Financial Accounting Reporting Analysis and Decision Making 6th edition Carlon Test Bank

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Testbank

to accompany

Financial accounting: Reporting, analysis and decision making 6e

by
Carlon et al.

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Chapter 2: The recording process

Multiple-choice questions

1. The accounting equation can be used to analyse transactions for:

a. a company.
b. a sole trader.
c. a not-for-profit entity.
*d. all of the above.

Answer: d
Learning objective 2.1 – Analyse the effect of accounting transactions and events on the basic accounting equation.
Feedback: All business structures use a double entry accounting system.

2. Equity is increased by:

a. dividends.
*b. revenues.
c. expenses.
d. liabilities.

Answer: b
Learning objective 2.1 – Analyse the effect of accounting transactions and events on the basic accounting equation.
Feedback: Revenues increase equity; expenses and dividends reduce equity.

3. Which of the following items has no effect on equity?

a. Expense.
b. Dividends.
*c. Land purchase.
d. Revenue.

Answer: c
Learning objective 2.1 – Analyse the effect of accounting transactions and events on the basic accounting equation.
Feedback: Revenues increase equity; expenses and dividends reduce equity.

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4. Purchase of $600 of supplies on credit:

a. increases an asset $600; decreases an asset $600.
*b. increases an asset $600; increases a liability $600.
c. decreases a liability $600; increases Equity $600.
d. decreases an asset $600; decreases a liability $600.

Answer: b
Learning objective 2.1 – Analyse the effect of accounting transactions and events on the basic accounting equation.
Feedback: A credit purchase of supplies increases an asset (Supplies) and increases a liability (Accounts payable).

5. If services are provided for credit, then:

a. assets will decrease.
b. liabilities will increase.
*c. Equity will increase.
d. liabilities will decrease.

Answer: c
Learning objective 2.1 – Analyse the effect of accounting transactions and events on the basic accounting equation.
Feedback: The effect of earning revenue on credit is to increase an asset (Receivables) and increase Equity.

6. If expenses are paid in cash, then:

a. assets will increase.
b. liabilities will decrease.
c. Equity will increase.
*d. assets will decrease.

Answer: d
Learning objective 2.1 – Analyse the effect of accounting transactions and events on the basic accounting equation.
Feedback: The effect of paying expenses in cash is to increase an expense (a decrease to Equity) and decrease an asset (Cash).

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7. Shareholders paying cash to purchase shares in a company increases:

*a. assets and equity.
b. assets and liabilities.
c. liabilities and equity.
d. assets only.

Answer: a
Learning objective 2.1 – Analyse the effect of accounting transactions and events on the basic accounting equation.
Feedback: The effect issuing shares for cash to shareholders is to increase an asset (Cash) and increase equity (Share capital).

8. The purchase of an asset for cash:

a. increases assets and equity.
b. increases assets and liabilities.
c. decreases assets and increases liabilities.
*d. leaves total assets unchanged.

Answer: d
Learning objective 2.1 – Analyse the effect of accounting transactions and events on the basic accounting equation.
Feedback: The effect of purchasing an asset for cash is to increase one asset (Equipment) and decrease another (Cash). The overall effect on total assets is zero.

9. The cash payment of a liability:

a. decreases assets and equity.
b. increases assets and decreases liabilities.
c. decreases assets and increases liabilities.
*d. decreases assets and liabilities.

Answer: d
Learning objective 2.1 – Analyse the effect of accounting transactions and events on the basic accounting equation.
Feedback: The effect of paying a liability with cash is to decrease a liability (Payables) and decrease an asset (Cash).

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10. The sale of an asset on credit for what it cost:

a. increases assets and liabilities.
b. decreases assets and liabilities.
*c. leaves total assets unchanged.
d. decreases assets and increases liabilities.

Answer: c
Learning objective 2.1 – Analyse the effect of accounting transactions and events on the basic accounting equation.
Feedback: The effect of selling an asset on credit for its cost price is to increase an asset (Receivables) and reduce another asset (Vehicle). The net effect on total assets is zero.

11. A transaction to record earning revenue:

a. increases assets and liabilities.
*b. increases assets and Equity.
c. increases assets and decreases equity.
d. leaves total assets unchanged.

Answer: b
Learning objective 2.1 – Analyse the effect of accounting transactions and events on the basic accounting equation.
Feedback: The effect of earning revenue is to increase an asset (Cash or Receivables) and increase revenue (an increase to Equity).

12. A cash payment of a dividend:

*a. decreases assets and equity.
b. increases assets and equity.
c. increases assets and decreases equity.
d. decreases assets and increases equity.

Answer: a
Learning objective 2.1 – Analyse the effect of accounting transactions and events on the basic accounting equation.
Feedback: The effect of paying a cash dividend is to decrease an asset (Cash) and decrease retained earnings (Equity).

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13. An expense incurred:

a. decreases assets and liabilities.
*b. decreases equity.
c. leaves equity unchanged.
d. increases equity.

Answer: b
Learning objective 2.1 – Analyse the effect of accounting transactions and events on the basic accounting equation.
Feedback: The effect of incurring an expense is to decrease equity (Retained earnings) and either decrease an asset (Cash) or incur a liability (Payable).

14. For the basic accounting equation to stay in balance, each transaction recorded must:

a. change no more than one account.
*b. affect two or more accounts.
c. always affect exactly two accounts.
d. affect only one account.

Answer: b
Learning objective 2.1 – Analyse the effect of accounting transactions and events on the basic accounting equation.
Feedback: Each transaction will affect two or more accounts ensuring the equality of the accounting equation.

15. The left side of an account is:

a. blank.
b. a description of the account.
*c. the debit side.
d. the balance of the account.

Answer: c
Learning objective 2.2 – Explain what an account is and how it helps in the recording process.
Feedback: An account is an individual record of increases and decreases in each specific asset, liability or equity item. An account may be represented in a T-account format. In a T account the left hand side is the debit side and the right hand side is the credit side.

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16. Which one of the following is not a part of an account?

a. Credit side.
*b. Trial balance.
c. Debit side.
d. Title.

Answer: b
Learning objective 2.2 – Explain what an account is and how it helps in the recording process.
Feedback: An account is an individual record of increases and decreases in each specific asset, liability or equity item. An account may be represented in a T-account format. In a T account the left hand side is the debit side and the right hand side is the credit side. A trial balance is a list of account balances.

17. An account is a part of the accounting information system and has all of the following characteristics except:

a. an account has a debit and credit side.
*b. an account has only one side.
c. an account consists of three parts.
d. an account has a title.

Answer: b
Learning objective 2.2 – Explain what an account is and how it helps in the recording process.
Feedback: An account is an individual record of increases and decreases in each specific asset, liability or equity item. An account may be represented in a T-account format. In a T account the left hand side is the debit side and the right hand side is the credit side.

18. An account consists of:

a. a title, a debit balance and a credit balance.
b. a title, a left side and a debit balance.
*c. a title, a debit side and a credit side.
d. a title, a right side and a debit balance.

Answer: c
Learning objective 2.2 – Explain what an account is and how it helps in the recording process.
Feedback: An account is an individual record of increases and decreases in each specific asset, liability or equity item. An account may be represented in a T-account format. In a T-account format the left hand side is the debit side and the right hand side is the credit side.

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19. A T account is:

*a. a way of depicting the basic form of an account.
b. a special account used instead of a journal.
c. a special account used instead of a trial balance.
d. used for accounts that have both a debit and credit balance.

Answer: a
Learning objective 2.2 – Explain what an account is and how it helps in the recording process.
Feedback: An account is an individual record of increases and decreases in each specific asset, liability or equity item. An account may be represented in a T-account format. In a T account the left hand side is the debit side and the right hand side is the credit side.

20. The double-entry system requires that each transaction must be recorded:

*a. in at least two different accounts.
b. in two sets of books.
c. in a journal and in a ledger.
d. first as a revenue and then as an expense.

Answer: a
Learning objective 2.3 – Explain what an account is and how it helps in the recording process.
Feedback: An account is an individual record of increases and decreases in each specific asset, liability or equity item. Each transaction must affect two or more different accounts to keep the accounting equation in balance. This equality of debits and credits provides the basis for the double-entry accounting system.

21. The best interpretation of the word credit is the:

a. offset side of an account.
b. increase side of an account.
*c. right side of an account.
d. decrease side of an account.

Answer: c
Learning objective 2.2, 2.3 - Explain what an account is and how it helps in the recording process.
Feedback: An account is an individual record of increases and decreases in each specific asset, liability or equity item. An account may be represented in a T-account format. In a T account the left hand side is the debit side and the right hand side is the credit side.

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22. An account will have a credit balance if the:

*a. credits exceed the debits.
b. first transaction entered was a credit.
c. debits exceed the credits.
d. last transaction entered was a credit.

Answer: a
Learning objective 2.2 – Explain what an account is and how it helps in the recording process.
Feedback: An account is an individual record of increases and decreases in each specific asset, liability or equity item. An account may be represented in a T-account format. In a T account the left hand side is the debit side and the right hand side is the credit side. When each side is totaled and offset against each other an account will have a credit balance if credits exceed debits.

23. An accountant has debited an asset account for $1,000 and credited a liability account for $500. What can be done to complete the recording of the transaction?

a. Nothing further must be done.
b. Debit an equity account for $500.
c. Debit another asset account for $500.
*d. Credit a different asset account for $500.

Answer: d
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.
Feedback: Debiting an asset by $1,000 will increase the asset. The accounting equation must balance therefore the $500 increase in liabilities must be offset by decreasing a different asset account for $500 (e.g. Cash).

24. When a business has performed a service but has not yet received payment, it:

*a. debits an asset and credits revenue.
b. debits revenue and credits an asset.
c. makes no entry until the cash is received.
d. credits an asset and credits a liability.

Answer: a
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.
Feedback: To record performing a service on credit, debit a receivable (asset) and credit revenue (an increase to equity).

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25. A business that receives cash in advance of performing a service will:

a. debit cash and credit prepaid expenses.
b. debit unearned revenue and credit accounts payable.
*c. debit cash and credit unearned revenue.
d. debit cash and credit accounts receivable.

Answer: c
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.
Feedback: To record cash received in advance of earning revenue, debit Cash (asset) and credit Unearned revenue or Revenue received in advance (liability).

26. When a business receives an unpaid electricity account, it should:

a. debit Electricity expense and credit Accounts receivable.
*b. debit Electricity expense and credit Accounts payable.
c. debit Accounts payable and credit Electricity expense.
d. make no entry until the bill is paid.

Answer: b
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.
Feedback: To record the consumption of a resource without payment of cash, debit an expense (a decrease to equity) and credit a liability (Payable).

27. When a service has been performed but no cash has been received, which of the following statements is true?

a. No journal entry is made.
b. The entry includes a debit to Accounts payable.
c. The entry includes a credit to Unearned revenue.
*d. The entry includes a debit to Accounts receivable.

Answer: d
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.
Feedback: To record providing services on credit, debit a receivable (asset) and credit Revenue (an increase to equity).

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28. A $20,000 machine is purchased by paying $5,000 cash and agreeing to pay for the remainder in 30 days' time, the journal entry should include a:

*a. credit to Accounts payable.
b. debit to Cash.
c. credit to Revenue.
d. credit to Machinery.

Answer: a
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.
Feedback: To record the purchase, debit Machinery (asset) and credit Cash (asset) and credit the remaining $15,000 to Accounts payable (liability).

29. A credit is not the normal balance for which account listed below?

a. Share capital account.
b. Revenue account.
c. Liability account.
*d. Dividends account.

Answer: d
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.
Feedback: A dividend is a distribution by a company to its shareholders. Dividends have a normal debit balances as dividends reduce retained earnings (equity).

30. Which of the following describes the classification and normal balance of the Retained earnings account?

a. Asset, debit.
*b. Equity, credit.
c. Revenues, credit.
d. Expense, debit.

Answer: b
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.
Feedback: A dividend is a distribution by a company to its shareholders. Dividends have a normal debit balance as dividends reduce retained earnings (equity).

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31. Which of the following describes the classification and normal balance of the Revenue received in advance (Unearned revenue) account?

a. Asset, debit.
*b. Liability, credit.
c. Revenues, credit.
d. Expense, debit.

Answer: b
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.
Feedback: Unearned revenue or Revenue received in advance is a liability. The normal balance of a liability is a credit.

32. A debit is not the normal balance for which account listed below?

a. Dividends.
b. Cash.
c. Accounts receivable.
*d. Service revenue

Answer: d
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.
Feedback: Assets, expenses and dividends all have a normal debit balance. Liabilities, revenues and equity all have a normal credit balance.

33. Which of the following accounts is increased with a debit?

*a. Dividends.
b. Legal fees earned.
c. Rent payable.
d. Share capital.

Answer: a
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.
Feedback: A dividend is a distribution by a company to its shareholders. Dividends have a normal debit balance as dividends reduce retained earnings (Equity).

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34. Which of the following accounts is increased with a credit?

a. Supplies expense.
b. Supplies.
*c. Revenue.
d. Dividends.

Answer: c
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.
Feedback: Asset, expense and dividend accounts have a normal debit balance. Liability, revenue and equity accounts have a normal credit balance.

35. A credit to which account will increase equity?

a. Electricity payable.
b. Prepaid insurance.
*c. Revenue.
d. Plant and equipment.

Answer: c
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.
Feedback: Asset, expense and dividend accounts have a normal debit balance. Liability, revenue and equity accounts have a normal credit balance.

36. Assets normally show:

a. credit balances.
*b. debit balances.
c. debit and credit balances.
d. both debit and credit balances.

Answer: b
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.
Feedback: Asset, expense and dividend accounts have a normal debit balance. Liability, revenue and equity accounts have a normal credit balance.

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37. Which account below is not a sub-account of equity?

a. Dividends paid.
b. Revenues.
c. Expenses.
*d. Liabilities.

Answer: d
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.
Feedback: Equity is increased when revenue is earned and decreased when expenses are incurred and when dividends are declared.

38. When a company pays a dividend the:

*a. Dividends paid account will increase with a debit.
b. Dividends paid account will be increased with a credit.
c. Retained earnings account will be directly increased with a credit.
d. Dividends paid account will be decreased with a debit.

Answer: a
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.
Feedback: To record the payment of a dividend, Dividends paid account is debited and Cash account is credited.

39. The Dividends paid account:

a. normally has a credit balance.
b. increases equity.
*c. is increased with debits and decreased with credits.
d. is not a proper sub-account of equity.

Answer: c
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.
Feedback: As dividends reduce equity, the Dividends paid account is increased with a debit and reduced with a credit.

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40. A credit to a liability account:

*a. indicates an increase in the amount owed to creditors.
b. indicates a decrease in the amount owed to creditors.
c. is an error.
d. must be accompanied by a debit to an asset account.

Answer: a
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.
Feedback: Asset, expense and dividend accounts have a normal debit balance. Liability, revenue and equity accounts have a normal credit balance. Liability accounts are increased by credits and reduced by debits.

41. The usual sequence of steps in the transaction recording process is:

a. journal, analyse, ledger.
*b. analyse, journal, ledger.
c. journal, ledger, analyse.
d. ledger, journal, analyse.

Answer: b
Learning objective 2.4 – Identify the basic steps in the recording process.
Feedback: There are three basic steps in the recording process: (1) analyse each transaction in terms of its effect on the accounts, (2) enter the transaction information in a journal and (3) transfer the journal information to the appropriate accounts in the ledger.

42. In recording accounting transactions, evidence that a transaction has taken place is obtained from:

*a. source documents.
b. the trial balance.
c. the ledger.
d. the journal.

Answer: a
Learning objective 2.4 – Identify the basic steps in the recording process.
Feedback: Evidence of the transaction comes in the form of a source document.

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43. After a business transaction has been analysed and entered in the journal, the next step in the recording process is to transfer the information to:

a. the bank.
b. the trial balance.
*c. ledger accounts.
d. financial statements.

Answer: c
Learning objective 2.4 – Identify the basic steps in the recording process.
Feedback: There are three basic steps in the recording process: (1) analyse each transaction in terms of its effect on the accounts, (2) enter the transaction information in a journal and (3) transfer the journal information to the appropriate accounts in the ledger.

44. The first step in the recording process is to:

a. prepare financial statements.
*b. analyse the transaction in terms of its effect on the accounts.
c. post to a journal.
d. prepare a trial balance.

Answer: b
Learning objective 2.4 – Identify the basic steps in the recording process.
Feedback: There are three basic steps in the recording process: (1) analyse each transaction in terms of its effect on the accounts, (2) enter the transaction information in a journal and (3) transfer the journal information to the appropriate accounts in the ledger.

45. Evidence that would not help with determining the effects of a transaction on the accounts would be a(n):

a. cash register sales tape.
b. purchase invoice.
*c. advertising brochure.
d. sales invoice.

Answer: c
Learning objective 2.4 – Identify the basic steps in the recording process.
Feedback: There are three basic steps in the recording process: (1) analyse each transaction in terms of its effect on the accounts, (2) enter the transaction information in a journal and (3) transfer the journal information to the appropriate accounts in the ledger. An advertising brochure does not evidence a business transaction.

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46. The recording process occurs:

a. once a year.
b. once a month.
*c. repeatedly during the accounting period.
d. infrequently in a manual accounting system.

Answer: c
Learning objective 2.4 – Identify the basic steps in the recording process.
Feedback: There are three basic steps in the recording process that occur repeatedly: (1) analyse each transaction in terms of its effect on the accounts, (2) enter the transaction information in a journal and (3) transfer the journal information to the appropriate accounts in the ledger.

47. The final step in the recording process is to transfer the journal information to the:

a. trial balance.
b. financial statements.
*c. ledger.
d. file cabinets.

Answer: c
Learning objective 1.4 - Identify the basic steps in the recording process.
Feedback: There are three basic steps in the recording process: (1) analyse each transaction in terms of its effect on the accounts, (2) enter the transaction information in a journal and (3) transfer the journal information to the appropriate accounts in the ledger.

48. A journal provides:

a. the balances for each account.
b. information about a transaction in several different places.
c. a list of all accounts used in the business.
*d. a chronological record of transactions.

Answer: d
Learning objective 2.5 – Explain what a journal is and how it helps in the recording process.
Feedback: Transactions are recorded in chronological order in a journal before they are transferred to the accounts.

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49. The basic format of a journal would not include a(n):

a. brief explanation.
b. account title column.
*c. T account.
d. date column.

Answer: c
Learning objective 2.5 - Explain what a journal is and how it helps in the recording process.
Feedback: A journal has the following features: (1) the date column, (2) the accounts to be debited and credited, (3) the amounts for the debits and credits, (4) a brief explanation of the transaction and (5) a posting reference column.

50. A complete journal entry does not show:

a. the date of the transaction.
*b. the new balance in the accounts affected by the transaction.
c. a brief explanation of the transaction.
d. the accounts and amounts to be debited and credited.

Answer: b
Learning objective 2.5 - Explain what a journal is and how it helps in the recording process.
Feedback: A journal has the following features: (1) the date column, (2) the accounts to be debited and credited, (3) the amounts for the debits and credits, (4) a brief explanation of the transaction and (5) a posting reference column.

51. The name given to entering transaction data in the journal is:

a. chronicling.
b. listing.
c. posting.
*d. journalising.

Answer: d
Learning objective 2.5 - Explain what a journal is and how it helps in the recording process.
Feedback: Entering transactions in the journal is known as journalising.

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52. Which of the following accounts probably would be listed before the others in a chart of accounts?

*a. Accumulated depreciation - Buildings.
b. Insurance expense.
c. Dividends.
d. Accounts payable.

Answer: a
Learning objective 2.6 – Explain what a general ledger is and how it helps in the recording process.
Feedback: A chart of accounts is a list of all accounts in the general ledger. Asset accounts are usually listed first in a chart of accounts. As Accumulated depreciation is a contra asset account it would appear in the asset section.

53. Typically the chart of accounts begins with:

*a. asset accounts.
b. liability accounts.
c. revenue accounts.
d. expense accounts.

Answer: a
Learning objective 2.6 – Explain what a general ledger is and how it helps in the recording process.
Feedback: A chart of accounts is a list of all accounts in the general ledger. Asset accounts are usually listed first in a chart of accounts.

54. The Unearned revenue (or Revenue received in advance) account is classified as a(n):

a. asset account.
b. revenue account.
c. expense account.
*d. liability account.

Answer: d
Learning objective 2.6 – Explain what a general ledger is and how it helps in the recording process.
Feedback: A chart of accounts is a list of all accounts in the general ledger.

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55. Which of the following is an asset account?

a. Service revenue account.
b. Accounts payable account.
c. Supplies expense account.
*d. Prepaid rent account.

Answer: d
Learning objective 2.6 – Explain what a general ledger is and how it helps in the recording process.
Feedback: A chart of accounts is a list of all accounts in the general ledger. Prepaid rent is an asset.

56. A chart of accounts for a business:

a. is a graph.
b. indicates the amount of profit or loss for the period.
*c. lists the accounts in the ledger.
d. shows the balance of each account in the general ledger.

Answer: c
Learning objective 2.5 - Explain what a general ledger is and how it helps in the recording process.
Feedback: chart of accounts is a list of all accounts in the general ledger. The trial balance lists the balances of all accounts in the chart of accounts.

57. The purpose of the ledger is to:

a. record chronologically the day's transactions.
b. keep a record of documentation to support each transaction.
*c. keep in one place all information about changes in specific account balances.
d. make sure that all assets and liability accounts have normal balances at all times.

Answer: c
Learning objective 2.6 – Explain what a general ledger is and how it helps in the recording process.
Feedback: A general ledger contains an account for all assets, liabilities and equity items. Increases and decreases to each account are recorded as debits or credits. Each account will have a debit or credit balance.

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58. If you want to determine the balance of a particular account you should refer to the:

*a. ledger.
b. source document.
c. chart of accounts.
d. journal.

Answer: a
Learning objective 2.6 – Explain what a general ledger is and how it helps in the recording process.
Feedback: A general ledger contains an account for all assets, liabilities and equity items. Increases and decreases to each account are recorded as debits or credits. Each account will have a debit or credit balance.

59. Management could determine the total amounts due from customers by examining which ledger account?

a. Service revenue.
b. Accounts payable.
*c. Accounts receivable.
d. Supplies.

Answer: c
Learning objective 2.6 – Explain what a general ledger is and how it helps in the recording process.
Feedback: A general ledger contains an account for all assets, liabilities and equity items. Increases and decreases to each account are recorded as debits or credits. Each account will have a debit or credit balance.

60. The ledger accounts should be arranged in:

a. chronological order.
b. alphabetical order.
*c. order of the accounting equation.
d. order of appearance in the journal.

Answer: c
Learning objective 2.6 – Explain what a general ledger is and how it helps in the recording process.
Feedback: A general ledger contains an account for all assets, liabilities and equity items. Asset accounts are normally listed first, followed by liability accounts, equity accounts and equity sub accounts of revenues and expenses.

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61. The procedure of recording journal entries to the ledger accounts is called:

a. journalising.
b. analysing.
c. reporting.
*d. posting or transferring.

Answer: d
Learning objective 2.7 – Explain what posting is and how it helps in the recording process.
Feedback: The procedure of transferring journal entries to ledger accounts is called posting.

62. Posting:

a. should be performed in account number order.
*b. accumulates the effects of journalised transactions in the individual ledger accounts.
c. involves transferring all debits and credits on a journal page to the trial balance.
d. is accomplished by examining ledger accounts and seeing which ones need updating.

Answer: b
Learning objective 2.7 – Explain what posting is and how it helps in the recording process.
Feedback: Posting accumulates the effects of journalised transactions in the individual asset, liability, equity and equity sub accounts of revenues and expenses.

63. The principle purpose of posting is to:

a. help identify errors made in the journal.
*b. accumulate the effects of journalised transactions in the individual accounts.
c. enter transactions directly into the ledger.
d. help determine if the financial statements are ready to be prepared.

Answer: b
Learning objective 2.7 – Explain what posting is and how it helps in the recording process.
Feedback: Posting accumulates the effects of journalised transactions in the individual asset, liability, equity and equity sub accounts of revenues and expenses.

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64. An awareness of the normal balances of accounts would help you spot the following as an error in recording?

a. A debit balance in the Dividends Paid account.
*b. A credit balance in an expense account.
c. A credit balance in a liabilities account.
d. A credit balance in a revenue account.

Answer: b
Learning objective 2.8 – Explain the purpose of a trial balance.
Feedback: The trial balance can facilitate the identification of a posting error that results in an account having a credit balance when it would normally have a debits balance and vice versa.

65. If a business has overdrawn its bank balance, then:

a. its Cash account will show a debit balance.
*b. its Cash account will show a credit balance.
c. the Cash account debits will exceed the Cash account credits.
d. it cannot be detected by observing the balance of the Cash account.

Answer: b
Learning objective 2.8 – Explain the purpose of a trial balance.
Feedback: The Cash account normally has a debit balance; however, a credit balance in the Cash account indicates a liability to the bank, a bank overdraft.

66. A list of accounts and their balances at a given time is called a:

a. journal.
b. posting.
*c. trial balance.
d. profit and loss summary.

Answer: c
Learning objective 2.8 – Explain the purpose of a trial balance.
Feedback: A trial balance is a list of accounts and their balances at a given point in time.

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67. If the sum of the debit column equals the sum of the credit column in a trial balance, it indicates:

a. no errors have been made.
b. no errors can be discovered.
c. that all accounts reflect correct balances.
*d. the mathematical equality of the accounting equation.

Answer: d
Learning objective 2.8 – Explain the purpose of a trial balance.
Feedback: The main purpose of a trial balance is to prove the mathematical equality of debits and credits after posting transactions from the journal.

68. A trial balance is a listing of:

a. transactions in a journal.
b. the chart of accounts.
*c. general ledger accounts and balances.
d. the totals from the journal pages.

Answer: c
Learning objective 2.8 – Explain the purpose of a trial balance.
Feedback: A trial balance is a list of accounts and their balances at a given point in time.

69. Customarily, a trial balance is prepared:

a. at the end of each day.
b. after each journal entry is posted.
*c. at the end of an accounting period.
d. only at the inception of the business.

Answer: c
Learning objective 2.8 – Explain the purpose of a trial balance.
Feedback: A trial balance is a list of accounts and their balances at a given point in time. It may be prepared at any time but it is always prepared at the end of the accounting period.

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70. If the totals of a trial balance are not equal, it could be due to:

a. a failure to record or to post a transaction.
b. recording the same erroneous amount for both the debit and credit parts of a transaction.
*c. an error in calculating the account balances.
d. recording the transaction more than once.

Answer: c
Learning objective 2.8 – Explain the purpose of a trial balance.
Feedback: The main purpose of a trial balance is to prove the mathematical equality of debits and credits after posting. The trial balance will not balance when an error has been made in calculating the account balances.

71. Which of the following errors would cause the trial balance to be out of balance?

*a. A payment of $148 to a creditor was posted as a debit to Accounts payable and a debit of $148 to Cash.
b. Cash received from a customer on account was posted as a debit of $350 to Cash and as a credit of $350 to Accounts payable.
c. A payment of $59 for supplies was posted as a debit of $95 to Supplies and a credit of $95 to Cash.
d. A transaction was not posted.

Answer: a
Learning objective 2.8 – Explain the purpose of a trial balance.
Feedback: The main purpose of a trial balance is to prove the mathematical equality of debits and credits after posting. The trial balance will not balance when an error has been made in posting. A debit to a liability account (Accounts payable) and a debit to an asset account (Cash) will not satisfy the equality of the accounting equation.

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Exercises

72. Selected transactions for Kookaburra Ltd are listed below. List the number of the transaction and then describe the effect of each transaction on assets, liabilities and equity.

Sample: Made initial cash investment in the business.
The answer would be — Increase in assets and increase in Equity.

1. Paid monthly electricity bill.
2. Purchased new display case for cash.
3. Paid cash for repair work on security system.
4. Invoiced customers for services performed.
5. Received cash from customers invoiced in transaction 4.
6. Dividends paid to owners.
7. Incurred advertising expenses on account.
8. Paid monthly rent.
9. Received cash from customers when service was rendered.

Answers below.
Learning objective 2.1 – Analyse the effect of accounting transactions and events on the basic accounting equation.

1. Decrease in assets and decrease in equity.
2. No net change in assets.
3. Decrease in assets and decrease in equity.
4. Increase in assets and increase in equity.
5. No net change in assets.
6. Decrease in assets and decrease in equity.
7. Increase in liabilities and decrease in equity.
8. Decrease in assets and decrease in equity.
9. Increase in assets and increase in equity.

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73. Selected accounts from the ledger of Platypus Ltd appear below. For each account, indicate the following:

In the first column at the right, indicate the nature of each account, using the following abbreviations:

Asset - A	Liability - L	None of the above - N
Expense - E	Revenues - R	

(b) In the second column, indicate the normal balance by inserting Dr. or Cr.

	Type of account	Normal balance
1. Supplies ……..		
2. Electricity payable ……..…		
3. Service revenue…….		
4. Dividends…….		
5. Accounts payable……..		
6. Salaries expense……...		
7. Share capital……..		
8. Accounts receivable…….		
9. Equipment……		
10. Loan receivable……..…		

Answers below.
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.

	Type of account	Normal balance
1. Supplies …….	A	Dr.
2. Electricity payable ……	L	Cr.
3. Service revenue…….	R	Cr.
4. Dividends…….	N	Dr.
5. Accounts payable……..	L	Cr.
6. Salaries expense……	E	Dr.
7. Share capital……	N	Cr.
8. Accounts receivable……..	A	Dr.
9. Equipment……..	A	Dr.
10. Loan receivable……	A	Dr.

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74. For each item below, indicate whether a debit or credit applies.

1. Decrease in Loan payable _____
2. Increase in Dividends paid _____
3. Increase in Equity _____
4. Increase in Revenue received in advance (Unearned revenue) _____
5. Decrease in Interest payable _____
6. Increase in Prepaid insurance _____
7. Decrease in Wages expense _____
8. Decrease in Supplies _____
9. Increase in Revenues _____
10. Decrease in Accounts receivable _____

Answers below.
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.

1. Decrease in Loan payable Dr.
2. Increase in Dividends paid Dr.
3. Increase in Equity Cr.
4. Increase in Revenue received in advance (Unearned revenue) Cr.
5. Decrease in Interest payable Dr.
6. Increase in Prepaid insurance Dr.
7. Decrease in Wages expense Cr.
8. Decrease in Supplies Cr.
9. Increase in Revenues Cr.
10. Decrease in Accounts receivable Cr.

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75. For each item below, indicate whether a debit or credit applies.

1. Decrease in Prepaid rent _____
2. Increase in Revenues _____
3. Decrease in Revenue received in advance (Unearned revenue) _____
4. Increase in Dividends paid _____
5. Decrease in Interest receivable _____
6. Increase in Depreciation expense _____
7. Decrease in Accounts payable _____
8. Increase in Supplies _____
9. Increase in Wage expense _____
10. Decrease in Accounts receivable _____

Answers below.
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.

1. Decrease in Prepaid rent Cr
2. Increase in Revenues Cr
3. Decrease in Unearned revenues (Unearned revenue) Dr
4. Increase in Dividends paid Dr
5. Decrease in Interest receivable Cr
6. Increase in Depreciation expense Dr
7. Decrease in Accounts payable Dr
8. Increase in Supplies Dr
9. Increase in Wage expense Dr
10. Decrease in Accounts receivable Cr

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76. Analyse the transactions described below and indicate their effect on the basic accounting equation. Use a plus sign (+) to indicate an increase and a minus sign (–) to indicate a decrease.

	Assets	=	Liabilities	+	Equity
1. Received cash for services provided.	_____		_____		_____
2. Purchased office equipment on credit.	_____		_____		_____
3. Paid employees' salaries.	_____		_____		_____
4. Received cash from customer in payment of account.	_____		_____		_____
5. Paid telephone account for the month.	_____		_____		_____
6. Paid for office equipment purchased in transaction 2.	_____		_____		_____
7. Purchased office supplies on credit.	_____		_____		_____
8. Dividends were paid.	_____		_____		_____
9. Obtained a loan from the bank.	_____		_____		_____
10. Invoiced customers for services provided.	_____		_____		_____

Answers below.
Learning objective 2.5 – Explain what a journal is and how it helps in the recording process.

	Assets	=	Liabilities	+	Equity
1. Received cash for services provided.	+				+
2. Purchased office equipment on credit.	+		+		
3. Paid employees' salaries.	–				–
4. Received cash from customer in payment of account.	+				
5. .Paid telephone account for the month.	–				–
6. Paid for office equipment purchased in transaction 2.	–		–		
7. Purchased office supplies on credit.	+		+		
8. Dividends were paid.	–				–
9. Obtained a loan from the bank.	+		+		
10. Invoiced customers for services provided.	+				+

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77. Gwen Stefani decides to incorporate a company and open a pizza bar near the local university campus. Analyse the following transactions for the month of July in terms of their effect on the basic accounting equation. Record each transaction by increasing (+) or decreasing (–) the dollar amount of each item affected. Indicate the new balance of each item after a transaction is recorded. It is not necessary to identify the cause of changes in equity.

Transactions

(1) Gwen Stefani invests $25,000 cash in exchange for share capital to start a pizza bar business on July 1.
(2) Purchased baking equipment for $5,000 paying $3,000 in cash and the remainder is due in 30 days.
(3) Purchased cooking supplies for $1,200 cash.
(4) Received an account from Campus News for $300 for advertising in the campus newspaper.
(5) Cash receipts from customers for pizza sales amounted to $1,500.
(6) Paid salaries of $200 to student workers.
(7) Invoiced the Tiger Football Team $100 for pizzas ordered.
(8) Paid $300 to Campus News for advertising that was previously invoiced in Transaction 4.
(9) Gwen Stefani was paid dividends of $700.
(10) Incurred electricity expenses for month on account, $200.

	Cash	+	Accounts receivable	+	Cooking supplies	+	Baking equipment	=	Accounts payable	+	Share capital	+	Retained earnings
Balance (1)													
Balance (2)													
Balance (3)													
Balance (4)													
Balance (5)													
Balance (6)													
Balance (7)													
Balance (8)													
Balance (9)													
Balance (10)													
Totals													

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Answers below.
Learning objective 2.1 – Analyse the effect of accounting transactions and events on the basic accounting equation.

Transaction	Cash	+	Accounts receivable	+	Cooking supplies	+	Baking equipment	=	Accounts payable	+	Share capital	+	Retained earnings
Balance (1)	$25,000	+						=			$25,000	+	
Balance (2)	$25,000 –3,000					+	$5,000	=	$2,000	+	$25,000		
Balance (3)	$22,000 –1,200			+	$1,200	+	$5,000	=	$2,000	+	$25,000		
Balance (4)	$20,800			+	$1,200	+	$5,000	=	$2,000 +300	+	$25,000	- -	$300
Balance (5)	$20,800 +1,500			+	$1,200	+	$5,000	=	$2,300	+	$25,000	-	$300 +1,500
Balance (6)	$22,300 –200			+	$1,200	+	$5,000	=	$2,300	+	$25,000	+	$1,200 –200
Balance (7)	$22,100	+ +	$100	+	$1,200	+	$5,000	=	$2,300	+	$25,000	+	$1,000 +100
Balance (8)	$22,100 –300	+	$100	+	$1,200	+	$5,000	=	$2,300 –300	+	$25,000	+	$1,100
Balance (9)	$21,800 –700	+	$100	+	$1,200	+	$5,000	=	$2,000	+	$25,000	+	$1,100 –700
Balance (10)	$21,100	+	$100	+	$1,200	+	$5,000	=	$2,000 +200	+	$25,000	+	$400 –200
Totals	$21,100	+	$100	+	$1,200	+	$5,000	=	$2,200	+	$25,000	+	$200

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78. Analyse the following transactions in terms of their effect on the basic accounting equation. Record each transaction by increasing (+) or decreasing (–) the dollar amount of each item affected. Indicate the new balance of each item after a transaction is recorded.

1. Issued shares to investors for $12,000 in cash.
2. Purchased supplies on credit for $700.
3. Invoiced customers $400 for services provided.
4. Paid for supplies purchased in transaction 2.
5. Paid dividends of $300 cash to shareholders.
6. Received half of amount owing by customers invoiced in transaction 3.
7. Received and paid electricity bill for $50.

Transaction		Cash	Accounts receivable	Supplies	=	Accounts payable	Share capital	Retained earnings
	1							
Balance								
	2							
Balance								
	3							
Balance								
	4							
Balance								
	5							
Balance								
	6							
Balance								
	7							
Totals								

Answers below.
Learning objective 2.1 – Analyse the effect of accounting transactions and events on the basic accounting equation.

Transaction		Cash	Accounts receivable	Supplies	=	Accounts payable	Share capital	Retained earnings
	1	12 000					12 000	
Balance		12 000			=		12 000	
	2			700		700		
Balance		12 000		700	=	700	12 000	
	3		400					400
Balance		12 000	400	700	=	700		400

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	4	–700				–700		
Balance		11 300	400	700	=	0	12 000	400
	5	–300						–300
Balance		11 000	400	700	=	0	12 000	100
	6	200	–200					
Balance		11 200	200	700	=	0	12 000	100
	7	–50						–50
Totals		11 150	200	700	=	0	12 000	50

79. The chart of accounts used by Taipan Ltd is listed below. You are to indicate the accounts to be debited and credited for the following transactions by writing the account number(s) in the appropriate boxes.

Chart of Accounts

1	Cash	8	Share capital
2	Accounts receivable	9	Retained earnings
3	Paper supplies	10	Dividends paid
4	Copy machines	11	Service revenue
5	Accounts payable	12	Advertising expense
6	Loan payable	13	Rent expense
7	Revenue received in advance (Unearned revenue)		

		Number(s) of account(s) debited	Number(s) of account(s) credited
1.	Shareholders invest $90,000 cash to start the business.		
2.	Purchased three photocopy machines for $200,000, paying $50,000 cash and signing a 5-year, 10% loan for the remainder.		
3.	Purchased $5,000 paper supplies on credit.		
4.	Cash received for photocopy services amounted to $7,000.		
5.	Paid $500 cash for radio advertising.		
6.	Paid $800 on account for paper supplies purchased in transaction 3.		
7.	Dividends of $1,500 were paid to shareholders		
8.	Paid $1,200 cash for rent for the current month.		

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9.	Received $2,000 cash deposit from a customer for future copying.	
10.	Invoiced a customer for $450 for photocopy services completed.	

Answers below.
Learning objective 2.5 – Explain what a journal is and how it helps in the recording process.

		Number(s) of account(s) debited	Number(s) of account(s) credited
1.	Shareholders invest $90,000 cash to start the business.	1	8
2.	Purchased three photocopy machines for $200,000, paying $50,000 cash and signing a 5-year, 10% loan for the remainder.	4	1,6
3.	Purchased $5,000 paper supplies on credit.	3	5
4.	Cash received for photocopy services amounted to $7,000.	1	11
5.	Paid $500 cash for radio advertising.	12	1
6.	Paid $800 on account for paper supplies purchased in transaction 3.	5	1
7.	Dividends of $1,500 were paid to shareholders.	10	1
8.	Paid $1,200 cash for rent for the current month.	13	1
9.	Received $2,000 cash deposit from a customer for future copying.	1	7
10.	Invoiced a customer for $450 for photocopy services		

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	completed.	2	11

80. Under a double-entry accounting system, show how the entry for each transaction listed is entered in the ledger by using debit or credit to indicate the increase or decrease in the effected account.

		Debit or Credit
1.	An increase in Salary expense.	
2.	A decrease in Accounts payable.	
3.	An increase in Prepaid insurance.	
4.	An increase in Share capital.	
5.	A decrease in Office supplies.	
6.	An increase in Dividends paid	
7.	An increase in Service revenue.	
8.	A decrease in Accounts receivable.	
9.	An increase in Rent expense.	
10.	A decrease in Store equipment.	

Answers below.
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.

1.	An increase in Salary expense.	Debit
2.	A decrease in Accounts payable.	Debit
3.	An increase in Prepaid insurance.	Debit
4.	An increase in Share capital.	Credit
5.	A decrease in Office supplies.	Credit
6.	An increase in Dividends paid	Debit
7.	An increase in Service revenue.	Credit
8.	A decrease in Accounts receivable.	Credit

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9.	An increase in Rent expense.	Debit
10.	A decrease in Store equipment.	Credit

81. For the accounts listed below, indicate if the normal balance of the account is a debit or credit.

	Accounts	Normal balance Debit or Credit
1.	Service revenue	
2.	Rent expense	
3.	Accounts receivable	
4.	Accounts payable	
5.	Share capital	
6.	Office supplies	
7.	Insurance expense	
8.	Dividends paid	
9.	Office building	
10.	Loan payable	

Answers below.

Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.

	Accounts	Normal balance Debit or Credit
1.	Service revenue	Credit
2.	Rent expense	Debit
3.	Accounts receivable	Debit
4.	Accounts payable	Credit
5.	Share capital	Credit
6.	Office supplies	Debit
7.	Insurance expense	Debit
8.	Dividends paid	Debit
9.	Office building	Debit
10.	Loan payable	Credit

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82. During an accounting period, a business has numerous transactions affecting each of the following accounts. State for each account whether it is likely to have (a) debit entries only, (b) credit entries only or (c) both debit and credit entries.

(1) Advertising expense
(2) Service revenue
(3) Accounts payable
(4) Accounts receivable
(5) Share capital
(6) Dividends
(7) Cash
(8) Salaries expense
(9) Loan payable
(10) Insurance expense

Answers below.

Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.

(1) (a)
(2) (b)
(3) (c)
(4) (c)
(5) (b)
(6) (a)
(7) (c)
(8) (a)
(9) (c)
(10) (a)

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83. Eight transactions are recorded in the following T accounts:

CASH			
(1)	35,000	(2)	3,500
(7)	22,500	(3)	1,950
		(4)	2,225
		(6)	8,000
		(8)	4,500

ACCOUNTS RECEIVABLE			
(5)	27,500	(7)	22,500

SUPPLIES			
(3)	1,950		

EQUIPMENT			
(2)	13,500		

SHARE CAPITAL			
		(1)	35,000

SERVICE REVENUE			
		(5)	27,500

ACCOUNTS PAYABLE			
(6)	8,000	(2)	10,000

DIVIDENDS			
(8)	4,500		

SALARIES EXPENSE			
(4)	2,225		

Indicate for each debit and each credit: (a) whether an asset, liability, share capital, dividends, revenue or expense account was affected and (b) whether the account was increased (+) or (–) decreased. Answers should be presented in the following chart form:

Transaction No.	Account debited		Account credited	
	Type	Effect	Type	Effect
(1) (Example)	Asset	+	Share capital	+
(2)				
(3)				
(4)				
(5)				
(6)				
(7)				
(8)				

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Answers below.

Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.

Transaction no.	Account debited		Account credited	
	Type	Effect	Type	Effect
(1) (Example)	Asset	+	Share capital	+
(2)	Asset	+	Asset Liability	– +
(3)	Asset	+	Asset	–
(4)	Expense	+	Asset	–
(5)	Asset	+	Revenue	+
(6)	Liability	–	Asset	–
(7)	Asset	+	Asset	–
(8)	Dividends	+	Asset	–

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84. For each of the following accounts indicate:
    (a) the type of account (asset, liability, equity, revenue, expense)
    (b) the debit and credit effects
    (c) the normal account balance.

Example

0. Cash
    a. Asset account
    b. Debit increases, credit decreases
    c. Normal balance – debit

Accounts	
1. Accounts payable	5. Service revenue
2. Accounts receivable	6. Insurance expense
3. Share capital	7. Loan payable
4. Dividends	8. Equipment

Answers below.

Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.

1. a. Liability account.
    b. Debit decreases, credit increases.
    c. Normal balance – credit.
2. a. Asset account.
    b. Debit increases, credit decreases.
    c. Normal balance – debit.
3. a. Equity account.
    b. Debit decreases, credit increases.
    c. Normal balance – credit.
4. a. Equity account.
    b. Debit increases, credit decreases.
    c. Normal balance – debit.
5. a. Revenue account.
    b. Debit decreases, credit increases.
    c. Normal balance – credit.
6. a. Expense account.
    b. Debit increases, credit decreases.
    c. Normal balance – debit.
7. a. Liability account.
    b. Debit decreases, credit increases.
    c. Normal balance – credit.
8. a. Asset account.
    b. Debit increases, credit decreases.
    c. Normal balance – debit.

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85. Journalise the following business transactions in general journal form. Identify each transaction by number. You may omit explanations of the transactions.

1. Shareholders invest $35,000 in cash in starting a real estate office operating as a company.
2. Purchased $400 of office supplies on credit.
3. Purchased office equipment for $6,000, paying $2,500 in cash and the remainder on credit. $3,500, loan
4. Real estate commissions invoiced to clients amount to $4,000.
5. Paid $700 in cash for the current month's rent.
6. Paid $200 cash on account for office supplies purchased in transaction 2.
7. Received an account for $500 for advertising for the current month.
8. Paid $2,200 cash for office salaries.
9. Paid $1,200 cash dividends to shareholders.
10. Received a cheque for $3,000 from a client in payment on account for commissions invoiced in transaction 4.

Answers below.

Learning objective 2.5 – Explain what a journal is and how it helps in the recording process.

1.	Cash	35,000	
	Share capital		35,000
2.	Office supplies	400	
	Accounts payable		400
3.	Office equipment	6,000	
	Cash		2,500
	Accounts payable		3,500
4.	Accounts receivable	4,000	
	Real estate commission revenue		4,000
5.	Rent expense	700	
	Cash		700
6.	Accounts payable	200	
	Cash		200
7.	Advertising expense	500	
	Accounts payable		500
8.	Office salaries expense	2,200	
	Cash		2,200
9.	Dividends	1,200	
	Cash		1,200
10.	Cash	3,000	

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	Accounts receivable	3,000

86. Journalise the following business transactions in general journal form. Identify each transaction by number. You may omit explanations of the transaction.

1. Owner invested $30,000 in exchange for share capital of the company.
2. Hired an employee to be paid $200 per week, starting tomorrow.
3. Paid two years' rent in advance, $7,200.
4. Paid the worker's weekly wage.
5. Recorded revenue earned and received for the week, $1,500.

Answers below.

Learning objective 2.5 – Explain what a journal is and how it helps in the recording process.

Cash	.....	30,000	
	Share capital.....		30,000

2. No entry

3. Prepaid rent	.....	7,200	
	Cash.....		7,200

4. Wage expense	.....	200	
	Cash.....		200

5. Cash	.....	1,500	
	Revenue		1,500

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87. Journalise the following business transactions in general journal form. Identify each transaction by number. You may omit explanations of the transactions.

1. Received $35,000 from shareholders.
2. Purchased equipment for $45,000, paying $15,000 in cash and the remainder is due in 30 days.
3. Paid $3,000 rent for the month.
4. Recorded $12,500 of services provided on account.
5. Paid wages of $7,500.
6. Received $7,000 in cash for services provided.
7. Collected $2,000 from customers on account.

Answers below.

Learning objective 2.5 – Explain what a journal is and how it helps in the recording process.

1.	Cash	35,000	
	Share capital		35,000
2.	Equipment	45,000	
	Cash		15,000
	Accounts payable		30,000
3.	Rent expense	3,000	
	Cash		3,000
4.	Accounts receivable	12,500	
	Service revenue		12,500
5.	Wage expense	7,500	
	Cash		7,500
6.	Cash	7,000	
	Service revenue		7,000
7.	Cash	2,000	
	Accounts receivable		2,000

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88. Transactions for Wombat Ltd for the month of October are presented below. Journalise each transaction and identify each transaction by number. You may omit journal explanations.

1. Shareholders invested an additional $36,000 cash in the business.
2. Purchased land costing $28,000 for cash.
3. Purchased equipment costing $8,000 for $4,000 cash and the remainder on credit.
4. Purchased supplies on account for $800.
5. Paid $1,000 for a one-year insurance policy.
6. Received $2,000 cash for services performed.
7. Received $4,000 for services previously performed on account.
8. Paid wages to employees for $2,500.
9. Paid dividends to shareholders of $400.

Answers below.
Learning objective 2.5 – Explain what a journal is and how it helps in the recording process.

1.	Cash	36,000	
	Share capital		36,000
2.	Land	28,000	
	Cash		28,000
3.	Equipment	8,000	
	Cash		4,000
	Accounts payable		4,000
4.	Supplies	800	
	Accounts payable		800
5.	Prepaid insurance	1,000	
	Cash		1,000
6.	Cash	2,000	
	Service revenue		2,000
7.	Cash	4,000	
	Accounts receivable		4,000
8.	Wages expense	2,500	
	Cash		2,500
9.	Dividends paid	400	
	Cash		400

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89. The transactions of the Cockatoo Café Ltd are recorded in the general journal below. You are to post the journal entries to the accounts in the general ledger. After all entries have been posted, you are to prepare a trial balance on the form provided.

General Journal

Date		Account Titles and Explanation	Debit	Credit
2018				
Sept.	1	Cash	15,000	
		Share capital		15,000
		(Shareholders invested cash in business)		
	4	Delivery trucks	30,000	
		Cash		10,000
		Loan payable		20,000
		(Paid cash and took out a loan for delivery trucks)		
	8	Rent expense	1,000	
		Cash		1,000
		(Paid September rent)		
	15	Prepaid insurance	400	
		Cash		400
		(Paid one-year liability insurance)		
	18	Cash	2,500	
		Service revenue		2,500
		(Received cash for delivery services)		
	20	Salaries expense	500	
		Cash		500
		(Paid salaries for current period)		
	25	Electricity expense	100	
		Accounts payable		100
		(Received a bill for September electricity)		
	30	Dividends paid	750	
		Cash		750
		(Paid dividends)		
	30	Accounts receivable	1,000	
		Service revenue		1,000
		(Invoiced customer for delivery service)		

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General ledger

Cash	

Accounts receivable	

Prepaid insurance	

Delivery trucks	

Accounts payable	

Loan payable	

Share capital	

Dividends paid	

Service revenue	

Rent expense	

Salaries expense	

Electricity expense	

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Cockatoo Cafe Ltd
Trial balance
at 30 September 2018

Accounts	Debit	Credit

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Answers below.
Learning objective 2.7 – Explain what posting is and how it helps in the recording process.

General ledger

Cash			
Sept 1	15,000	Sept 4	10,000
Sept 18	2,500	Sept 8	1,000
		Sept 15	400
		Sept 20	500
		Sept 30	750
Sept 30 Bal.	4,850		

Accounts receivable			
Sept 30	1,000		
Sept 30 Bal.	1,000		

Prepaid insurance			
Sept 15	400		
Sept 30 Bal.	400		

Delivery trucks			
Sept 4	30,000		
Sept 30 Bal.	30,000		

Accounts payable			
		Sept 25	100
		Sept 30 Bal.	100

Loan payable			
		Sept 4	20,000
		Sept 30 Bal.	20,000

Share capital			
		Sept 1	15,000
		Sept 30 Bal.	15,000

Dividends paid			
Sept30	750		
Sept 30 Bal.	750		

Service revenue			
		Sept 18	2,500
		Sept 30	1,000
		Sept 30 Bal.	3,500

Rent expense			
Sept 8	1,000		
Sept 30 Bal.	1,000		

Salaries expense			
Sept 20	500		
Sept 30 Bal.	500		

Electricity expense			
Sept 25	100		
Sept 30 Bal.	100		

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Cockatoo Cafe Ltd
Trial balance
at 30 September 2018

Accounts	Debit	Credit
Cash	$ 4,850	
Accounts receivable	1,000	
Prepaid insurance	400	
Delivery trucks	30,000	
Accounts payable		$ 100
Loan payable		20,000
Share capital		15,000
Dividends paid	750	
Service revenue		3,500
Rent expense	1,000	
Salaries expense	500	
Electricity expense	100	
Totals	$38,600	$38,600

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90. The accounts in the trial balance of Koala Ltd are shown below. Indicate in the space provided, whether the account balance is normally a debit (Dr) or a credit (Cr).

KOALA LTD
Trial balance
at 30 June 2019

	Dr or Cr
Cash	
Retained earnings	
Accounts receivable	
Service revenue	
Supplies	
Office equipment	
Wages expense	
Accounts payable	
Revenue received in advance	
Bank loan payable	
Share capital	
Dividends	
Repair expense	

Answers below.
Learning objective 2.8 – Explain the purposes of a trial balance.

KOALA LTD
Trial balance
at 30 June 2019

	Dr or Cr
Cash	Dr
Retained earnings	Cr
Accounts receivable	Dr
Service revenue	Cr
Supplies	Dr
Office equipment	Dr
Wages expense	Dr
Accounts payable	Cr
Revenue received in advance	Cr
Bank loan payable	Cr
Share capital	Cr
Dividends	Dr
Repair expense	Dr

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91. The trial balance of Wallaby Ltd shown below does not balance.

Wallaby Ltd
Trial balance
at 30 June 2019

	Debit	Credit
Cash	$ 2,600	
Accounts receivable	7,600	
Supplies	600	
Equipment	8,300	
Accounts payable		$ 9,766
Share capital		1,941
Dividends	1,500	
Service revenue		15,200
Wages expense	3,800	
Repair expense	1,600	
Totals	$26,000	$26,907

An examination of the ledger and journal reveals the following errors:

1. Each of the above listed accounts has a normal balance per the general ledger.
2. Cash of $350 received from a customer on account was debited to Cash $530 and credited to Accounts receivable $530.
3. Dividends of $300 paid to shareholders were posted as a credit to Dividends, $300 and a credit to Cash $300.
4. Wages expense of $300 was omitted from the trial balance.
5. The purchase of equipment on account for $700 was recorded as a debit to Repair expense and a credit to Accounts payable for $700.
6. Services were performed on account for a customer, $510, for which Accounts receivable was debited $510 and Service revenue was credited $51.
7. A payment on account for $215 was credited to Cash for $215 and credited to Accounts payable for $251.

Instructions

Prepare a correct trial balance.

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Answers below.
Learning objective 2.8 – Explain the purposes of a trial balance.

Wallaby Ltd
Trial balance
at 30 June 2019

	Debit	Credit
Cash [2,600 – 180 (2)]	$ 2,420	$
Accounts receivable [7,600 + 180 (2)]	7,780	
Supplies	600	
Equipment [8,300 + 700 (5)]	9,000	
Accounts payable [9,766 – 466 (7)]		9,300
Share capital		1,941
Dividends [1,500 + 300 + 300 (3)]	2,100	
Service revenue [15,200 + 459 (6)]		15,659
Wages expense [3,800 + 300 (4)]	4,100	
Repair expense [1,600 – 700 (5)]	900	
Totals	$26,900	$26,900

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92. Some of the following errors would cause the debit and credit columns of the trial balance to have unequal totals. For each of the four cases, state whether the error would cause unequal totals in the trial balance. If the error causes unequal totals, indicate the amount of difference between the columns and state whether the debit or credit is larger. Each case is to be considered independently of the others.

1. A payment of $600 to a creditor was recorded by a debit to Accounts payable of $60 and a credit to Cash of $600.
2. A $480 payment for a printer was recorded by a debit to Computer equipment of $48 and a credit to Cash for $48.
3. An account receivable in the amount of $2,000 was collected in full. The collection was recorded by a debit to Cash for $2,000 and a debit to Accounts payable for $2,000.
4. An account payable was paid by issuing a cheque for $800. The payment was recorded by debiting Accounts payable $800 and crediting Accounts receivable $800.

Answers below.
Learning objective 2.8 – Explain the purposes of a trial balance.

1. The trial balance totals will be unequal. The credit column will be $540 larger than the debit column.
2. The trial balance totals will be misstated but not unequal.
3. The trial balance totals will be unequal. The debit column will be $4,000 larger than the credit column. The trial balance totals will be misstated but not unequal.

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93. Some of the following errors would cause the debit and credit columns of the trial balance to have unequal totals. For each of the four cases, state whether the error would cause unequal totals in the trial balance. If the error causes unequal totals, indicate the amount of difference between the columns and state whether the debit or credit is larger. Each case is to be considered independently of the others.

1. A collection on account of $300 was journalised and posted as a debit to Cash $300 and a credit to Service revenue $300.
2. A $950 purchase of supplies on account was recorded as a debit of $950 to Equipment and a credit of $950 to Accounts payable.
3. A purchase of equipment for $3500 on account was not recorded.
4. A $450 receipt on account was recorded as a $540 debit to Cash and a $450 credit to Accounts receivable.

Answers below.
Learning objective 2.8 – Explain the purposes of a trial balance.

1. The trial balance totals will be misstated but not unequal.
2. The trial balance totals will be misstated but not unequal.
3. The trial balance totals will be misstated but not unequal.
4. The trial balance totals will be unequal. The debit column will be $90 larger than the credit column.

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Completion statements

94. Complete the following statements:

1. A _____ is an individual accounting record of increases and decreases in specific assets, liabilities, and equity items.
2. The act of entering an amount on the left side of an account is called _____ the account, and making an entry on the right side is called _____ the account.
3. _____, _____ and _____ have debit normal account balances whereas _____, _____ and _____ have credit normal account balances.
4. The five sub-accounts of equity are _____, _____, _____, _____ and _____.
5. The basic steps in the recording process are: _____ each transaction, enter the transaction in a _____ and transfer the information to appropriate accounts in the _____.
6. A sales slip, a cheque, and a cash register tape are examples of _____ documents used as evidence that a transaction has taken place.
7. An accounting record where transactions are initially recorded in chronological order is called a _____.
8. Posting is the procedure of transferring journal entries to _____accounts.
9. The entire group of accounts and their balances maintained by a company is called the general _____.
10. A two column list of all accounts and their balances at a given time is a _____ _____.

Answers below.
Learning objective 2.1 – 2.8.

1. ledger
2. debiting, crediting
3. assets, expenses, dividends, share capital, liabilities, revenues
4. share capital, retained earnings, dividends, revenues, expenses
5. analyse, journal, ledger
6. source
7. journal
8. ledger
9. ledger
10. trial balance

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Matching

95. Match the items below by entering the appropriate code letter in the space provided.

A. Account	F. Journal
B. Debit	G. Posting
C. Credit	H. Chart of accounts
D. Revenue account	I. Trial balance
E. Ledger	J. Source document

____ 1. The entire group of accounts maintained by a business.

____ 2. Transferring journal entries to ledger accounts.

____ 3. The side which increases an asset account.

____ 4. A list of all the accounts used by a business.

____ 5. An accounting record of increases and decreases in individual specific assets, liabilities and equity items.

____ 6. Right side of an account.

____ 7. Evidence that a transaction has taken place.

____ 8. Shows the debit and credit effects of specific transactions.

____ 9. A list of accounts and their balances at a given time.

____ 10. Has a credit normal balance

Answers below.
Learning objective 2.1 – 2.8.

1. E
2. G
3. B
4. H
5. A
6. C
7. J
8. F
9. I
10. D

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Short-answer/essay questions

96. An account is an important accounting record where accounting information is stored until needed. Briefly explain (1) the nature of an account, (2) the different types of accounts and (3) the manner in which an account is increased and decreased and its normal balance.

Answer below.
Learning objective 2.5 – Explain what a journal is and how it helps in the recording process.

An account is an individual accounting record of increases and decreases in specific asset, liability and equity accounts. An account may be represented in a T-account format. Each account consists of three parts: (1) the title of the account, (2) a left or debit side and (3) a right or credit side (it resembles the letter T). Accounts are classified as asset, liability, equity, revenue and expense.

Accounts with a normal debit balance, are assets, expenses and dividends, are increased when debited and decreased when credited. Accounts with a normal credit balance: liabilities, revenues and equity are increased when credited and decreased when debited.

97. Why is the dividends account increased by a debit? Explain in terms of its relationship to equity.

Answer below.
Learning objective 2.3 – Define debits and credits and explain how they are used to record accounting transactions.

Dividends represent a decrease in equity. According to the rules of debit and credit, a decrease in equity is recorded as a debit.

98. Describe the function of a general journal and explain why transactions that are found in a general journal must be posted to ledger accounts.

Answer below.
Learning objective 2.5 – Explain what a journal is and how it helps in the recording process.

The function of a general journal is to provide a chronological list of all of the transactions for a business. A chronological list of transactions on its own is of limited usefulness. Classifying and summarising the transactions by transferring (posting) them to ledger accounts improves the usefulness of information for business decision making.

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99. Describe the process of preparing a trial balance. What is the purpose of preparing a trial balance? If a trial balance does not balance, identify what might be the reasons why it does not balance. If the trial balance does balance, does that insure that the ledger accounts are correct? Explain.

Answer below.
Learning objective 2.8 – Explain the purposes of a trial balance.

The process of preparing a trial balance consists of (1) listing the account titles and their debit or credit balances in the order in which they appear in the general ledger, (2) totalling the debit and credit columns, and (3) proving the equality of the total debits and total credits.

The primary purpose of the trial balance is to prove the equality of the debits and credits after posting. A trial balance also uncovers errors in journalising and posting because errors in journalising and posting cause a trial balance not to balance. A trial balance does not prove that all transactions have been recorded or that the ledger is correct. The trial balance may balance even when (1) an entire transaction is not journalised, (2) a correct journal entry is not posted, (3) a journal entry is posted twice, (4) incorrect accounts are used in journalising or posting, or (5) offsetting errors are made in recording the amount of a transaction or posting to the ledger.

100. Thomas Carlisle Jr. was appointed the manager of Westbrook Properties, a recently formed company that manages residential rental properties. Maria Fremont is the accountant. She prepared a chart of accounts based on an analysis of the expenditures of the company. One of the largest expense categories is Travel and entertainment. Mr Carlisle believes that it is important to maintain a presence in the social life of the city. In this, he sharply differs from his father, Thomas Carlisle Sr. The elder Mr Carlisle has set up Westbrook Properties in order to test his son's management skills before allowing him to manage a more lucrative commercial property business. Mr Carlisle Sr. provided the capital for Westbrook and maintains close contact with the company. He allowed his son, however, to hire his own employees.

Mr Carlisle Jr. has asked Ms Fremont to name the Travel and entertainment account Property development. He hopes to deflect his father's attention away from the amount he has spent on travel and entertainment until he has proven that his methods work. When Ms Fremont resisted, he reminded her that he, not his father, hired her. He also reminded her that she had been enthusiastic about his business plans when she was hired.

Required:

1. Who are the stakeholders in this situation?
2. Should Ms Fremont agree to the change in the Travel and entertainment account to Property development? Explain.

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Answer below.
Learning objective 2.8 – Explain the purposes of a trial balance.

1. The stakeholders in this situation include
   Mr Carlisle Jr.
   Maria Fremont
   Mr Carlisle Sr.
   Bankers and others who might rely on the financial statements

2. Ms Fremont definitely should not agree to the name change. The intention of the person making the change is to deceive someone who has a right to know the affairs of the business, fully and completely. Though Ms Fremont was hired by Mr Carlisle Jr., and though she may agree with his business methods, she cannot be a party to such deceit.

101. The following trial balance was obtained from Clover Ltd's computer system.

RPT	TR BAL
DPT	ACC MGR
PRIORITY	2
RUN BY	R.HAMES
SEQUENCE	997411
ACCOUNT	BAL
CASH	17700
SUPPLIES	5600
ACC PAY	7500-
NOTE PAY	1200-
SHARE CAPITAL	5000-
DIVIDENDS	500
SERVICE REVENUE	15000-
SALARY EXP	3500
RENT EXP	900
OTHER EXP	500
BAL	0***TR BAL IS IN BALANCE***

Required:
1. What features make this trial balance difficult to read?
2. Prepare an improved trial balance.

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Answer below.
Learning objective 2.8 – Explain the purposes of a trial balance.

1. The trial balance is difficult to read because:
   a. the title is not explanatory
   b. account abbreviations are used
   c. the numbers are not shown in standard currency format
   d. debits and credits are not separately shown, but are indicated by a "-" for credits
   e. extraneous information is provided.

2.

Clover Ltd
Trial balance
at 30 September 2019

	Debit	Credit
Cash	$17,700	
Supplies	5,600	
Accounts payable		$ 7,500
Promissory note payable		1,200
Share capital		5,000
Dividends	500	
Service revenue		15,000
Salary expense	3,500	
Rent expense	900	
Other expenses	500	
	$28,700	$28,700

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