Accounting Principles 13th edition Weygandt Test Bank

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CHAPTER 2

THE RECORDING PROCESS

CHAPTER LEARNING OBJECTIVES

1. ***Describe how accounts, debits, and credits are used to record business transactions .*** An account is a record of increases and decreases in specific asset, liability, and owner's equity items. The terms debit and credit are synonymous with left and right. Assets, drawings, and expenses are increased by debits and decreased by credits. Liabilities, owner's capital, and revenues are increased by credits and decreased by debits.
2. ***Indicate how a journal is used in the recording process.*** The basic steps in the recording process are (a) analyze each transaction for its effects on the accounts, (b) enter the transaction information in a journal, and (c) transfer the journal information to the appropriate accounts in the ledger. The initial accounting record of a transaction is entered in a journal before the data are entered in the accounts. A journal (a) discloses in one place the complete effects of a transaction, (b) provides a chronological record of transactions, and (c) prevents or locates errors because the debit and credit amounts for each entry can be easily compared.
3. ***Explain how a ledger and posting help in the recording process.*** The ledger is the entire group of accounts maintained by a company. The ledger provides the balance in each of the accounts as well as keeps track of changes in these balances. Posting is the transfer of journal entries to the ledger accounts. This phase of the recording process accumulates the effects of journalized transactions in the individual accounts.
4. ***Prepare a trial balance.*** A trial balance is a list of accounts and their balances at a given time. Its primary purpose is to prove the equality of debits and credits after posting. A trial balance also uncovers errors in journalizing and posting and is useful in preparing financial statements.

TRUE-FALSE STATEMENTS

1. A new account is opened for each transaction entered into by a business firm.

   Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

2. The recording process becomes more efficient and informative if all transactions are recorded in one account.

   Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

3. When the volume of transactions is large, recording them in tabular form is more efficient than using journals and ledgers.

   Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

4. An account is often referred to as a T-account because of the way it is constructed.

   Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

5. A debit to an account indicates an increase in that account.

   Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

6. If a revenue account is credited, the revenue account is increased.

   Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

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7. The normal balance of all accounts is a debit.

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

8. Debit and credit can be interpreted to mean increase and decrease, respectively.

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

9. The double-entry system of accounting refers to the placement of a double line at the end of a column of figures.

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

10. A credit balance in a liability account indicates that an error in recording has occurred.

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

11. The drawing account is a subdivision of the owner's capital account and appears as an expense on the income statement.

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement, Reporting

12. Revenues are a subdivision of owner's capital.

Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

13. Under the double-entry system, revenues must always equal expenses.

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

14. Transactions are entered in the ledger first and then they are analyzed in terms of their effect on the accounts.

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

15. Business documents can provide evidence that a transaction has occurred.

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

16. Each transaction must be analyzed in terms of its effect on the accounts before it can be recorded in a journal.

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

17. Transactions are entered in the ledger accounts and then transferred to journals.

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

18. All business transactions must be entered first in the general ledger.

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

19. A simple journal entry requires only one debit to an account and one credit to an account.

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

20. A compound journal entry requires several debits to one account and several credits to one account.

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

21. Transactions are recorded in alphabetic order in a journal.

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

22. A journal is also known as a book of original entry.

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

23. The complete effect of a transaction on the accounts is disclosed in the journal.

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Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting

24. The account titles used in journalizing transactions do **not** need to be identical to the account titles in the ledger.

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

25. The chart of accounts is a special ledger used in accounting systems.

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

26. A general ledger should be arranged in the order in which accounts are presented in the financial statements, beginning with the balance sheet accounts.

Ans: T LO3 BT:C K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

27. The number and types of accounts used by different business enterprises are the same if generally accepted accounting principles are being followed by the enterprises.

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

28. Posting is the process of proving the equality of debits and credits in the trial balance.

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

29. After a transaction has been posted, the reference column in the journal should be filled in.

Ans: T LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

30. A trial balance does **not** prove that all transactions have been recorded or that the ledger is correct.

Ans: T LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

31. The double-entry system is a logical method for recording transactions and results in equal amounts for debits and credits for each transaction.

Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

32. The normal balance of an expense is a credit.

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

33. The journal provides a chronological record of transactions.

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

34. The ledger is merely a bookkeeping device and therefore does not provide much useful data for management.

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

35. The chart of accounts is a listing of the accounts and the account numbers which identify their location in the ledger.

Ans: T LO3 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

36. The primary purpose of a trial balance is to prove the mathematical equality of the debits and credits after posting.

Ans: T LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

37. The trial balance will **not** balance when incorrect account titles are used in journalizing or posting.

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Ans: F LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement

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MULTIPLE CHOICE QUESTIONS

38. An account consists of
    a. one part.
    b. two parts.
    c. three parts.
    d. four parts.

    Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

39. 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.

    Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

40. Which one of the following is **not** a part of an account?
    a. Credit side
    b. Trial balance
    c. Debit side
    d. Title

    Ans: b LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

41. An account is a part of the financial information system and is described by all **except** which one of the following?
    a. An account has a debit and credit side.
    b. An account is a source document.
    c. An account may be part of a manual or a computerized accounting system.
    d. An account has a title.

    Ans: b LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

42. The right side of an account
    a. is the correct side.
    b. reflects all transactions for the accounting period.
    c. shows all the balances of the accounts in the system.
    d. is the credit side.

    Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

43. 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.

    Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

44. A T-account is
    a. a way of depicting the basic form of an account.
    b. what the computer uses to organize bytes of information.
    c. a special account used instead of a trial balance.
    d. used for accounts that have both a debit and credit balance.

    Ans: a LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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45. Credits
a. decrease both assets and liabilities.
b. decrease assets and increase liabilities.
c. increase both assets and liabilities.
d. increase assets and decrease liabilities.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

46. A debit to an asset account indicates
a. an error.
b. a credit was made to a liability account.
c. a decrease in the asset.
d. an increase in the asset.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

47. The normal balance of any account is the
a. left side.
b. right side.
c. side which increases that account.
d. side which decreases that account.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

48. 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.

Ans: a LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

49. A credit is **not** the normal balance for which account listed below?
a. Capital account
b. Revenue account
c. Liability account
d. Owner's Drawings account

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

50. Which one of the following could represent the expanded basic accounting equation?
a. Assets = Liabilities + Owner's Capital + Owner's Drawings – Revenue – Expenses.
b. Assets + Owner's Drawings + Expenses = Liabilities + Owner's Capital + Revenues.
c. Assets – Liabilities – Owner's Drawings = Owner's Capital + Revenues – Expenses.
d. Assets = Revenues + Expenses – Liabilities.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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51. Which of the following correctly identifies normal balances of accounts?

a.
Assets	Debit
Liabilities	Credit
Owner's Capital	Credit
Revenues	Debit
Expenses	Credit

b.
Assets	Debit
Liabilities	Credit
Owner's Capital	Credit
Revenues	Credit
Expenses	Credit

c.
Assets	Credit
Liabilities	Debit
Owner's Capital	Debit
Revenues	Credit
Expenses	Debit

d.
Assets	Debit
Liabilities	Credit
Owner's Capital	Credit
Revenues	Credit
Expenses	Debit

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

52. 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.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

53. In recording an accounting transaction in a double-entry system
a. the number of debit accounts must equal the number of credit accounts.
b. there must always be entries made on both sides of the accounting equation.
c. the amount of the debits must equal the amount of the credits.
d. there must only be two accounts affected by any transaction.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

54. Debits
a. decrease both assets and liabilities.
b. decrease liabilities and increase assets.
c. increase both assets and liabilities.
d. increase liabilities and decrease assets.

Ans: b LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

55. A debit is **not** the normal balance for which account listed below?
a. Owner's Drawings
b. Cash
c. Accounts Receivable
d. Service Revenue

Ans: d LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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56. An accountant has debited an asset account for $1,400 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 owner's equity account for $900.
c. Debit another asset account for $900.
d. Credit a different asset account for $900.

Ans: d LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

57. An accountant has debited an asset account for $1,300 and credited a liability account for $600. Which of the following would be an **incorrect** way to complete the recording of the transaction?
a. Credit an asset account for $700.
b. Credit another liability account for $700.
c. Credit an owner's equity account for $700.
d. Debit an owner's equity account for $700.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

58. Which of the following is **not** true of the terms debit and credit?
a. They can be abbreviated as Dr. and Cr.
b. They can be interpreted to mean increase and decrease.
c. They can be used to describe the balance of an account.
d. They can be interpreted to mean left and right.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

59. 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.

Ans: a LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

60. For the basic accounting equation to stay in balance, each transaction recorded must
a. affect two or less accounts.
b. affect two or more accounts.
c. always affect exactly two accounts.
d. affect the same number of asset and liability accounts.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

61. Which of the following statements is true?
a. Debits increase assets and increase liabilities.
b. Credits decrease assets and decrease liabilities.
c. Credits decrease assets and increase liabilities.
d. Debits decrease liabilities and decrease assets.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

62. Assets normally show
a. credit balances.
b. debit balances.
c. debit and credit balances.
d. debit or credit balances.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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63. An awareness of the normal balances of accounts would help you spot which of the following as an error in recording?
    a. A debit balance in the owner's drawings 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

    Ans: b LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

64. If a company 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.

    Ans: b LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

65. Which account below is **not** a subdivision of owner's equity?
    a. Owner's Drawings
    b. Revenues
    c. Expenses
    d. Liabilities

    Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

66. When an owner makes a withdrawal
    a. it doesn't have to be cash, it could be another asset.
    b. the owner's drawings account will be increased with a credit.
    c. the owner's capital account will be directly increased with a debit.
    d. the owner's drawings account will be decreased with a debit.

    Ans: a LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

67. The owner's drawings account
    a. appears on the income statement along with the expenses of the business.
    b. must show transactions every accounting period.
    c. is increased with debits and decreased with credits.
    d. is not a proper subdivision of owner's equity.

    Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

68. Which of the following statements is **not** true?
    a. Expenses increase owner's equity.
    b. Expenses have normal debit balances.
    c. Expenses decrease owner's equity.
    d. Expenses are a negative factor in the computation of net income.

    Ans: a LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

69. 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.

    Ans: a LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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70. In the first month of operations, the total of the debit entries to the cash account amounted to $1,400 and the total of the credit entries to the cash account amounted to $800. The cash account has a(n)
a. $800 credit balance.
b. $1,400 debit balance.
c. $600 debit balance.
d. $600 credit balance.

Ans: c LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

Solution: $1,400 – $800 = $600
(Tot. of debit entries – Tot. of credit entries = Debit bal.)

71. Phast Mail Service purchased equipment for $2,000. Phast paid $500 in cash and signed a note for the balance. Phast debited the Equipment account, credited Cash and
a. nothing further must be done.
b. debited the Capital account for $1,500.
c. credited another asset account for $500.
d. credited a liability account for $1,500.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

Solution: $2,000 – $500 = $1,500
(Cost of equip. – Cash pd. = Note pay. amt.)

72. Madrid Industries purchased supplies for $1,200. They paid $500 in cash and agreed to pay the balance in 30 days. The journal entry to record this transaction would include a debit to an asset account for $1,200, a credit to a liability account for $700. Which of the following would be the correct way to complete the recording of the transaction?
a. Credit an asset account for $500.
b. Credit another liability account for $500.
c. Credit the Capital account for $500.
d. Debit the Capital account for $500.

Ans: a LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

73. On January 14, Maxine Industries purchased supplies of $900 on account. The entry to record the purchase will include
a. a debit to Supplies and a credit to Accounts Payable.
b. a debit to Supplies Expense and a credit to Accounts Receivable.
c. a debit to Supplies and a credit to Cash.
d. a debit to Accounts Receivable and a credit to Supplies.

Ans: a LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

74. On June 1, 2020, Barcelona Inc. reported a cash balance of $11,000. During June, Barcelona made deposits of $3,000 and made disbursements totalling $9,000. What is the cash balance at the end of June?
a. $5,000 debit balance
b. $14,000 debit balance
c. $5,000 credit balance
d. $4,000 credit balance

Ans: a LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

Solution: $11,000 + $3,000 – $9,000 = $5,000
(Beg. dr. bal. + Deposits – Disb. = End. dr. bal.)

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75. At January 1, 2020, Croc Industries reported owner's capital of $140,000. During 2020, Croc had a net loss of $30,000 and owner drawings of $15,000. At December 31, 2020, the amount of owner's capital is
    a. $ 95,000.
    b. $110,000.
    c. $125,000.
    d. $155,000.

    Ans: a LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

    Solution: $140,000 – $30,000 – $15,000 = $95,000
    (Beg. bal. – Net loss – Draws. = End. bal.)

76. Boise Co. pays its employees twice a month, on the 7th and the 21st. On June 21, Boise Co. paid employee salaries of $6,000. This transaction would
    a. increase owner's equity by $6,000.
    b. decrease the balance in Salaries and Wages Expense by $6,000.
    c. decrease net income for the month by $6,000.
    d. be recorded by a $6,000 debit to Salaries and Wages Payable and a $6,000 credit to Salaries and Wages Expense.

    Ans: c LO1 BT: K Difficulty: Medium TOT: 1 min. AACSB: None AICPA FC: Measurement

77. In the first month of operations for Pendleton Industries, the total of the debit entries to the cash account amounted to $33,000 ($13,000 investment by the owner and revenues of $20,000). The total of the credit entries to the cash account amounted to $21,000 (purchase of equipment $8,000 and payment of expenses $13,000). At the end of the month, the cash account has a(n)
    a. $5,000 credit balance.
    b. $5,000 debit balance.
    c. $12,000 debit balance.
    d. $12,000 credit balance.

    Ans: c LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting

    Solution: $33,000 – $21,000 = $12,000 debit

78. Qwik Company showed the following balances at the end of its first year:

Cash	$ 8,700
Prepaid insurance	9,400
Accounts receivable	7,000
Accounts payable	5,800
Notes payable	9,400
Owner's Capital	2,300
Owner's Drawings	1,400
Revenues	44,000
Expenses	35,000

    What did Qwik Company show as total credits on its trial balance?
    a. $52,400
    b. $61,500
    c. $62,900
    d. $70,900

    Ans: b LO1 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Analytic AICPA FC: Measurement

    Solution: $5,800 + $9,400 + $2,300 + $44,000 = $61,500
    (Accts. pay. + Notes pay. + Owner's cap. + Rev. = Tot. credits)

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79. Bertoli Company showed the following balances at the end of its first year:

Cash	$ 4,000
Prepaid insurance	7,000
Accounts receivable	8,000
Accounts payable	4,000
Notes payable	7,000
Owner's Capital	3,000
Owner's Drawings	2,000
Revenues	32,000
Expenses	25,000

What did Bertoli Company show as total credits on its trial balance?
a. $14,000
b. $46,000
c. $44,000
d. $48,000

Ans: b LO1 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Analytic AICPA FC: Measurement

Solution: $4,000 + $7,000 + $3,000 + $32,000 = $46,000
(Accts. pay. + Notes pay. + Owner's cap. + Rev. = Tot. credits)

80. During February 2020, its first month of operations, the owner of Solcist Co. invested cash of $50,000. Solcist had cash revenues of $16,000 and paid expenses of $21,000. Assuming no other transactions impacted the cash account, what is the balance in Cash at February 29?
a. $5,000 credit
b. $5,000 debit
c. $45,000 debit
d. $55,000 debit

Ans: c LO1 BT: AP Difficulty: Easy TOT: 1 min. AACSB: Analytic AICPA FC: Measurement

Solution: $50,000 + $16,000 – $21,000 = $45,000
(Beg. bal. + Cash rev. – Exp. pd. = End bal.)

81. At January 31, 2020, the balance in Bigelow Inc.'s supplies account was $780. During February, Bigelow purchased supplies of $900 and used supplies of $1,150. At the end of February, the balance in the supplies account should be
a. $530 debit.
b. $1,030 debit.
c. $530 credit.
d. $830 debit.

Ans: a LO2 BT: AP Difficulty: Easy TOT: 1 min. AACSB: Analytic AICPA FC: Measurement

Solution: $780 + $900 – $1,150 = $530 debit
(Beg. dr. bal. + Purch. – Used = End. dr. bal.)

82. At December 1, 2020, Dubois Company's accounts receivable balance was $1,300. During December, Dubois had credit sales of $7,400 and collected accounts receivable of $6,000. At December 31, 2020, the accounts receivable balance is
a. $100 debit.
b. $2,700 debit.
c. $100 credit.
d. $2,700 credit.

Ans: b LO1 BT: AP Difficulty: Easy TOT: 1 min. AACSB: Analytic AICPA FC: Measurement

Solution: $1,300 + $7,400 – $6,000 = $2,700 debit
(Beg. dr. bal. + Credit sales – Accts. rec. collected = End. dr. bal.)

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83. At October 1, 2020, Medina Co. had an accounts payable balance of $50,000. During the month, the company made purchases on account of $35,000 and made payments on account of $48,000. At October 31, 2020, the accounts payable balance is
    a. $37,000.
    b. $33,000.
    c. $63,000.
    d. $133,000.

    Ans: a LO1 BT: AP Difficulty: Easy TOT: 1 min. AACSB: Analytic AICPA FC: Measurement

    Solution: $50,000 + $35,000 – $48,000 = $37,000
    (Beg. bal. + Purch. on acct. – Pmts. made = End. bal.)

84. During 2020, its first year of operations, Aida's Bakery had revenues of $65,000 and expenses of $35,000. The business had owner's drawings of $22,000. What is the amount of owner's equity at December 31, 2020, if the beginning balance was $-0-?
    a. $0
    b. $8,000 credit
    c. $30,000 credit
    d. $22,000 debit

    Ans: b LO1 BT: AP Difficulty: Medium TOT: 1 min. AACSB: Analytic AICPA FC: Measurement

    Solution: $0 + ($65,000 – $35,000) – $22,000 = $8,000
    [Beg. bal. + (Rev. – Exp.) – Draws. = End. bal.]

85. On July 7, 2020, Rancho Realty Co. performed cash services of $1,900. The entry to record this transaction would include
    a. a debit to Service Revenue of $1,900.
    b. a credit to Accounts Receivable of $1,900.
    c. a debit to Cash of $1,900.
    d. a credit to Accounts Payable of $1,900.

    Ans: c LO1 BT: AP Difficulty: Easy TOT: 1 min. AACSB: Analytic AICPA FC: Measurement

86. At September 1, 2020, Hotel Suites Co. reported owner's capital of $147,000. During the month, Hotel Suites generated revenues of $48,000, incurred expenses of $26,000, purchased equipment for $5,000 and withdrew cash of $3,000. What is the amount of owner's capital at September 30, 2020?
    a. $161,000
    b. $166,000
    c. $169,000
    d. $171,000

    Ans: b LO1 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Analytic AICPA FC: Measurement

    Solution: $147,000 + ($48,000 – $26,000) – $3,000 = $166,000
    [Beg. cap. bal. + (Rev. – Exp.) – Draws. = End. cap. bal.]

87. The final step in the recording process is to
    a. analyze each transaction.
    b. enter the transaction in a journal.
    c. prepare a trial balance.
    d. transfer journal information to ledger accounts.

    Ans: d LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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88. The usual sequence of steps in the transaction recording process is:
a. journal → analyze → ledger.
b. analyze → journal → ledger.
c. journal → ledger → analyze.
d. ledger → journal → analyze.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

89. In recording business transactions, evidence that an accounting transaction has taken place is obtained from
a. business documents.
b. the Internal Revenue Service.
c. the public relations department.
d. the SEC.

Ans: a LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

90. After a business transaction has been analyzed and entered in the book of original entry, the next step in the recording process is to transfer the information to
a. the company's bank.
b. owner's equity.
c. ledger accounts.
d. financial statements.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

91. The first step in the recording process is to
a. prepare financial statements.
b. analyze each transaction for its effect on the accounts.
c. post to a journal.
d. prepare a trial balance.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

92. 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. bill.
c. advertising brochure.
d. check.

Ans: c LO2 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

93. After transaction information has been recorded in the journal, it is transferred to the
a. trial balance.
b. income statement.
c. book of original entry.
d. ledger.

Ans: d LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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94. The usual sequence of steps in the recording process is to analyze each transaction, enter the transaction in the
    a. journal, and transfer the information to the ledger accounts.
    b. ledger, and transfer the information to the journal.
    c. book of accounts, and transfer the information to the journal.
    d. book of original entry, and transfer the information to the journal.

    Ans: a LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

95. 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.

    Ans: c LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

96. 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.

    Ans: c LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

97. A compound journal entry involves
    a. two accounts.
    b. three accounts.
    c. three or more accounts.
    d. four or more accounts.

    Ans: c LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

98. 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.

    Ans: d LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

99. When three or more accounts are required in one journal entry, the entry is referred to as a
    a. compound entry.
    b. triple entry.
    c. multiple entry.
    d. simple entry.

    Ans: a LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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100. When two accounts are required in one journal entry, the entry is referred to as a
a. balanced entry.
b. simple entry.
c. posting.
d. nominal entry.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

101. Another name for a journal is
a. listing.
b. book of original entry.
c. book of accounts.
d. book of source documents.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

102. The standard format of a journal would **not** include
a. a reference column.
b. an account title column.
c. a T-account.
d. a date column.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

103 Transactions in a journal are initially recorded in
a. account number order.
b. dollar amount order.
c. alphabetical order.
d. chronological order.

Ans: d LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

104 A journal is **not** useful for
a. disclosing in one place the complete effect of a transaction.
b. obtaining amounts for preparing financial statements.
c. providing a record of transactions.
d. locating and preventing errors.

Ans: b LO2 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

105 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.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

106. The name given to entering transaction data in the journal is
a. chronicling.
b. listing.
c. posting.
d.journalizing.

Ans: d LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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107. The standard form of a journal entry has the
   a. debit account entered first and indented.
   b. credit account entered first and indented.
   c. debit account entered first at the extreme left margin.
   d. credit account entered first at the extreme left margin.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

108. When journalizing, the reference column is
   a. left blank.
   b. used to reference the source document.
   c. used to reference the journal page.
   d. used to reference the financial statements.

Ans: a LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

109. On June 1, 2020 Ben Casey buys a copier machine for his business and finances this purchase with cash and a note. When journalizing this transaction, he will
   a. use two journal entries.
   b. make a compound entry.
   c. make a simple entry.
   d. list the credit entries first, which is proper form for this type of transaction.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

110. Which of the following journal entries is recorded correctly and in the standard format?

a.	Salaries and Wages Expense	500	
	Cash		2,500
	Advertising Expense	2,000	
b.	Salaries and Wages Expense		500
	Advertising Expense		2,000
	Cash	2,500	
c.	Cash	2,500	
	Salaries and Wages Expense		500
	Advertising Expense		2,000
d.	Salaries and Wages Expense	500	
	Advertising Expense	2,000	
	Cash		2,500

Ans: d LO2 BT: AN Difficulty: Easy TOT: 1 min. AACSB: Analytic AICPA FC: Measurement

111. The ledger should be arranged in
   a. alphabetical order.
   b. chronological order.
   c. dollar amount order.
   d. None of these choices are correct.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

112. The record of activity in the entire group of accounts maintained by a company is called the
a. chart of accounts.
b. general journal.
c. general ledger.
d. trial balance.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

113. An accounting record of the balances of all assets, liabilities, and owner's equity accounts is called a
a. compound entry.
b. general journal.
c. general ledger.
d. chart of accounts.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

114. The usual ordering of accounts in the general ledger is
a. assets, liabilities, owner's capital, drawings, revenues, and expenses.
b. assets, liabilities, drawings, owner's capital, expenses, and revenues.
c. liabilities, assets, owner's capital, revenues, expenses, and drawings.
d. owner's capital, assets, liabilities, drawings, expenses, and revenues.

Ans: a LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

115. Management could determine the amounts due from customers by examining which ledger account?
a. Service Revenue
b. Accounts Payable
c. Accounts Receivable
d. Supplies

Ans: c LO3 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

116. The ledger accounts should be arranged in
a. chronological order.
b. alphabetical order.
c. financial statement order.
d. order of appearance in the journal.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

117. A three column form of account is so named because it has columns for
a. debit, credit, and account name.
b. debit, credit, and reference.
c. debit, credit, and balance.
d. debit, credit, and date.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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118. On August 13, 2020, Accounting Services Co. purchased office equipment for $1,700 and office supplies of $300 on account. Which of the following journal entries is recorded correctly and in the standard format?

a.
Equipment	1,700	
Account Payable		2,000
Supplies	300	

b.
Equipment.		1,700
Supplies		300
Accounts Payable	2,000	

c.
Accounts Payable	2,000	
Equipment		1,700
Supplies		300

d.
Equipment	1,700	
Supplies	300	
Accounts Payable.		2,000

Ans: d LO3 BT: AP Difficulty: Medium TOT: 1 min. AACSB: Analytic AICPA FC: Measurement

119. Able2 Company received a cash advance of $800 from a customer. As a result of this event,
a. assets increased by $800.
b. owner's equity increased by $800.
c. liabilities decreased by $800.
d. assets and owner's equity both increased by $800.

Ans: a LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

120. Camper Van Company purchased equipment for $2,300 cash. As a result of this event,
a. owner's equity decreased by $2,300.
b. total assets increased by $2,300.
c. total assets remained unchanged.
d. owner's equity decreased and total assets increased by $2,300.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

121. Beethoven Company provided consulting services and billed the client $3,600. As a result of this event,
a. assets remained unchanged.
b. assets increased by $3,600.
c. owner's equity increased by $3,600.
d. assets and owner's equity both increased by $3,600.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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122. The first step in posting involves
a. entering in the appropriate ledger account the date, journal page, and debit amount shown in the journal.
b. writing in the journal the account number to which the debit amount was posted.
c. writing in the journal the account number to which the credit amount was posted.
d. entering in the appropriate ledger account the date, journal page, and credit amount shown in the journal.

Ans: a LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

123. A chart of accounts usually starts with
a. asset accounts.
b. expense accounts.
c. liability accounts.
d. revenue accounts.

Ans: a LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

124. The procedure of transferring journal entries to the ledger accounts is called
a. journalizing.
b. analyzing.
c. reporting.
d. posting.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

125. A number in the reference column in a general journal indicates
a. that the entry has been posted to a particular account.
b. the page number of the journal.
c. the dollar amount of the transaction.
d. the date of the transaction.

Ans: a LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

126. A chart of accounts for a business firm
a. is a graph.
b. indicates the amount of profit or loss for the period.
c. lists the accounts and account numbers that identify their location in the ledger.
d. shows the balance of each account in the general ledger.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

127. Posting
a. should be performed in account number order.
b. accumulates the effects of journalized transactions in the individual 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.

Ans: b LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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128. After journal entries are posted, the reference column
   a. of the general journal will be blank.
   b. of the general ledger will show journal page numbers.
   c. of the general journal will show "Dr" or "Cr".
   d. of the general ledger will show account numbers.

   Ans: b LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

129. The explanation column of the general ledger
   a. is completed without exception.
   b. is nonexistent.
   c. is used infrequently.
   d. shows account titles.

   Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

130. A numbering system for a chart of accounts
   a. is prescribed by GAAP.
   b. is uniform for all businesses.
   c. usually starts with income statement accounts.
   d. usually starts with balance sheet accounts.

   Ans: d LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

131. The first step in designing a computerized accounting system is the creation of the
   a. general ledger.
   b. general journal.
   c. trial balance.
   d. chart of accounts.

   Ans: d LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

132. The steps in preparing a trial balance include all of the following **except**
   a. listing the account titles and their balances.
   b. totaling the debit and credit columns.
   c. proving the equality of the two columns.
   d. transferring journal amounts to ledger accounts.

   Ans: d LO4 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

133. A trial balance may balance even when each of the following occurs **except** when
   a. a transaction is not journalized.
   b. a journal entry is posted twice.
   c. incorrect accounts are used in journalizing.
   d. a transposition error is made.

   Ans: d LO4 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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134. A list of accounts and their balances at a given time is called a(n)
a. journal.
b. posting.
c. trial balance.
d. income statement.

Ans: c LO4 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

135. 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.

Ans: d LO4 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

136. 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.

Ans: c LO4 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

137. 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.

Ans: c LO4 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

138. A trial balance would only help in detecting which one of the following errors?
a. A transaction that is not journalized
b. A journal entry that is posted twice
c. Offsetting errors are made in recording the transaction
d. A transposition error when transferring the debit side of journal entry to the ledger

Ans: d LO4 BT: C Difficulty: Medium TOT: 1 min. AACSB: None AICPA FC: Measurement

139. An account is an individual accounting record of increases and decreases in specific
a. liabilities.
b. assets.
c. expenses.
d. assets, liabilities, and owner's equity items.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

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140. A debit is **not** the normal balance for which of the following?
   a. Asset account
   b. Owner's Drawings account
   c. Expense account
   d. Owner's Capital account

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

141. Which of the following rules is **incorrect***?*
   a. Credits decrease the owner's drawings account.
   b. Debits increase the owner's capital account.
   c. Credits increase revenue accounts.
   d. Debits decrease liability accounts.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

142. Which of the following statements is **false**?
   a. Revenues increase owner's equity.
   b. Revenues have normal credit balances.
   c. Revenues are a positive factor in the computation of net income.
   d. Revenues are increased by debits.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

143. Which of the following is the correct sequence of steps in the recording process?
   a. Posting, journalizing, analyzing
   b. Journalizing, analyzing, posting
   c. Analyzing, posting, journalizing
   d. Analyzing, journalizing, posting

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

144. Which of the following is **false** about a journal?
   a. It discloses in one place the complete effects of a transaction.
   b. It provides a chronological record of transactions.
   c. It helps to prevent or locate errors because debit and credit amounts for each entry can be readily compared.
   d. It keeps in one place all the information about changes in specific account balances.

Ans: d LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

145. Haselhof Company purchases equipment for $2,400 and supplies for $700 from Behrman Co. for $3,100 cash. The entry for this transaction will include a
   a. debit to Equipment $2,400 and a debit to Supplies Expense $700 for Behrman.
   b. credit to Cash for Behrman.
   c. credit to Accounts Payable for Haselhof.
   d. debit to Equipment $2,400 and a debit to Supplies $700 for Haselhof.

Ans: d LO2 BT: K Difficulty: Medium TOT: 1 min. AACSB: None AICPA FC: Measurement

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146. Sara Bernheat withdraws $700 cash from her business for personal use. The entry for this transaction will include a debit of $700 to
a. Owner's Drawings.
b. Owner's Capital.
c. Owner's Salaries Expense.
d. Salaries and Wages Expense.

Ans: a LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

147. On October 3, Ken Steele, a carpenter, received a cash payment for services previously billed to a client. Ken paid his telephone bill, and he also bought equipment on credit. For the three transactions, at least one of the entries will include a
a. credit to Owner's Capital.
b. credit to Notes Payable.
c. debit to Accounts Receivable.
d. credit to Accounts Payable.

Ans: d LO2 BT: C Difficulty: Medium TOT: 1.5 min. AACSB: None AICPA FC: Measurement

148. Posting of journal entries should be done in
a. account number order.
b. alphabetical order.
c. chronological order.
d. dollar amount order.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

149. The chart of accounts is a
a. list of accounts and their balances at a given time.
b. device used to prove the mathematical accuracy of the ledger.
c. listing of the accounts and the account numbers which identify their location in the ledger.
d. required step in the recording process.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

150. Which of the following is **incorrect** regarding a trial balance?
a. It proves that the debits equal the credits after posting.
b. It proves that the company has recorded all transactions.
c. A trial balance uncovers errors in journalizing and posting.
d. A trial balance is useful in the preparation of financial statements.

Ans: b LO4 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

151. A trial balance will **not** balance if
a. a journal entry is posted twice.
b. a wrong amount is used in journalizing.
c. incorrect account titles are used in journalizing.
d. a journal entry is only partially posted.

Ans: d LO4 BT: C Difficulty: Medium TOT: 1 min. AACSB: None AICPA FC: Measurement

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152. Which of the following are the same under both GAAP and IFRS?
   a. The account.
   b. Debit and credit rules.
   c. Steps in the recording process.
   d. All of these answer choices are correct.

   IFRS, Ans: d LO5 BT: K Difficulty: Easy TOT: 1 min. AACSB: Diversity AICPA FC: Measurement AICPA BB: International Perspective

153. Which of the following are the same under both GAAP and IFRS?
   a. The journal.
   b. The ledger.
   c. The chart of accounts.
   d. All of these answer choices are correct.

   IFRS, Ans: d LO5 BT: K Difficulty: Easy TOT: 1 min. AACSB: Diversity AICPA FC: Measurement AICPA BB: International Perspective

154. Which of the following is true?
   a. Transaction analysis is completely different under IFRS and GAAP.
   b. Most transactions are recorded differently under IFRS and GAAP.
   c. Transaction analysis is the same under IFRS and GAAP, but some transactions are recorded differently.
   d. All transactions are recorded the same under IFRS and GAAP.

   IFRS, Ans: c LO5 BT: K Difficulty: Easy TOT: 1 min. AACSB: Diversity AICPA FC: Measurement AICPA BB: International Respective

155. European companies rely
   a. less on historical cost and more on fair values than U.S. companies.
   b. less on fair values and more on historical cost than U.S. companies.
   c. completely on fair values for financial reporting.
   d. completely on historical cost for financial reporting.

   IFRS, Ans: a LO5 BT: K Difficulty: Easy TOT: 1 min. AACSB: Diversity AICPA FN: Measurement AICPA BB: International Perspective

156. The double–entry accounting system is the basis of accounting systems
   a. worldwide.
   b. worldwide, except for the U.S.
   c. in the U.S. only
   d. neither internationally nor in the U.S.

   IFRS, Ans: a LO5 BT: K Difficulty: Easy TOT: 1 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting

157. Under IFRS, the trial balance
   a. follows the same format as under GAAP.
   b. shows credits on the left and debits on the right.
   c. includes less accounts than under GAAP.
   d. includes more accounts than under GAAP.

   IFRS, Ans: a LO5 BT: K Difficulty: Easy TOT: 1 min. AACSB: Diversity AICPA FC: Measurement AICPA BB: International Perspective

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158. Fair value is relied on
a. less under IFRS than under GAAP.
b. more under IFRS than under GAAP.
c. equally under IFRS and GAAP.
d. infrequently under IFRS.

IFRS, Ans: b LO5 BT: K Difficulty: Easy TOT: 1 min. AACSB: Diversity AICPA FC: Measurement AICPA BB: International Perspective

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BRIEF EXERCISES

BE 159

At June 1, 2020, Cooper Company had an accounts receivable balance of $14,000. During the month, the company performed credit services of $35,000 and collected accounts receivable of $23,000. What is the balance in accounts receivable at June 30, 2020?

Solution 159

The balance at the end of the month is $26,000, calculated as follows:

Beginning accounts receivable	$14,000
Add: Credit sales	35,000
Less: Collections	(23,000)
Ending accounts receivable	$26,000

LO1 BT: AP Difficulty: Easy TOT: 3 min. AACSB: Analytic AICPA FC: Measurement

(Beg. bal. + Credit sales – Collect. = End. bal.)

BE 160

TNT has the following transactions during April of the current year. Indicate (a) the effect on the accounting equation and (b) the debit-credit analysis.

Apr. 1	Opens a law office, investing $25,000 in cash.
4	Pays rent in advance for 6 months, $9,000 cash.
16	Receives $8,000 from clients for services provided.
27	Pays secretary $2,800 salary.

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Solution 160

(a) **Effect on Accounting Equation**	(b) **Debit-Credit Analysis**
The asset Cash is increased; the owner's equity Capital account is increased.	Debits increase assets: debit Cash $25,000. Credits increase owner's equity: credit Owner's Capital $25,000.
The asset Prepaid Rent is increased; the asset Cash is decreased.	Debits increase assets: debit Prepaid Rent $9,000. Credits decrease assets: credit Cash $9,000.
The asset Cash is increased; the revenue Service Revenue is increased.	Debits increase assets: debit Cash $8,000. Credits increase revenues: credit Service Revenue $8,000.
The expense Salaries and Wages Expense is increased; the asset Cash is decreased.	Debits increase expenses: debit Salaries and Wages Expense $2,800. Credits decrease assets: credit Cash $2,800.

LO1 BT: C Difficulty: Medium TOT: 6 min. AACSB: None AICPA FC: Measurement

BE 161

For each of the following accounts indicate the effect of a debit or a credit on the account and the normal balance. Increase (+), Decrease (–).

	Debit	Credit	Normal Balance
1. Salaries and wages expense.	_____	_____	_____
2. Accounts receivable.	_____	_____	_____
3. Service revenue.	_____	_____	_____
4. Owner's Capital.	_____	_____	_____
5. Owner's Drawings.	_____	_____	_____

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Solution 161

	Debit	Credit	Normal Balance
1. Salaries and wages expense.	+	–	Dr
2. Accounts receivable.	+	–	Dr
3. Service revenue.	–	+	Cr
4. Owner's Capital.	–	+	Cr
5. Owner's Drawings.	+	–	Dr

LO1 BT: K Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Measurement

BE 162

For each of the following transactions of Neon Garden, identify the account to be debited and the account to be credited.

1. Purchased 18-month insurance policy for cash.
2. Paid weekly payroll.
3. Purchased supplies on account.
4. Received utility bill to be paid at later date.

Solution 162

Transaction	Debit	Credit
1	Prepaid Insurance	Cash
2	Salaries and Wages Expense	Cash
3	Supplies	Accounts Payable
4	Utilities Expense	Accounts Payable

LO2 BT: AP Difficulty: Medium TOT: 4 min. AACSB: Analytic AICPA FC: Measurement

BE 163

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

1. Barry Cain invested $38,000 cash to start an appliance repair business.
2. Hired an employee to be paid $500 per week, starting tomorrow.
3. Paid two years' rent in advance, $10,800.
4. Paid the worker's weekly wage.
5. Recorded revenue earned and received for the week, $2,900.

Solution 163

1.	Cash…….	38,000	
	Owner's Capital		38,000
2.	No entry, not a transaction.		
3.	Prepaid Rent	10,800	
	Cash		10,800

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Solution 163 (cont.)

4.	Salaries and Wages Expense	500	
	Cash		500
5.	Cash…….	2,900	
	Service Revenue		2,900

LO2 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Analytic AICPA FC: Measurement

BE 164

Identify the impact on the accounting equation of the following transactions.
1. Purchased 36-month insurance policy for cash.
2. Purchased supplies on account.
3. Received utility bill to be paid at later date.
4. Paid utility bill previously accrued.

Solution 164

1. Net effect is no change: Increases assets and decreases assets.
2. Increases assets and increases liabilities.
3. Increases liabilities and decreases owner's equity.
4. Decreases assets and decreases liabilities

LO2 BT: K Difficulty: Easy TOT: 4 min. AACSB: None AICPA FC: Measurement

BE 165

Journalize the following transactions for Tanaka Company for June 2020, the company's first month of operations. You may omit explanations for the transactions.
1. Purchased equipment on account for $9,800.
2. Billed customers $5,600 for services performed.
3. Made payment of $2,400 on account for equipment purchased earlier in month.
4. Collected $3,900 on customer accounts.

Solution 165

1.	Equipment	9,800	
	Accounts Payable		9,800
2.	Accounts Receivable	5,600	
	Service Revenue		5,600
3.	Accounts Payable	2,400	
	Cash		2,400
4.	Cash	3,900	
	Accounts Receivable		3,900

LO2 BT: AP Difficulty: Medium TOT: 4 min. AACSB: Analytic AICPA FC: Measurement

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BE 166

The following transactions took place for Tanaka company during their first month nof operations:
1. Purchased equipment on account for $9,800.
2. Billed customers $5,600 for services performed.
3. Made payment of $2,400 on account for equipment purchased earlier in month.
4. Collected $3,900 on customer accounts.

1. What is the balance in Accounts Payable at June 30, 2020?
2. What is the balance in Accounts Receivable at June 30, 2020?

Solution 166

1. Accounts Payable at June 30, 2020:

Beginning accounts payable	$ 0
Purchases on account	9,800
Payments on account	(2,400)
Ending accounts payable	$7,400

(Beg. bal. + Purch. on acct. – Pmts. on acct. = End. bal.)

2. Accounts Receivable at June 30, 2020:

Beginning accounts receivable	$ 0
Billed to customers	5,600
Collections from customers	(3,900)
Ending accounts receivable	$1,700

(Beg. bal. + Cust. Billings – Collect. from cust. = End. bal.)

LO3 BT: AP Difficulty: Medium TOT: 6 min. AACSB: Analytic AICPA FC: Measurement

BE 167

The transactions of the Litehouse Realty are recorded in the general journal below. You are to post the journal entries to T-accounts.

General Journal

Date	Account Titles	Debit	Credit
2020			
Aug. 5	Accounts Receivable	4,600	
	Service Revenue		4,600
10	Cash	3,200	
	Service Revenue		3,200
19	Rent Expense	1,300	
	Cash		1,300
25	Cash	1,500	
	Accounts Receivable		1,500

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BE 167 (cont.)

General Ledger

Cash		Accounts Receivable	

Service Revenue		Rent Expense	

Solution 167

General Ledger

Cash				Accounts Receivable			
8/10	3,200	8/19	1,300	8/5	4,600	8/25	1,500
8/25	1,500						
8/31 Bal.	3,400			8/31 Bal.	3,100		

Service Revenue				Rent Expense			
		8/5	4,600	8/19	1,300		
		8/10	3,200				
		8/31 Bal.	7,800	8/31 Bal.	1,300		

LO3 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Analytic AICPA FC: Measurement

BE 168

Prepare a trial balance from the ledger accounts of Black Diamond Express as of January 31, 2020.

Accounts Payable	$ 1,100	Rent Expense	$ 500
Accounts Receivable	1,700	Service Revenue	3,000
Cash	1,400	Supplies	200
Owner's Capital	2,000	Salaries and Wages Expense	1,300
Owner's Drawings	1,000		

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Solution 168

BLACK DIAMOND EXPRESS
Trial Balance
January 31, 2020

	Debit	Credit
Cash	$ 1,400	
Accounts Receivable	1,700	
Supplies	200	
Accounts Payable		$ 1,100
Owner's Capital		2,000
Owner's Drawings	1,000	
Service Revenue		3,000
Rent Expense	500	
Salaries and Wages Expense	1,300	
	$6,100	$6,100

[(Cash + Accts. rec. + Supp. + Owner's draws. + Rent exp. + Sal. & wages exp.) = (Accts. pay. + Owner's cap. + Serv. rev.)]
LO4 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Analytic AICPA FC: Measurement

BE 169

Prepare a corrected trial balance for Howard Company. All accounts should have a normal balance.

HOWARD COMPANY
Trial Balance
For the Quarter Ended 3/31/20

	Debit	Credit
Cash	$ 13,000	
Accounts Receivable		$ 25,000
Prepaid Insurance	2,500	
Equipment	62,000	
Accounts Payable		16,000
Unearned Service Revenue	12,000	
Notes Payable		25,000
Owner's Capital		40,000
Owner's Drawings		1,500
Service Revenue		40,000
Salaries and Wages Expense	14,000	
Utilities Expense	5,000	
Rent Expense	10,000	
	$118,500	$147,500

Solution 169

HOWARD COMPANY
Trial Balance
March 31, 2020

	Debit	Credit
Cash	$ 13,000	
Accounts Receivable	25,000	
Prepaid Insurance	2,500	
Equipment	62,000	
Accounts Payable		$ 16,000
Unearned Service Revenue		12,000
Notes Payable		25,000
Owner's Capital		40,000
Owner's Drawings	1,500	
Service Revenue		40,000
Salaries and Wages Expense	14,000	
Utilities Expense	5,000	
Rent Expense	10,000	
	$133,000	$133,000

[(Cash + Accts. rec. + Prepd. ins. + Equip. + Owner's draws. + Sal. & wages exp. + Util. exp. + Rent exp.) = (Accts. pay. + Unearn. serv. rev. + Notes pay. + Owner's cap. + Serv. rev.)]

LO4 BT: AN Difficulty: Medium TOT: 6 min. AACSB: Analytic AICPA FC: Measurement

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EXERCISES

Ex. 170

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

CHART OF ACCOUNTS

101	Cash	209	Unearned Service Revenue
112	Accounts Receivable	301	Owner's Capital
125	Supplies	306	Owner's Drawings
157	Equipment	400	Service Revenue
200	Notes Payable	610	Advertising Expense
201	Accounts Payable	729	Rent Expense

		Number(s) of account(s) debited	Number(s) of account(s) credited
1.	M. Acher invests $70,000 cash to start the business.		
2.	Purchased three pieces of equipment for $160,000, paying $50,000 cash and signing a 5-year, 10% note for the remainder.		
3.	Purchased $5,000 supplies on credit.		
4.	Cash revenue amounted to $7,000.		
5.	Paid $500 cash for radio advertising.		
6.	Paid $800 on account for supplies purchased in transaction 3.		
7.	Owner withdrew $2,100 from the business for personal expenses.		
8.	Paid $1,200 cash for rent for the current month.		
9.	Received $2,000 cash advance from a customer for future copying.		
10.	Billed a customer for $575 for photocopy work done.		

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Solution 170

		Number(s) of account(s) debited	Number(s) of account(s) credited
1.	M. Acher invests $70,000 cash to start the business.	101	301
2.	Purchased three pieces of equipment for $160,000, paying $50,000 cash and signing a 5-year, 10% note for the remainder.	157	101,200
3.	Purchased $5,000 supplies on credit.	125	201
4.	Cash revenue amounted to $7,000.	101	400
5.	Paid $500 cash for radio advertising.	610	101
6.	Paid $800 on account for supplies purchased in transaction 3.	201	101
7.	Owner withdrew $2,100 from the business for personal expenses.	306	101
8.	Paid $1,200 cash for rent for the current month.	729	101
9.	Received $2,000 cash advance from a customer for future copying.	101	209
10.	Billed a customer for $575 for photocopy work done.	112	400

LO1 BT: AP Difficulty: Medium TOT: 15 min. AACSB: Analytic AICPA FC: Measurement

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Ex. 171

Under a double-entry system, show how the entry in each statement is entered in the ledger by using debit or credit to indicate the increase or decrease in the affected account.

		Debit or Credit
1.	An increase in Salaries and Wages Expense.	
2.	A decrease in Accounts Payable.	
3.	An increase in Prepaid Insurance.	
4.	An increase in Owner's Capital.	
5.	A decrease in Supplies.	
6.	An increase in Owner's Drawings.	
7.	An increase in Service Revenue.	
8.	A decrease in Accounts Receivable.	
9.	An increase in Rent Expense.	
10.	A decrease in Equipment.	

Solution 171

1.	An increase in Salaries and Wages Expense.	Debit
2.	A decrease in Accounts Payable.	Debit
3.	An increase in Prepaid Insurance.	Debit
4.	An increase in Owner's Capital.	Credit
5.	A decrease in Office Supplies.	Credit
6.	An increase in Owner's Drawings.	Debit
7.	An increase in Service Revenue.	Credit
8.	A decrease in Accounts Receivable.	Credit
9.	An increase in Rent Expense.	Debit
10.	A decrease in Store Equipment.	Credit

LO1 BT: C Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Measurement

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Ex. 172

Selected transactions for A. Byrjun, a property manager, in her first month of business, are as follows.

Jan. 2 Invested $15,000 cash in business.
3 Purchased used car for $5,200 cash for use in business.
9 Purchased supplies on account for $500.
11 Billed customers $2,100 for services performed.
16 Paid $450 cash for advertising.
20 Received $1,300 cash from customers billed on January 11.
23 Paid creditor $300 cash on balance owed.
28 Withdrew $2,000 cash for personal use of owner.

Instructions
For each transaction indicate the following.
(a) The basic type of account debited and credited (asset (A), liability (L), owner's equity (OE)).
(b) The specific account debited and credited (cash, rent expense, service revenue, etc.).
(c) Whether the specific account is increased (incr.) or decreased (decr).
(d) The normal balance of the specific account.

Use the following format, in which the January 2 transaction is given as an example.

	Account Debited				Account Credited			
	(a)	(b)	(c)	(d)	(a)	(b)	(c)	(d)
Date	Basic Type	Specific Account	Effect	Normal Balance	Basic Type	Specific Account	Effect	Normal Balance
Jan. 2	A	Cash	Incr.	Debit	OE	Owner's Capital	Incr.	Credit

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Solution 172

	Account Debited				Account Credited			
	(a)	(b)	(c)	(d)	(a)	(b)	(c)	(d)
Date	Basic Type	Specific Account	Effect	Normal Balance	Basic Type	Specific Account	Effect	Normal Balance
Jan. 2	A	Cash	Incr.	Debit	OE	Owner's Capital	Incr.	Credit
3	A	Equip.	Incr.	Debit	A	Cash	Decr.	Debit
9	A	Supplies	Incr.	Debit	L	Accts. Pay.	Incr.	Credit
11	A	Accts. Rec.	Incr.	Debit	OE	Service Revenue	Incr.	Credit
16	OE	Advert. Expense	Incr.	Debit	A	Cash	Decr.	Debit
20	A	Cash	Incr.	Debit	A	Accts. Rec.	Decr.	Debit
23	L	Accts. Pay.	Decr.	Credit	A	Cash	Decr.	Debit
28	OE	Owner's Drawings	Incr.	Debit	A	Cash	Decr.	Debit

LO1 BT: C Difficulty: Medium TOT: 10 min. AACSB: None AICPA FC: Measurement

Ex. 173

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.	Owner's Capital	_____
6.	Supplies	_____
7.	Insurance Expense	_____
8.	Owner's Drawings	_____
9.	Buildings	_____
10.	Notes Payable	_____

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Solution 173

	Accounts	Normal Balance Debit or Credit
1.	Service Revenue	Credit
2.	Rent Expense	Debit
3.	Accounts Receivable	Debit
4.	Accounts Payable	Credit
5.	Owner's Capital	Credit
6.	Supplies	Debit
7.	Insurance Expense	Debit
8.	Owner's Drawings	Debit
9.	Buildings	Debit
10.	Notes Payable	Credit

LO1 BT: C Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Measurement

Ex. 174

For each of the following accounts, indicate the effects of (a) a debit and (b) the normal account balance.

1. Notes Payable
2. Prepaid Insurance
3. Salaries and Wages Expense
4. Service Revenue
5. Equipment
6. Owner's Capital

Solution 174

		Debit Effect	Normal Balance
1.	Notes Payable	Decrease	Credit
2.	Prepaid Insurance	Increase	Debit
3.	Salaries and Wages Expense	Increase	Debit
4.	Service Revenue	Decrease	Credit
5.	Equipment	Increase	Debit
6.	Owner's Capital	Decrease	Credit

LO1 BT: C Difficulty: Easy TOT: 7 min. AACSB: None AICPA FC: Measurement

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Ex. 175

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) Owner's Capital
____ (6) Owner's Drawings
____ (7) Cash
____ (8) Salaries and Wages Expense
____ (9) Notes Payable
____ (10) Insurance Expense

Solution 175

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

LO1 BT: C Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Measurement

Ex. 176

Eight transactions are recorded in the following T-accounts:

CASH			
(1)	25,000	(2)	3,500
(7)	22,500	(3)	1,950
		(4)	5,100
		(6)	8,000
		(8)	3,300

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

SUPPLIES			
(3)	1,950		

EQUIPMENT			
(2)	13,500		

OWNER'S CAPITAL			
		(1)	25,000

SERVICE REVENUE			
		(5)	27,500

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

OWNER'S DRAWINGS			
(8)	3,300		

SALARIES AND WAGES EXPENSE			
(4)	5,100		

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Ex. 176 (cont.)

Indicate for each debit and each credit: (a) whether an asset, liability, capital, drawing, 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	+	Capital	+
(2)					
(3)					
(4)					
(5)					
(6)					
(7)					
(8)					

Solution 176

Transaction No.		Account Debited		Account Credited	
		Type	Effect	Type	Effect
(1)	(Example)	Asset	+	Capital	+
(2)		Asset	+	Asset Liability	– +
(3)		Asset	+	Asset	–
(4)		Expense	+	Asset	–
(5)		Asset	+	Revenue	+
(6)		Liability	–	Asset	–
(7)		Asset	+	Asset	–
(8)		Drawings	+	Asset	–

LO1 BT: C Difficulty: Medium TOT: 15 min. AACSB: None AICPA FC: Measurement

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Ex. 177

For each of the following accounts indicate (a) the type of account (Asset, Liability, Owner's Equity, Revenue, Expense), (b) the debit and credit effects, and (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. Owner's Capital	7. Notes Payable
4. Owner's Drawings	8. Equipment

Solution 177

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. Owner's Equity account.
   b. Debit decreases, credit increases.
   c. Normal balance - credit.

4. a. Owner's 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.

LO1 BT: C Difficulty: Easy TOT: 15 min. AACSB: None AICPA FC: Measurement

Ex. 178

For each transaction given, enter in the tabulation given below a "D" for debit and a "C" for credit to reflect the increases and decreases of the assets, liabilities, and owner's equity accounts. In some cases there may be a "D" and a "C" in the same box.

Transactions:
1. Owner invests cash in the business.
2. Pays insurance in advance for six months.
3. Pays secretary's salary.
4. Purchases office supplies on account.
5. Pays electricity bill.
6. Borrows money from local bank.
7. Makes payment on account.
8. Receives cash due from customers.

Ex. 178 (cont.)

9. Provides services on account.
10. Owner withdraws assets from the business.

	Transaction #									
	1	2	3	4	5	6	7	8	9	10
Assets										
Liabilities										
Owner's Capital Account										
Owner's Drawings										
Revenues										
Expenses										

Solution 178

	Transaction #									
	1	2	3	4	5	6	7	8	9	10
Assets	D	D,C	C	D	C	D	C	D,C	D	C
Liabilities				C		C	D			
Owner's Capital Account	C									
Owner's Drawings										D
Revenues									C	
Expenses			D		D					

LO1 BT: C Difficulty: Medium TOT: 15 min. AACSB: None AICPA FC: Measurement

Ex. 179

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

1. The owner, Mai Li, invests $40,000 in cash in starting a real estate office operating as a sole proprietorship.
2. Purchased $500 of supplies on credit.
3. Purchased equipment for $9,000, paying $4,000 in cash and signed a 30-day, $5,000, note payable.
4. Real estate commissions billed to clients amount to $4,000.
5. Paid $800 in cash for the current month's rent.
6. Paid $200 cash on account for supplies purchased in transaction 2.
7. Received a bill for $600 for advertising for the current month.
8. Paid $2,500 cash for office salaries and wages.
9. Li withdrew $1,800 from the business for living expenses.
10. Received a check for $2,500 from a client in payment on account for commissions billed in transaction 4.

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Solution 179

1.	Cash	40,000	
	Owner's Capital		40,000
2.	Supplies	500	
	Accounts Payable		500
3.	Equipment	9,000	
	Cash		4,000
	Notes Payable		5,000
4.	Accounts Receivable	4,000	
	Service Revenue		4,000
5.	Rent Expense	800	
	Cash		800
6.	Accounts Payable	200	
	Cash		200
7.	Advertising Expense	600	
	Accounts Payable		600
8.	Salaries and Wages Expense	2,500	
	Cash		2,500
9.	Owner's Drawings	1,800	
	Cash		1,800
10.	Cash	2,500	
	Accounts Receivable		2,500

LO2 BT: AP Difficulty: Medium TOT: 15 min. AACSB: Analytic AICPA FC: Measurement

Ex. 180

Identify the accounts to be debited and credited for each of the following transactions.

1. The owner, O. Gulag, invested $8,000 cash in the business.
2. Purchased supplies on account for $1,000.
3. Billed customers $2,000 for services performed.
4. Paid salaries of $1,200.

Solution 180

	Account Debited	Account Credited
1.	Cash	Owner's Capital
2.	Supplies	Accounts Payable
3.	Accounts Receivable	Service Revenue
4.	Salaries and Wages Expense	Cash

LO1 BT: C Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Measurement

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Ex. 181

Transactions for Joan Jett Company for the month of October are presented below. Journalize each transaction and identify each transaction by number. You may omit journal explanations.

1. Invested $42,000 cash in the business.
2. Purchased land costing $28,000 for cash.
3. Purchased equipment costing $18,000 for $4,000 cash and the remainder on credit.
4. Purchased supplies on account for $800.
5. Paid $1,200 for a one-year insurance policy.
6. Received $3,500 cash for services performed.
7. Received $4,000 for services previously performed on account.
8. Paid wages to employees for $2,800.
9. Petty withdrew $2,300 cash from the business.

Solution 181

1.	Cash	42,000	
	Owner's Capital		42,000
2.	Land	28,000	
	Cash		28,000
3.	Equipment	18,000	
	Cash		4,000
	Accounts Payable		14,000
4.	Supplies	800	
	Accounts Payable		800
5.	Prepaid Insurance	1,200	
	Cash		1,200
6.	Cash	3,500	
	Service Revenue		3,500
7.	Cash	4,000	
	Accounts Receivable		4,000
8.	Salaries and Wages Expense	2,800	
	Cash		2,800
9.	Owner's Drawings	2,300	
	Cash		2,300

LO2 BT: AP Difficulty: Medium TOT: 10 min. AACSB: Analytic AICPA FC: Measurement

Ex. 182

Match the basic step in the recording process described by each of the following statements.

A. Analyze each transaction
B. Enter each transaction in a journal
C. Transfer journal information to ledger accounts

____ 1. This step is called posting.

____ 2. Business documents are examined to determine the effects of transactions on the accounts.

____ 3. This step is called journalizing.

Solution 182

1. C 2. A 3. B

LO2 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Measurement

Ex. 183

Prepare journal entries for each of the following transactions.

1. Performed services for customers on account $8,400.
2. Purchased $20,000 of equipment on account.
3. Received $3,800 from customers in transaction 1.
4. The owner, J. Dean, withdrew $2,900 cash for personal use.

Solution 183

1.	Accounts Receivable	8,400	
	Service Revenue		8,400
2.	Equipment	20,000	
	Accounts Payable		20,000
3.	Cash	3,800	
	Accounts Receivable		3,800
4.	Owner's Drawings	2,900	
	Cash		2,900

LO2 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Analytic AICPA FC: Measurement

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Ex. 184

Sigur Ros Company is a newly organized business. The list of accounts to be opened in the general ledger is as follows:

Accounts Payable	Prepaid Insurance
Accounts Receivable	Prepaid Rent
Accumulated Depreciation - Equip.	Rent Expense
Cash	Salaries and Wages Expense
Depreciation Expense	Salaries and Wages Payable
Equipment	Service Revenue
Insurance Expense	Supplies
Owner's Capital	Supplies Expense
Owner's Drawings	

Instructions

Organize the accounts into the order in which they should appear in the ledger of Sigur Ros Company and assign account numbers. Use the following system to assign account numbers.

1—199	Assets
200—299	Liabilities
300—399	Owner's Equity
400—499	Revenues
500—599	Expenses

Solution 184

There are several possible correct account number assignments. The following is one of the correct solutions.

101- Cash
112- Accounts Receivable
125- Supplies
130- Prepaid Insurance
140- Prepaid Rent
157- Equipment
158- Accumulated Depreciation - Equip.

201- Accounts Payable
212- Salaries and Wages Payable

301- Owner's Capital
306- Owner's Drawings

400- Service Revenue

510- Salaries and Wages Expense
520- Supplies Expense
530- Rent Expense
540- Insurance Expense
550- Depreciation Expense

LO3 BT: C Difficulty: Medium TOT: 15 min. AACSB: None AICPA FC: Measurement

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Ex. 185

The transactions of Molina Information Service 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 J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
2020				
Sept. 1	Cash		27,000	
	Owner's Capital			27,000
	(Invested cash in business)			
4	Equipment		34,000	
	Cash			9,000
	Notes Payable			25,000
	(Paid cash and issued 2-year, 9%, note for equipment)			
8	Rent Expense		1,000	
	Cash			1,000
	(Paid September rent)			
15	Prepaid Insurance		900	
	Cash			900
	(Paid one-year liability insurance)			
18	Cash		2,800	
	Service Revenue			2,800
	(Received cash for delivery services)			
20	Salaries and Wages Expense		500	
	Cash			500
	(Paid salaries for current period)			
25	Utilities Expense		100	
	Accounts Payable			100
	(Received a bill for September utilities)			
30	Owner's Drawings		1,600	
	Cash			1,600
	(Withdrew cash for personal use)			
30	Accounts Receivable		4,500	
	Service Revenue			4,500
	(Billed customer for delivery service)			

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Ex. 185 (cont.)

General Ledger

Cash Account No. 101

Date	Explanation	Ref.	Debit	Credit	Balance

Accounts Receivable Account No. 112

Date	Explanation	Ref.	Debit	Credit	Balance

Prepaid Insurance Account No. 130

Date	Explanation	Ref.	Debit	Credit	Balance

Equipment Account No. 155

Date	Explanation	Ref.	Debit	Credit	Balance

Accounts Payable Account No. 201

Date	Explanation	Ref.	Debit	Credit	Balance

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Ex. 185 (cont.)

Notes Payable — Account No. 205

Date	Explanation	Ref.	Debit	Credit	Balance

Owner's Capital — Account No. 301

Date	Explanation	Ref.	Debit	Credit	Balance

Owner's Drawing — Account No. 306

Date	Explanation	Ref.	Debit	Credit	Balance

Service Revenue — Account No. 400

Date	Explanation	Ref.	Debit	Credit	Balance

Rent Expense — Account No. 719

Date	Explanation	Ref.	Debit	Credit	Balance

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Ex. 185 (cont.)

Salaries and Wages Expense — Account No. 726

Date	Explanation	Ref.	Debit	Credit	Balance

Utilities Expense — Account No. 735

Date	Explanation	Ref.	Debit	Credit	Balance

MOLINA INFORMATION SERVICE
Trial Balance
September 30, 2020

Accounts	Debit	Credit

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Solution 185

General Journal J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
2020				
Sept. 1	Cash	101	27,000	
	Owner's Capital	301		27,000
	(Invested cash in business)			
4	Equipment	155	34,000	
	Cash	101		9,000
	Notes Payable	205		25,000
	(Paid cash and issued 2-year, 9%, note for equipment)			
8	Rent Expense	719	1,000	
	Cash	101		1,000
	(Paid September rent)			
15	Prepaid Insurance	130	900	
	Cash	101		900
	(Paid one-year liability insurance)			
18	Cash	101	2,800	
	Service Revenue	400		2,800
	(Received cash for delivery services)			
20	Salaries and Wages Expense	726	500	
	Cash	101		500
	(Paid salaries for current period)			
25	Utilities Expense	735	100	
	Accounts Payable	201		100
	(Received a bill for September utilities)			
30	Owner's Drawings	306	1,600	
	Cash	101		1,600
	(Withdrew cash for personal use)			
30	Accounts Receivable	112	4,500	
	Service Revenue	400		4,500
	(Billed customer for delivery service)			

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Solution 185 (cont.)

General Ledger

Cash — Account No. 101

Date	Explanation	Ref.	Debit	Credit	Balance
2020					
Sept. 1		J1	27,000		27,000
4		J1		9,000	18,000
8		J1		1,000	17,000
15		J1		900	16,100
18		J1	2,800		18,900
20		J1		500	18,400
30		J1		1,600	16,800

Accounts Receivable — Account No. 112

Date	Explanation	Ref.	Debit	Credit	Balance
2020					
Sept. 30		J1	4,500		4,500

Prepaid Insurance — Account No. 130

Date	Explanation	Ref.	Debit	Credit	Balance
2020					
Sept. 15		J1	900		900

Equipment — Account No. 155

Date	Explanation	Ref.	Debit	Credit	Balance
2020					
Sept. 4		J1	34,000		34,000

Accounts Payable — Account No. 201

Date	Explanation	Ref.	Debit	Credit	Balance
2020					
Sept. 25		J1		100	100

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Solution 185 (cont.)

Notes Payable — Account No. 205

Date	Explanation	Ref.	Debit	Credit	Balance
2020					
Sept. 4		J1		25,000	25,000

Owner's Capital — Account No. 301

Date	Explanation	Ref.	Debit	Credit	Balance
2020					
Sept. 1		J1		27,000	27,000

Owner's Drawings — Account No. 306

Date	Explanation	Ref.	Debit	Credit	Balance
2020					
Sept. 30		J1	1,600		1,600

Service Revenue — Account No. 400

Date	Explanation	Ref.	Debit	Credit	Balance
2020					
Sept. 18		J1		2,800	2,800
30		J1		4,500	7,300

Rent Expense — Account No. 719

Date	Explanation	Ref.	Debit	Credit	Balance
2020					
Sept. 8		J1	1,000		1,000

Salaries and Wages Expense — Account No. 726

Date	Explanation	Ref.	Debit	Credit	Balance
2020					
Sept. 20		J1	500		500

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Solution 185 (cont.)

Utilities Expense — Account No. 735

Date	Explanation	Ref.	Debit	Credit	Balance
2020					
Sept. 25		J1	100		100

MOLINA INFORMATION SERVICE
Trial Balance
September 30, 2020

Accounts	Debit	Credit
Cash	$ 16,800	
Accounts Receivable	4,500	
Prepaid Insurance	900	
Equipment	34,000	
Accounts Payable		$ 100
Notes Payable		25,000
Owner's Capital		27,000
Owner's Drawings	1,600	
Service Revenue		7,300
Rent Expense	1,000	
Salaries and Wages Expense	500	
Utilities Expense	100	
Totals	$59,400	$59,400

[(Cash + Accts. rec. + Prepd. ins. + Equip. + Owner's draws. + Rent exp. + Sal. & wages exp. + Util. exp.) = (Accts. pay. + Notes pay. + Owner's cap. + Serv. rev.)]

LO 4 BT: AP Difficulty: Hard TOT: 25 min. AACSB: Analytic AICPA FC: Measurement

Ex. 186

The bookkeeper for Panda Bear Yard Service made a number of errors in journalizing and posting as described below:

1. A debit posting to accounts receivable for $500 was omitted.
2. A payment of accounts payable for $600 was credited to cash and debited to accounts receivable.
3. A credit to accounts receivable for $950 was posted as $95.
4. A cash purchase of equipment for $893 was journalized as a debit to equipment and a credit to notes payable. The credit posting was made for $839 while the debit posting was made for $893.
5. A debit posting of $400 for purchase of supplies was credited to supplies.
6. A debit to repairs expense for $451 was posted as $415.
7. A debit posting for salaries and wages expense for $900 was made twice.
8. A cash purchase of supplies for $700 was journalized and posted as a debit to supplies for $70 and a credit to cash for $70.

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Ex. 186 (cont.)

Instructions

For each error, indicate (a) whether the trial balance will balance; if the trial balance will not balance, indicate (b) the amount of the difference, and (c) the trial balance column that will have the larger total. Consider each error separately. Use the following form, in which error (1) is given as an example.

Error	(A) In Balance	(B) Difference	(C) Larger Column
1	No	$500	Credit

Solution 186

Error	(A) In Balance	(B) Difference	(C) Larger Column
1	No	$500	Credit
2	Yes	—	—
3	No	855	Debit
4	No	54	Debit
5	No	800	Credit
6	No	36	Credit
7	No	900	Debit
8	Yes	—	—

LO3 BT: AN Difficulty: Hard TOT: 15 min. AACSB: Analytic AICPA FC: Measurement

Ex. 187

Post the following transactions to T-accounts and determine each account's ending balance.

1.	Supplies	2,600	
	Accounts Payable		2,600
2.	Accounts Receivable	4,300	
	Service Revenue		4,300
3.	Cash	3,500	
	Accounts Receivable		3,500
4.	Accounts Payable	1,200	
	Cash		1,200

Solution 187

Cash			
3.	3,500	4.	1,200
Bal.	2,300		

Accounts Payable			
4.	1,200	1.	2,600
		Bal.	1,400

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Solution 187 (cont.)

Accounts Receivable			
2.	4,300	3.	3,500
Bal.	800		

Service Revenue			
		2.	4,300
		Bal.	4,300

Supplies		
1.	2,600	
Bal.	2,600	

LO3 BT: AP Difficulty: Easy TOT: 6 min. AACSB: Analytic AICPA FC: Measurement

Ex. 188

The trial balance of Red House Painters shown below does **not** balance.

RED HOUSE PAINTERS
Trial Balance
June 30, 2020

	Debit	Credit
Cash	$ 2,780	
Accounts Receivable	7,420	
Supplies	600	
Equipment	8,300	
Accounts Payable		$ 9,777
Owner's Capital		1,952
Owner's Drawings	1,300	
Service Revenue		15,200
Salaries and Wages Expense	3,800	
Maintenance and Repairs Expense	1,600	
Totals	$25,800	$26,929

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 $270 received from a customer on account was debited to Cash $720 and credited to Accounts Receivable $720.
3. A withdrawal of $400 by the owner was posted as a credit to Owner's Drawings, $400 and credit to Cash $400.
4. A debit of $300 was not posted to Salaries and Wages Expense.
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 $235 was credited to Cash for $235 and credited to Accounts Payable for $253.

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Instructions
Prepare a correct trial balance.

Solution 188

RED HOUSE PAINTERS
Trial Balance
June 30, 2020

	Debit	Credit
Cash [2,780 – 450 (2)]	$ 2,330	$
Accounts Receivable [7,420 + 450 (2)]	7,870	
Supplies	600	
Equipment [8,300 + 700 (5)]	9,000	
Accounts Payable [9,777 – 253 – 235]		9,289
Owner's Capital		1,952
Owner's Drawings [1,300 + 400 + 400 (3)]	2,100	
Service Revenue [15,200 + 459 (6)]		15,659
Salaries and Wages Expense [3,800 + 300 (4)]	4,100	
Maintenance and Repairs Expense [1,600 – 700 (5)]	900	
Totals	$26,900	$26,900

[((Cash – Item 2) + (Accts. rec. + Item 2) + Supp. + (Equip. + Item 5) + (Owner's draws. + Item 3 + Item 3) + (Sal. & wages exp. + Item 4) + (Maint. & repairs exp. – Item 5)) = ((Accts. pay. – Item 7: 253. – Item 7:235.) + Owner's cap. + (Serv. rev. + Item 6))]
LO4 BT: AN Difficulty: Hard TOT: 25 min. AACSB: Analytic AICPA FC: Measurement

Ex. 189

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 $450 payment for a printer was recorded by a debit to Equipment of $45 and a credit to Cash for $45.
3. An account receivable in the amount of $3,000 was collected in full. The collection was recorded by a debit to Cash for $3,000 and a debit to Accounts Payable for $3,000.
4. An account payable was paid by issuing a check for $600. The payment was recorded by debiting Accounts Payable $600 and crediting Accounts Receivable $600.

Solution 189

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 $6,000 larger than the credit column.
4. The trial balance totals will be misstated but not unequal.

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LO4 BT: AN Difficulty: Medium TOT: 5 min. AACSB: Analytic AICPA FC: Measurement

Ex. 190

L. Phair and Associates is a financial planning service. The account balances at December 31, 2020 are shown by the following alphabetical list:

Accounts Payable	$ 5,000
Accounts Receivable	19,000
Buildings	140,000
Cash	11,700
Equipment	31,300
Land	42,000
Owner's Capital	152,900
Notes Payable	95,000
Notes Receivable	8,100
Supplies	800

Instructions
Prepare a trial balance with the accounts arranged in financial statement order.

Solution 190

L. PHAIR AND ASSOCIATES
Trial Balance
December 31, 2020

	Debit	Credit
Cash	$ 11,700	
Accounts Receivable	19,000	
Notes Receivable	8,100	
Supplies	800	
Equipment	31,300	
Buildings	140,000	
Land	42,000	
Notes Payable		$ 95,000
Accounts Payable		5,000
Owner's Capital		152,900
Totals	$252,900	$252,900

[(Cash + Accts. rec. + Notes rec. + Supp. + Equip. + Bldgs. + Land) = (Notes pay. + Accts. pay. + Owner's cap.)]

LO4 BT: AP Difficulty: Medium TOT: 10 min. AACSB: Analytic AICPA FC: Measurement

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Ex. 191

The ledger accounts of the Flex Gym at June 30, 2020 are shown below:

Accounts Payable	$ 9,800
Accounts Receivable	7,050
Buildings	63,000
Owner's Capital	71,800
Cash	6,200
Equipment	42,500
Notes Payable	46,000
Supplies	350
Owner's Drawings	8,500

Ex. 191 (cont.)

Instructions

Prepare a trial balance with the ledger accounts arranged in the proper financial statement order. Include the appropriate heading.

Solution 191

FLEX GYM
Trial Balance
June 30, 2020

	Debit	Credit
Cash	$ 6,200	
Accounts Receivable	7,050	
Supplies	350	
Equipment	42,500	
Buildings	63,000	
Notes Payable		$ 46,000
Accounts Payable		9,800
Owner's Capital		71,800
Owner's Drawings	8,500	
Totals	$127,600	$127,600

[(Cash + Accts. rec. + Supp. + Equip. + Bldgs. + Owner's draws.) = (Notes pay. + Accts. pay. + Owner's cap.)]

LO4 BT: AP Difficulty: Medium TOT: 10 min. AACSB: Analytic AICPA FC: Measurement

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Ex. 192

The ledger account balances for Galaxie 500 Company are listed below.

Accounts Payable	$ 6,000
Accounts Receivable	7,000
Cash	5,200
Owner's Capital	11,000
Owner's Drawings	4,000
Service Revenue	30,000
Salaries and Wages Expense	20,800
Unearned Service Revenue	2,000
Utilities Expense	12,000

Instructions
Prepare a trial balance in proper form for Galaxie at December 31, 2020.

Solution 192

GALAXIE 500 Company
Trial Balance
December 31, 2020

	Debit	Credit
Cash	$5,200	
Accounts Receivable	7,000	
Accounts Payable		$ 6,000
Unearned Service Revenue		2,000
Owner's Capital		11,000
Owner's Drawings	4,000	
Service Revenue		30,000
Salaries and Wages Expense	20,800	
Utilities Expense	12,000	
	$49,000	$49,000

[(Cash + Accts. rec. + Owner's draws. + Sal. & wages exp. + Util. exp.) = (Accts. pay. + Unearn. serv. rev. + Owner's cap. + Serv. rev.)]
LO4 BT: AP Difficulty: Medium TOT: 8 min. AACSB: Analytic AICPA FC: Measurement

Ex 193

The bookkeeper for Darrel Johnston Auto Repair made a number of errors in journalizing and posting, as described below.

1. A debit posting of $600 to Accounts Payable was omitted.
2. A debit posting of $700 for Prepaid Insurance was debited to Insurance Expense.
3. A collection from a customer of $150 in payment of its account owed was journalized and posted as a debit to Cash $150 and a credit to Owner's Capital $150.
4. A credit posting of $530 to Accounts Payable was made twice.
5. A cash purchase of supplies for $350 was journalized and posted as a debit to Supplies $35 and a credit to Cash $35.
6. A debit of $658 to Rent Expense was posted as $568.

EX 193 (Cont'd)

Instructions
For each error:
(a) Indicate whether the trial balance will balance.
(b) If the trial balance will not balance, indicate the amount of the difference.
(c) Indicate the trial balance column that will have the larger total.

Consider each error separately. Use the following form, in which error (1) is given as an example.

Error	(a) In Balance	(b) Difference	(c) Larger Column
(1)	No	$600	debit

Solution 193

Error	(a) In Balance	(b) Difference	(c) Larger Column
1.	No	$600	Credit
2.	Yes	—	—
3.	Yes	—	—
4.	No	530	Credit
5.	Yes	—	—
6.	No	90	Credit

LO4 BT: AN Difficulty: Hard TOT: 8 min. AACSB: Analytic AICPA BB: CT AICPA PC: PS

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COMPLETION STATEMENTS

194. An _____ is a record of increases and decreases in specific assets, liabilities, and owner's equity items.

195. The process 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.

196. _____, _____, and _____ have debit normal account balances whereas _____, _____, and _____ have credit normal account balances.

197. The four subdivisions of owner's equity are: _____, _____, _____, and _____.

198. The basic steps in the recording process are: _____ each transaction, enter the transaction in a _____, and transfer the _____ information to appropriate accounts in the _____.

199. A sales slip, a check, and a cash register tape are examples of _____ used as evidence that a transaction has taken place.

200. An accounting record where transactions are initially recorded in chronological order is called a _____.

201. When three or more accounts are required in one journal entry, the entry is referred to as a _____ entry.

202. The entire group of accounts and their balances maintained by a company is called the _____.

203. A two column list of all accounts and their balances at a given time is a _____.

Answers to Completion Statements

194. account
195. debiting, crediting
196. Assets, expenses, owner's drawings, owner's capital, liabilities, revenues
197. owner's capital, owner's drawings, revenues, expenses
198. analyze, journal, ledger
199. business documents
200. journal
201. compound
202. general ledger
203. trial balance

LO1-4 BT: K Difficulty: Easy TOT: 8 min. AACSB: None AICPA FC: Measurement

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MATCHING

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

A.	Account	F.	Journal
B.	Normal account balance	G.	Posting
C.	Debit	H.	Chart of accounts
D.	Revenue account	I.	Trial balance
E.	Compound entry	J.	Simple entry

____ 1. An entry that involves three or more accounts.

____ 2. Transferring journal entries to ledger accounts.

____ 3. The side which increases an account.

____ 4. A list of all the accounts used by an enterprise.

____ 5. A record of increases and decreases in specific assets, liabilities, and owner's equity items.

____ 6. Left side of an account.

____ 7. An entry that involves only two accounts.

____ 8. A book of original entry.

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

____ 10. Has a credit normal balance

Answers to Matching

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

LO1-4 BT: K Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement

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SHORT-ANSWER ESSAY QUESTIONS

S-A E 205

An account is an important accounting record where financial 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.

Solution 205

An account is an individual accounting record of increases and decreases in specific asset, liability, and owner's equity accounts. In its simplest form, an 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, owner's equity, revenue, and expense. Accounts with a normal debit balance, such as assets and expenses, are increased when debited and decreased when credited. Accounts with a normal credit balance, such as liabilities and revenues, are increased when credited and decreased when debited.

LO1 BT: C Difficulty: Medium TOT: 5 min. AACSB: Communication AICPA FC: Reporting AICPA PC: Communication

S-A E 206

Your roommate, a marketing major, thinks that debit means decrease and credit means increase. And, that every account can be debited and credited and as result, every account can have both a debit and a credit balance. Explain to your roommate (1) the meaning of debit and credit; (2) which accounts can only be debited, which can only be credited, and which can be both debited and credited; and (3) which accounts normally have debit balances and which credit balances.

Solution 206

The terms debit and credit mean the left and right side, respectively, of every account. Some accounts such as Drawings and Expenses are only debited; other accounts such as Capital and Revenues are only credited; and finally, some accounts such as Cash, Accounts Receivable, and Accounts Payable can be debited and credited. Accounts with debit balances include Assets, Drawings, and Expenses. Accounts with credit balances include Liabilities, Capital and Revenues.

LO1 BT: C Difficulty: Medium TOT: 5 min. AACSB: Communication AICPA FC: Reporting AICPA PC: Communication

S-A E 207

A fellow classmate is confused about how debits and credits relate to the basic accounting equation. State the basic accounting equation, convert it into the expanded accounting equation, and then explain how it ties into the rules for debits and credits.

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Solution 207

The basic accounting equation is:

Assets = Liabilities + Owner's Equity

The expanded equation divides Owner's Equity into its various parts, reflecting the owner's investment, drawings, revenues, and expenses:

Assets = Liabilities + Owner's Capital – Owner's Drawings + Revenues – Expenses

This expanded equation can then be re-arranged to explain why certain accounts have debit (left-hand) balances, while other accounts have credit (right-hand) balances, as follows:

Assets + Owner's Drawings + Expenses = Liabilities + Owner's Capital + Revenues

The accounts on the left-hand side of the equation have left-hand, or debit, balances, while the accounts on the right-hand side of the equation have right-hand, or credit, balances. Accounts with debit balances are increased with debits and decreased with credits, while accounts with credit balances are increased with credits and decreased with debits.

LO1 BT: S Difficulty: Hard TOT: 10 min. AACSB: Communication AICPA FC: Measurement, Reporting AICPA PC: Communication

S-A E 208

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.

Solution 208

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) totaling 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 journalizing and posting because errors in journalizing 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 journalized, (2) a correct journal entry is not posted, (3) a journal entry is posted twice, (4) incorrect accounts are used in journalizing or posting, or (5) offsetting errors are made in recording the amount of a transaction or posting to the ledger.

LO4 BT: AN Difficulty: Medium TOT: 5 min. AACSB: Communication AICPA FC: Measurement, Communication AICPA PC: Communication

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S-A E 209

A classmate who is a computer science major thinks that accountants are obsolete. She states that computers can do the entire process without any human assistance.

Discuss the steps in the recording process and indicate what role the computer plays in that process.

Solution 209

The initial step in the recording process is to analyze each transaction. This is done by analyzing the source documents to determine which accounts were affected. The computer is not able to perform this step. The second step is enter the transaction in the journal using a journal entry. The computer is not able to perform this step and does not know if the correct accounts are being debited and credited, nor if the correct amounts were entered. It is only able to test the equality of the debits and credits comprising the entry. The final step is to transfer the journal entry to the specific accounts in the ledger (posting). The computer can perform this step efficiently and effectively.

LO2 BT: S Difficulty: Medium TOT: 7 min. AACSB: Communication AICPA FC: Measurement, Reporting AICPA PC: Communication

S-A E 210

Amy Pond, a fellow employee, wants to understand the basic steps in the recording process. Identify and briefly explain the steps in the order in which they occur.

Solution 210

The basic steps in the recording process are:

1. Analyze each transaction. In this step, business documents are examined to determine the effects of the transaction on the accounts.

2. Enter each transaction in a journal. This step is called journalizing and it results in making a chronological record of the transactions.

3. Transfer journal information to ledger accounts. This step is called posting. Posting makes it possible to accumulate the effects of journalized transactions on individual accounts.

LO2 BT: C Difficulty: Medium TOT: 5min. AACSB: Communication AICPA FC: Measurement, Reporting AICPA PC: Communication

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S-A E 211

All recordable transactions are initially recorded in the journal. Discuss the contributions that the journal makes to the recording process.

Solution 211

The journal makes several significant contributions to the recording process: (1) It discloses in one place the complete effects of a transaction; (2) It provides a chronological record of transactions; and, (3) It helps to prevent and locate errors because the debit and credit amounts for each entry can be readily compared.

LO2 BT: C Difficulty: Medium TOT: 5 min. AACSB: Communication AICPA FC: Measurement, Reporting AICPA PC: Communication

S-A E 212

A bookkeeping student has come to you for tutoring on the recording process. She is confused about the relationship between the chart of accounts and the ledger. Explain the purpose of the chart of accounts and the general ledger. In your explanation indicate the relationship between these two items as well.

Solution 212

The chart of accounts lists all of the accounts that a company uses and their account numbers that identify their location in the ledger. The numbering system used to identify the accounts usually starts with the balance sheet accounts followed by the income statement accounts.

The general ledger contains all of the accounts of a company and their respective balances at any point in time. The ledger is organized by account number with assets coming first, then liabilities, owner's equity, revenue, and expense accounts.

LO3 BT: C Difficulty: Easy TOT: 5 min. AACSB: Communication AICPA FC: Measurement, Reporting AICPA PC: Communication

S-A E 213

The process of transferring the information in the journal to the general ledger is called posting. Explain the posting process, including the importance of the journal page number and the account numbers.

Solution 213

The posting process begins with locating the account(s) being debited in the general ledger. Then entering the date of the entry, the journal page number where the entry originated and debit portion of the entry in the date, reference and debit columns, respectively. Once this done, the account number(s) of the account(s) being debited is (are) entered in the reference column in the journal. Next, the credit portion of the journal entry is posted to the appropriate accounts in the ledger following the same steps as noted for the debit portion.

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Solution 213 (Cont'd)

The importance of the journal page number, in the reference column of each account in the general ledger accounts, is to indicate where to find the original entry. And, the general ledger account numbers, in the reference column of the journal, indicate that the entry has been posted.

LO3 BT: S Difficulty: Medium TOT: 5 min. AACSB: Communication AICPA FC: Measurement, Reporting AICPA PC: Communication

S-A E 214

During a study session, a classmate states that it is not necessary to make journal entries and then post them to the ledger. She states that it is sufficient to analyze the transaction and simply record the information in T-accounts.

What is your response to this statement? Be brief, yet concise.

Solution 214

You have a very good point regarding the steps of the accounting cycle. If a company only has a few transactions, it might be possible to simply analyze them and then record each in T-accounts. However, nearly all businesses have many transactions each day. There must be a systematic way to process these transactions. The steps of the accounting cycle represent this process. After analyzing each transaction, a journal entry needs to be prepared. The journal represents a chronological listing of every transaction for a business. This allows users to review past transactions. Your approach does not leave a trail that can be reviewed at a later date. Once the journal entries are made, posting allows each line of the journal to be transferred into the ledger. This process increases and decreases individual accounts in the ledger. At the end of the accounting period, the balance of each account is determined and the trial balance is prepared.

Based on your approach, if someone saw a credit to cash for $10,000 and wondered what the debit was, that person would have to go through every ledger account to locate the corresponding debit. By having a general journal, the person can view the entire transaction, thus easily seeing the account that was debited.

Your approach may work for a very simple business, but it would result in problems for the majority of businesses and accountants.

LO2, 3 BT: S Difficulty: Medium TOT: 7 min. AACSB: Communication AICPA FC: Measurement, Reporting AICPA PC: Communication

S-A E 215 (Ethics)

Terry Bradshaw was appointed the manager of Steelers Properties, a recently formed company that manages residential rental properties. Linda Cohen 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. Bradshaw believes that it is important to maintain a presence in the social life of the city. In this, he sharply differs from his father, John Bradshaw. The elder Mr. Bradshaw has set up Steelers Properties in order to test his son's management skills before allowing him to manage the more lucrative commercial property business. John Bradshaw provided the capital for Steelers, and maintains close contact with the company. He allowed his son, however, to hire his own employees.

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S-A E 215 (cont.)

Terry has asked Ms. Cohen to change the name of the Travel and Entertainment account to 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. Cohen 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. Cohen agree to the change in the Travel and Entertainment account to Property Development? Explain.

Solution 215

1. The stakeholders in this situation include
   Mr. John Bradshaw
   Linda Cohen
   Mr. Terry Bradshaw
   Bankers and others who might rely on the financial statements

2. Ms. Cohen 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. Cohen was hired by Mr. Terry Bradshaw, and though she may agree with his business methods, she cannot be a party to such deceit.

LO1 BT: E Difficulty: Medium TOT: 7 min. AACSB: Ethics AICPA FC: Reporting AICPA PC: Professional Demeanor

S-A E 216 (Communication)

A classmate is considering dropping his accounting class because he cannot understand the rules of debits and credits.

a. Can the student be successful in the course without an understanding of the rules of debits and credits?

b. Explain the rules of debits and credits in a way that will help him understand them.

Solution 216

a. Accounting is based on the double-entry system. This system records the dual effect of each transaction in the appropriate accounts, thus keeping the accounting equation in balance. Each transaction is analyzed and recorded using this dual effect system. If you do not have this basic understanding, the remaining chapters will become increasingly more difficult. You will not have the ability to make journal entries for the many new topics in these upcoming chapters.

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Solution 216 (cont.)

b. You may be trying to memorize the rules of debits and credits, only to discover that this does not work. Here are some other ways to master this very important topic:

- Make sure that you understand the accounting equation. Assets equal the total of liabilities and owners' equity. Owners' equity is not an account but rather a group of accounts that includes owner's capital, revenues, expenses, and owner's drawings. Owner's capital and revenues cause owners' equity to increase while expenses and drawings cause owners' equity to decrease.
- Next, make sure that you understand the accounting meaning of the terms debits and credits. For accounting, debit means left and credit means right. Don't try to add any more to these definitions.
- Then, work with the rules of debits and credits. These rules determine whether a debit or credit increases or decreases an account. Start with assets. Assets increase with a debit and thus decrease with a credit. Think about the cash account—when cash is received, the account is increased with a debit. When cash is paid, the account is decreased with a credit. All of the other rules of debits and credits keep the equation in balance. Liabilities, owner's capital, and revenues are all increased with credits. Expenses and owner's drawing are the two accounts that cause owners' equity to decrease, thus they must be increased with a debit.

LO1 BT: S Difficulty: Hard TOT: 10 min. AACSB: Communication AICPA FC: Measurement, Reporting AICPA PC: Communication

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