is due in monthly installments of $500 plus interest on the unpaid principal balance.
June 8	The company performed services of $30,400. It received $6,400 cash from customers and $24,000 for customers billed for completed services.

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June 22	The company issued common shares in exchange for land having a fair value of $70,000.
June 30	The company received an invoice for $2,400 from the company's advertising agency for radio and television ads that were run during the month; the invoice is due in 30 days.

Refer to Hatcher Tool Service. Prepare a trial balance in proper format. Assume that there are no additional accounts or balances other than those created from the June transactions.

Graders Info :

Hatcher Tool Service
Trial Balance
June 30, Year 1

Account	Debit	Credit
Cash	$ 900	
Accounts Receivable	24,000	
Vehicles	25,500	
Land	70,000	
Accounts Payable		$ 2,400
Notes Payable		20,000
Common Shares		70,000
Service Revenue		30,400
Advertising Expense	2,400	
	$122,800	$122,800

186. The T-accounts presented below are taken from the general ledger of Health Force Corporation on March 31, Year 1. Determine the balance of each account and present them in proper trial balance format.

Cash	
5,000	12,000
9,000	650
44,000	15,200
36,000	650
8,000	16,100
3,000	650
24,000	16,400
10,000	3,200
	750

Accounts Payable	
3,200	4,200

Common Shares	
	30,000
	24,000

Salaries Payable	
	5,000

Service Revenue	
	21,000
	9,000
	22,000
	36,000

Accounts Receivable	
21,000	8,000
	3,000

Unearned Revenue	
22,000	44,000

Advertising Expense	
4,200	

Prepaid Insurance	
1,200	100

Notes Payable	
	16,500

Salaries Expense	
15,200	

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	100		16,100
	100		16,400
			5,000

Equipment

35,300	

Rent Expense

650	
650	
650	

Insurance Expense

100	
100	
100	

Dividends Declared

7,750	

Graders Info :

Health Force Corporation
Trial Balance
March 31, Year 1

Account	**Debit**	**Credit**
Cash	$ 73,400	
Accounts Receivable	10,000	
Prepaid Insurance	900	
Equipment	35,300	
Accounts Payable		$ 1,000
Salaries Payable		5,000
Unearned Revenue		22,000
Notes Payable		16,500
Common Shares		54,000
Service Revenue		88,000
Advertising Expense	4,200	
Salaries Expense	52,700	
Rent Expense	1,950	
Insurance Expense	300	
Dividends Declared	7,750	
	$186,500	$186,500

187. The list of accounts presented below is from the accounting records of Hoosier Momma Promotions on September 30, Year 1. Assume that each account balance is normal, and present them in proper trial balance format.

Cash	$ 4,200
Short-term Investments	13,000
Accounts Receivable	4,500

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Inventory	23,000
Land	90,000
Building	700,000
Furniture	450,000
Equipment	281,700
Accounts Payable	7,200
Salaries Payable	4,100
Unearned Revenue	17,000
Interest Payable	2,000
Notes Payable	70,000
Common Shares	460,000
Retained Earnings	977,000
Sales	158,000
Cost of Goods Sold	78,000
Salaries Expense	24,000
Rent Expense	6,000
Insurance Expense	1,000
Depreciation Expense	11,000
Utility Expense	900
Dividends Declared	8,000

Graders Info :

Hoosier Momma Promotions
Trial Balance
September 30, Year 1

Account	**Debit**	**Credit**
Cash	$ 4,200	
Short-term investments	13,000	
Accounts Receivable	4,500	
Inventory	23,000	
Land	90,000	
Building	700,000	
Furniture	450,000	
Equipment	281,700	
Accounts Payable		$ 7,200
Salaries Payable		4,100
Unearned Revenue		17,000
Interest Payable		2,000
Notes Payable		70,000
Common Shares		460,000
Retained Earnings		977,000
Sales		158,000
Cost of Goods Sold	78,000	
Salaries Expense	24,000	
Rent Expense	6,000	

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Insurance Expense	1,000	
Depreciation Expense	11,000	
Utility Expense	900	
Dividends Declared	8,000	
	$1,695,300	$1,695,300

188. The following transactions were incurred during July Year 1 for H&R Clock Company:

July 1	The company raised $30,000 by issuing a note to the bank for $15,000 and issuing $15,000 of common shares.
July 5	The company purchased $5,100 of office supplies inventory on credit; payment is due in 30 days.
July 12	The company performed $18,000 of services for customers on credit; collection is due in 30 days.
July 13	The company performed services for customers and collected $8,800.
July 20	The company paid for the supplies purchased on July 5.
July 22	The company collected $15,000 of the amounts due from customers.
July 30	The company received and paid the utility bill for the month of July in the amount of $640.
July 31	The company paid employee salaries of $3,800 for the month of July.

Refer to H&R Clock Company. Use the following format to indicate the economic effects of each transaction on the expanded accounting equation. Show the dollar amounts in the appropriate columns and use a plus (+) sign to indicate an increase and a minus (−) sign to indicate a decrease.

Transaction Date	**Assets**	**=**	**Liabilities**	**+**	**Contributed Capital**	**+**	**Retained Earnings**

Graders Info :

Transaction Date	**Assets**	**=**	**Liabilities**	**+**	**Contributed Capital**	**+**	**Retained Earnings**
July 1	+30,000		+15,000		+15,000		
July 5	+5,100		+5,100				
July 12	+18,000						+18,000
July 13	+8,800						+8,800
July 20	−5,100		−5,100				
July 22	0 (+15,000 − 15,000)						

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July 30	−640	−640
July 31	−3,800	−3,800

189. The following transactions were incurred during July Year 1 for H&R Clock Company:

July 1	The company raised $30,000 by issuing a note to the bank for $15,000 and issuing $15,000 of common shares.
July 5	The company purchased $5,100 of office supplies inventory on credit; payment is due in 30 days.
July 12	The company performed $18,000 of services for customers on credit; collection is due in 30 days.
July 13	The company performed services for customers and collected $8,800.
July 20	The company paid for the supplies purchased on July 5.
July 22	The company collected $15,000 of the amounts due from customers.
July 30	The company received and paid the utility bill for the month of July in the amount of $640.
July 31	The company paid employee salaries of $3,800 for the month of July.

Refer to H&R Clock Company. Record each transaction in proper journal entry format in the journal provided, including a written explanation for each journal entry.

JOURNAL

Date	**Accounts**	**Debit**	**Credit**

Graders Info :

JOURNAL

Date	**Accounts**	**Debit**	**Credit**
July 1	Cash	30,000	
	Note Payable		15,000
	Common Shares		15,000
	To record capital raised		
July 5	Office Supplies	5,100	
	Accounts Payable		5,100
	To record purchase of office supplies inventory on account (on credit)		
July 12	Accounts Receivable	18,000	
	Service Revenue		18,000
	To record service revenue (on account)		
July 13	Cash	8,800	
	Service Revenue		8,800
	To record service revenue		
July 20	Accounts Payable	5,100	
	Cash		5,100

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		To record payment on account (for office supplies purchased July 5)		
July 22	Cash	15,000		
	Accounts Receivable		15,000	
	To record collection of amounts on account from customers			
July 30	Utilities Expense	640		
	Cash		640	
	To record payment of July utilities			
July 31	Salaries Expense	3,800		
	Cash		3,800	

To record payment of July salaries

190. The following transactions were incurred during July Year 1 for H&R Clock Company:

July 1	The company raised $30,000 by issuing a note to the bank for $15,000 and issuing $15,000 of common shares.
July 5	The company purchased $5,100 of office supplies inventory on credit; payment is due in 30 days.
July 12	The company performed $18,000 of services for customers on credit; collection is due in 30 days.
July 13	The company performed services for customers and collected $8,800.
July 20	The company paid for the supplies purchased on July 5.
July 22	The company collected $15,000 of the amounts due from customers.
July 30	The company received and paid the utility bill for the month of July in the amount of $640.
July 31	The company paid employee salaries of $3,800 for the month of July.

Refer to H&R Clock Company. Set up T-accounts and post each transaction to the T-accounts.

Graders Info :

Cash	
July 1	July 20
30,000	5,100
July 13	July 30
8,800	640
July 22	July 31
15,000	3,800

Note Payable	
	July 1
	15,000

Common Shares	
	July 1
	15,000

Office Supplies Inventory	
July5	

Accounts Payable	
July 20	July 5

Accounts Receivable	
July 12	July 22

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5,100		5,100	5,100	18,000	15,000
Service Revenue		**Utilities Expense**		**Salaries Expense**	
	July 12	July 30		July 31	
	18,000	640		3,800	
	July 13				
	8,800				

191. The following transactions were incurred during July Year 1 for H&R Clock Company:

July 1	The company raised $30,000 by issuing a note to the bank for $15,000 and issuing $15,000 of common shares.
July 5	The company purchased $5,100 of office supplies inventory on credit; payment is due in 30 days.
July 12	The company performed $18,000 of services for customers on credit; collection is due in 30 days.
July 13	The company performed services for customers and collected $8,800.
July 20	The company paid for the supplies purchased on July 5.
July 22	The company collected $15,000 of the amounts due from customers.
July 30	The company received and paid the utility bill for the month of July in the amount of $640.
July 31	The company paid employee salaries of $3,800 for the month of July.

Refer to H&R Clock Company. Prepare a trial balance in proper format. Assume that the company had no additional accounts or balances other than those created from the July transactions.

Graders Info :

H&R Clock Company
Trial Balance
July 31, Year 1

Account	**Debit**	**Credit**
Cash	$44,260	
Accounts Receivable	3,000	
Office Supplies Inventory	5,100	
Accounts Payable		$ 0
Notes Payable		15,000
Common Shares		15,000
Service Revenue		26,800

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Utilities Expense	640	
Salaries Expense	3,800	
	$56,800	$56,800

192. The company's bookkeeper of Home Accent Interiors prepared the following journal entries and posted them to the general ledger as indicated in the T-accounts presented. Assume that the dollar amounts and descriptions of the entries are correct.

Journal (partial):

Date	Accounts and Descriptions	Debit	Credit
May 5	Accounts Receivable	6,400	
	Service Revenue		6,400
	billed customers for services completed		
May 11	Cash	2,000	
	Service Revenue		2,000
	billed customers and received payment from a customer for services rendered in a prior month		
May 15	Furniture	2,800	
	Accounts Payable		2,800
	purchased furniture on account; payment due in 30 days		

General Ledger (partial):

Accounts Receivable		Service Revenue		Office Furniture	
May 5		May 5	May 11	May 15	
6,400		6,400	2,000	2,800	
Cash		**Accounts Payable**			
May 11		May 15			
2,000		2,800			

Refer to Home Accent Interiors. Identify the postings to the general ledger that were made incorrectly. Describe how each incorrect posting should have been made. For this problem, assume that the journal entries have been correctly recorded.

Graders Info :

The bookkeeper incorrectly posted the May 5 and 15 journal entries. For the May 5 journal entry, the $6,400 credit to Service Revenue should have been posted to the Service Revenue account as a credit, not as a debit. For the May 15 journal entry, the $800 credit to Accounts Payable should have been posted to the Accounts Payable account as a credit, not as a debit.

193. Selected accounts at July 31 for Happy Heights Country Club are provided below:

CASH **UNEARNED LESSON REVENUE**

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July 1 bal.	12,000			July 3	1,000
July 3	1,000				
July 5	3,600				
July 7	1,800				

ACCOUNTS RECEIVABLE					MEMBERSHIP REVENUE		
July 2	3,500		July 7	1,800		July 2	3,500
						July 5	3,600

Refer to Happy Heights Country Club. Record each transaction in proper journal entry format in the journal provided, including a written explanation for each journal entry.

JOURNAL

Date	Accounts	Debit	Credit

Graders Info :

JOURNAL

Date	Accounts	Debit	Credit
July 3	Cash	1,000	
	Unearned Lesson Revenue		1,000
	To record advance receipt of payment from customers for lessons to be provided in the future		
July 5	Cash	3,600	
	Membership Revenue		3,600
	To record receipt of cash for memberships sold		
July 7	Cash	1,800	
	Accounts Receivable		1,800
	To record collection of amounts due from customers on account		

194. The following transactions occurred during November for HVAC Service:

Nov. 1	The company sent bills to clients for services provided in August in the amount of $12,000.
Nov. 9	The company purchased office equipment of $4,000 and office supplies of $150 from Office Depot, receiving an invoice for $4,150. None of the office supplies were used during November.
Nov. 15	The company paid for the office furniture and supplies purchased from Office Depot.
Nov. 23	The company received a $350 bill from CKRP Radio for advertising. The bill will be paid next month.
Nov. 30	The company paid salaries of $2,500 to employees for their work during the month of November.

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Refer to HVAC Service. Record each transaction in proper journal entry format in the journal provided, including a written explanation for each journal entry.

JOURNAL

Date	**Accounts**	**Debit**	**Credit**

Graders Info :

JOURNAL

Date	**Accounts**	**Debit**	**Credit**
Nov. 1	Accounts receivable	12,000	
	Service revenue		12,000
	To record advance receipt of payment from customers for lessons to be provided in the future		
Nov. 9	Office Equipment	4,000	
	Office Supplies Inventory	150	
	Accounts Payable		4,150
	To record receipt of cash for memberships sold		
Nov. 15	Accounts Payable	4,150	
	Cash		4,150
	To record payment of Home Depot invoice		
Nov. 23	Advertising Expense	350	
	Accounts Payable		350
	To record invoice received for radio advertising		
Nov. 30	Salaries Expense	2,500	
	Cash		2,500
	To record salaries paid for November		

195. The following transactions occurred during June for Hesson Properties, Inc.:

June 1	The company purchased two new maintenance carts on account for $750 each. Payment is due in 30 days.
June 8	The company accepted $500 of advance payments from customers for services to be provided next month.
June 15	The company received a utility bill for $300. Payment is due in 30 days.
June 20	The company billed customers $1,500 for services provided during the month of June. Payment is due in 30 days.
June 30	The company received $500 from customers who were billed earlier.

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Refer to Hesson Properties, Inc. Record each transaction in proper journal entry format in the journal provided, including a written explanation for each journal entry.

JOURNAL

Date	**Accounts**	**Debit**	**Credit**

Graders Info :

JOURNAL

Date	**Accounts**	**Debit**	**Credit**
June 1	Equipment	1,500	
	Accounts Payable		1,500
	To record purchase of two new maintenance carts, on account		
June 8	Cash	500	
	Unearned Revenue		500
	To record receipt of advance payments from customers for services to be provided in July		
June 15	Utilities Expense	300	
	Accounts Payable		300
	To record receipt of utility bill		
June 20	Accounts Receivable	1,500	
	Service Revenue		1,500
	To record customer billings for services provided		
June 30	Cash	500	
	Accounts Receivable		500
	To record collection of customer account		

196. Discuss the conceptual framework of accounting.

Graders Info :

Accounting standards rest on a conceptual framework of accounting. This framework flows logically from the fundamental objective of financial reporting: to provide information that is useful in making business decisions. The conceptual framework is designed to support the development of a consistent set of accounting standards and provide a consistent body of thought for financial reporting. An understanding of the conceptual framework should help you understand complex accounting standards by providing a logical structure to financial accounting; in other words, the concepts help explain "why" accountants adopt certain practices.

197. Each of the situations in A through C below applies to one of the assumptions or principles included in the conceptual framework of accounting. Identify which assumption or principle applies and explain why that assumption or principle applies.

A) High Collectibles is a Canadian company that has divisions in several countries around the world. Each country has a currency different than the Canadian dollar. The company must include the financial data of its worldwide divisions in its financial statements.

B) Howell Trucking operates as a partnership. The partners are considering a change to the corporate form of business organization.

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C) Holly Company is a local company. The owners have decided to expand into nearby cities. Expansion will require more capital, but management does not expect it will stay in business for more than one year or so regardless of its expansion plans.

Graders Info :

A) The monetary unit assumption. Financial statements must be reported in monetary terms, and the standard monetary unit should be denominated in one currency.

B) Separate entity assumption. A business can take three forms. However, regardless of the form, the unit itself is distinct from its owners.

C) Continuity (going-concern) assumption. A business is assumed to continue to operate long enough to carry out its obligations.

198. For a company's reported financial information to be useful, two fundamental characteristics must be present. Identify and explain these characteristics.

Graders Info :

The two fundamental characteristics of useful accounting information are relevance and faithful representation.

Relevant information has the capacity to make a difference in a business decision by helping users predict future events (*predictive value*) or providing feedback about prior expectations (*confirmatory value*).

Accounting information should be a faithful representation of the real-world economic event that it is intending to portray. Faithfully represented information should be complete (includes all necessary information for the user to understand the economic event), neutral (unbiased), and free from error (as accurate as possible).

199. What is the difference between comparability and consistency?

Graders Info :

Comparability allows comparisons to be made between or among companies. Even though a certain amount of freedom exists in selecting accounting principles, when this information is disclosed in the financial statements, users can still compare the information when they know what principle is used.

Consistency refers to the application of the same accounting principles over time. It involves the relationships between a set of numbers over several periods but within only one company, unlike comparability that can be between or among companies.

200. For a company's reported financial information to be useful, in addition to the two fundamental qualitative characteristics there are also four enhancing characteristics. Identify and explain these enhancing characteristics.

Graders Info :

The four enhancing characteristics are comparability, verifiability, timeliness, and understandability.

Comparable information allows external users to identify similarities and differences between two or more items. Information is useful when it can be compared with similar information about other companies or with similar information about the same company for a different time period. Included in comparability is consistency. Consistency can be achieved by a company applying the same accounting principles for the same items over time. Consistency can also be achieved by multiple companies using the same accounting principles in a single time period. Comparability should be viewed as the goal, while consistency helps to achieve that goal.

Information is verifiable when independent parties can reach a consensus on the measurement of the activity.

Information is timely if it is available for users before it loses its ability to influence business decisions.

If users who have a reasonable knowledge of accounting and business can, with reasonable effort, comprehend the meaning of the information, it is considered understandable.

201. Several terms that represent components of an accounting system are listed below. For each term, write a brief explanation of how that component is used in the accounting cycle.

A) accounts

B) chart of accounts

C) double-entry system with debits and credits

D) journal

E) general ledger

F) trial balance

Graders Info :

A) An account is a record used to accumulate monetary amounts of increases and decreases for each basic element reported in an entity's financial statements. A separate record is prepared for each asset, liability, shareholders' equity, revenue, expense, and dividend element.

B) A chart of accounts is a list of all accounts (financial statement elements) used by a company, including numbers assigned to the accounts by the entity to facilitate bookkeeping activities. The chart of accounts is used to locate accounts in a general ledger.

C) In a double-entry system with debits and credits, equal debit and credit amounts are recorded for the effects of each transaction on an entity's accounts. Increases and decreases are recorded as debits (left-side entries) or credits (right-side entries) in the accounts. To maintain the equality of the accounting equation, assets = liabilities + shareholders' equity, the rules of debit and credit require that some accounts increase by debits and decrease by credits and that other accounts increase by credits and decrease by debits.

D) The journal is an accounting record in which all business transactions are recorded in chronological order as they occur. The transaction date, accounts affected, amounts to be debited and credited to the affected accounts, and a brief description of the transaction are recorded. As the amounts are transferred to the accounts in the general ledger, the account numbers are entered in the posting reference column of the journal.

E) The general ledger is a book or file that contains a record for each account used by an entity. The individual account records contain the monetary amounts transferred from the general journal entries. The difference between the debit and credit entries is the account balance. Periodically, the account balances are listed in a trial balance and used in the preparation of financial statements.

F) The trial balance is a schedule or list of all accounts and their balances from the general ledger. Amounts for accounts with debit balances are listed in one column, and amounts for accounts with credit balances are listed in a second column. The sum of the debit and credit balances should be equal in the double-entry system. If the sums of the debit and credit balances are not equal, procedures for locating the error(s) must be applied. The trial balance provides information that is needed to prepare financial statements.

202. Four journal entries are presented below. Write an explanation for each entry.

A)	Cash	12,200	
	Service Revenue		12,200
B)	Accounts Receivable	17,500	
	Service Revenue		17,500
C)	Cash	16,900	
	Accounts Receivable		16,900
D)	Cash	1,830	
	Unearned Revenue		1,830

Graders Info :

A) Cash was received for services provided to customers.

B) Customers were billed for services provided.

C) Cash was collected from customers who had been billed previously.

D) Cash was collected from customers for services to be provided later.

203. The bookkeeper made the following errors while recording transactions for the period:

A) A purchase of equipment for $450 cash was recorded as a debit to equipment for $540 and a credit to cash for $540.

B) The sale of services for cash in the amount of $4,134 was recorded as a debit to cash for $4,134 and a credit to service revenue for $4,314.

C) A purchase of supplies for $200 cash was recorded correctly in the journal but was omitted from the general ledger.

D) The sale of services for credit in the amount of $3,800 was recorded correctly in the journal but was posted twice to the general ledger.

E) $5,500 cash paid for salaries was recorded in the journal as a $5,500 debit to cash and a $5,500 credit to salaries expense.

Indicate whether or not the debit and credit columns of the trial balance will be equal after recording each of these erroneous entries. Then identify the account(s) that will be misstated as a result of these errors and the direction of the misstatement (i.e., understatement or overstatement).

Graders Info :

A) The trial balance will still balance, but both of the accounts will be overstated by $90.

B) The trial balance will be out of balance as Service Revenues will be overstated by $180.

C) The trial balance will still balance, but the supplies account will be understated by $200 and the cash account will be overstated by $200.

D) The trial balance will still balance, but the accounts receivable and service revenue accounts will both be overstated by $3,800.

E) The trial balance will still balance, but the cash account will be overstated by $11,000 and the salaries expense account will be understated by $11,000.

204. "You Decide" Essay

A customer has called complaining that he paid for a service call last week and is still waiting for a serviceperson to come out and repair his air conditioning unit. You are now curious as to how much work your service team has been paid for but has not yet completed. You notice the bookkeeper has left the company's general journal and general ledger open on the desk so that he can do the monthly posting when he returns from lunch. Using those two items, how can you satisfy your curiosity?

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Graders Info :

First, find the beginning of the period's balance in the unearned revenue account in the general ledger. Then look through the general journal for debits and credits to the unearned revenue account. Debits represent work that has been completed while credits represent work that has been paid for in advance. Your curiosity can be satisfied using the following equation: beginning balance + credits to the account - debits to the account.