Financial Accounting 5th edition Spiceland Test Bank

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Financial Accounting, 5e **(Spiceland)**
Chapter 2 The Accounting Cycle: During the Period

1) External transactions are transactions the company conducts with a separate economic entity, such as selling products to a customer, purchasing supplies from a vendor, paying salaries to an employee, and borrowing money from a bank.

2) Internal transactions are events that affect the financial position of the company but do not include an exchange with a separate economic entity.

3) A list of all account names used to record transactions of a company is referred to as a T-account.

4) A source document provides information related to external transactions.

5) After recording each transaction, total assets must equal total liabilities plus stockholders' equity.

6) If a transaction causes total assets of the company to increase by $2,000, then liabilities plus stockholders' equity also increases by $2,000.

7) If a transaction causes total assets of the company to increase by $5,000 and total liabilities to increase by $3,000, then stockholders' equity increases by $8,000.

8) Borrowing cash from the bank causes assets to increase and liabilities to increase.

9) Purchasing equipment using cash causes assets to increase.

10) Providing services to customers for cash causes stockholders' equity to increase.

11) Paying employees' salaries for the current month causes no change to stockholders' equity.

12) Paying dividends to its stockholders causes a company's stockholders' equity to decrease.

13) Selling common stock for cash causes assets to increase and stockholders' equity to decrease.

14) Purchasing office supplies on account causes assets to increase and liabilities to increase.

15) Providing services to customers on account causes assets to increase and stockholders' equity to increase.

16) Receiving cash in advance from a customer for services to be provided in the future causes assets to increase and stockholders' equity to increase.

17) Paying for one year of rent in advance causes one asset to increase and another asset to decrease, so there is no effect on the accounting equation.

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18) Purchasing supplies on account increases the balance of the Accounts Receivable account.

19) Amounts owed from customers are recorded in the Accounts Receivable account.

20) The two components of stockholders' equity are Debits and Credits.

21) Revenues have the effect of increasing retained earnings.

22) Expenses have the effect of decreasing retained earnings.

23) Receiving cash in advance from customers increases the Service Revenue account.

24) Deferred Revenue is a liability account.

25) Liability accounts increase with a debit and decrease with a credit.

26) Liability accounts increase with a credit and decrease with a debit.

27) Common Stock increases with a credit and decreases with a debit.

28) Revenue accounts increase with a debit and decrease with a credit.

29) Expense accounts increase with a debit and decrease with a credit.

30) The Dividends account increases with a credit and decreases with a debit.

31) A debit to an account balance always results in the balance increasing.

32) A credit to an account balance always results in the balance decreasing.

33) A journal provides a chronological record of all transactions affecting a firm.

34) For each transaction, there must be at least one debit amount and one credit amount.

35) For each transaction, the total debit amounts must equal the total credit amounts.

36) Selling common stock for cash is recorded with a debit to common stock.

37) Borrowing cash from the bank is recorded with a debit to cash.

38) Purchasing office supplies is recorded with a credit to office supplies.

39) Paying employees' salaries for the current period is recorded with a debit to Salaries Expense.

40) Providing services to customers is recorded with a debit to Service Revenue.

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41) The general ledger includes all accounts used to record the company's transactions.

42) The process of transferring the debit and credit information from the journal to individual accounts in the general ledger is called journalizing.

43) After posting transactions to the general ledger accounts, the sum of the accounts with debit balances should equal the sum of the accounts with credit balances.

44) A trial balance is a list of all accounts and their balances at a particular date, showing that assets equal liabilities.

45) If total debits equal total credits in the trial balance, then all balances are correct.

46) Which of the following is not part of measuring external transactions?
A) Using source documents to analyze accounts affected.
B) Recording transactions.
C) Making payments on all amounts owed.
D) Analyzing transactions for their effect on the accounting equation.

47) External events include all of the following except:
A) Paying rent.
B) Purchasing equipment.
C) Using office supplies.
D) Collecting an account receivable.

48) The full set of procedures used to accomplish the measurement/communication process of financial accounting is referred to as the:
A) Trial balance.
B) Accounting cycle.
C) Chart of accounts.
D) General ledger.

49) Which step in the process of measuring external transactions involves assessing the equality of total debits and total credits for the period?
A) Use source documents to determine accounts affected by the transaction.
B) Prepare a trial balance.
C) Analyze the impact of the transaction on the accounting equation.
D) Post the transaction to the T-account in the general ledger.

50) Which step in the process of measuring external transactions involves determining the effect on assets, liabilities, and stockholders' equity?
A) Use source documents to determine accounts affected by the transaction.
B) Prepare a trial balance.
C) Analyze the impact of the transaction on the accounting equation.
D) Post the transaction to the T-account in the general ledger.

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51) Which of the following typically is considered a source document for gathering information about a transaction?
A) Trial balance.
B) Income statement.
C) Sales invoice.
D) General ledger.

52) Which of the following best describes a purpose of source documents?
A) Provide information related to external transactions, such as date and amount.
B) Used by accountants to record transactions in specific accounts.
C) Keep a record of transactions between the company and its vendors, customers, and other parties with whom the company conducts business.
D) All of the other answers provide a correct statement.

53) A(n) _____ summarizes all transactions related to a particular item over a period of time.
A) Debit
B) Account
C) Chart of accounts
D) Source document

54) A list of all account names used to record transactions of a company is referred to as the:
A) Chart of Accounts.
B) Income statement.
C) General journal.
D) Balance sheet.

55) For each transaction recorded in an accounting system, the basic equation that must be maintained at all times is:
A) Assets = Liabilities + Stockholders' Equity.
B) Cash Increases = Cash Decreases.
C) Revenues = Expenses + Dividends.
D) Assets = Liabilities.

56) The equation which shows a company's resources equal claims to those resources is:
A) Revenues − Expenses = Net Income.
B) Cash Increases − Cash Decreases = Change in Cash.
C) Common Stock + Retained Earnings = Stockholders' Equity.
D) Assets = Liabilities + Stockholders' Equity.

57) The equation that shows assets equal liabilities plus stockholders' equity signifies that a company:
A) Is able to pay its obligations as they come due.
B) Is profitable.
C) Has resources equal to claims to those resources.
D) All of the other answers provide a correct statement.

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58) The following amounts are reported in the ledger of Mariah Company:

Assets	$ 80,000
Liabilities	36,000
Retained Earnings	12,000

What is the balance in the Common Stock account?
A) $44,000.
B) $32,000.
C) $48,000.
D) $42,000.

59) When a company pays employees' salaries for the current period, how will the basic accounting equation be affected?
A) Stockholders' equity decreases.
B) Revenues decrease.
C) Expenses decrease.
D) Liabilities decrease.

60) When cash payments are made to stockholders, what is the effect on the company's accounts?
A) Cash decreases and dividends increase.
B) Cash increases and dividends decrease.
C) Cash decreases and common stock decreases.
D) Cash increases and common stock increases.

61) Receiving cash from customers before services are performed results in:
A) Prepaid Assets.
B) Service Revenue.
C) Deferred Revenues.
D) Accounts Receivable.

62) When the company pays stockholders a dividend, what is the effect on the accounting equation for that company?
A) Decrease stockholders' equity and increase assets.
B) Increase liabilities and increase assets.
C) Decrease assets and decrease liabilities.
D) Decrease assets and decrease stockholders' equity.

63) Pumpkin Inc. sold $500 in pumpkins to a customer on account on January 1. On January 11, Pumpkin collected the cash from that customer. What is the impact on Pumpkin's accounting equation from the collection of cash?
A) No net effect to the accounting equation.
B) Decrease assets and increase liabilities.
C) Increase assets and increase liabilities.
D) Decrease assets and decrease liabilities.

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64) A company receives a $50,000 cash deposit from a customer on October 15, but will not provide services until November 20. Which of the following statements is true?
A) The company records service revenue on October 15.
B) The company records cash collection on November 20.
C) The company records deferred revenue on October 15.
D) The company records nothing on October 15.

65) Which of the following would increase assets and increase liabilities?
A) Provide services to customers on account.
B) Purchase office supplies on account.
C) Pay dividends to stockholders.
D) Receive a utility bill for the current month. Plan to pay bill beginning of next month.

66) Receiving cash from an account receivable:
A) Increases revenue and decreases an asset.
B) Decreases a liability and increases an asset.
C) Increases an asset and increases revenue.
D) Increases one asset and decreases another asset.

67) An expense has what effect on the accounting equation?
A) Decrease liabilities.
B) Decrease stockholders' equity.
C) Increase assets.
D) No effect.

68) Revenues have what effect on the accounting equation?
A) Increase liabilities.
B) Decrease assets.
C) Increase stockholders' equity.
D) No effect.

69) Investments by stockholders have what effect on the accounting equation?
A) Assets increase and liabilities increase.
B) Expenses increase and liabilities increase.
C) Assets increase and revenues increase.
D) Assets increase and stockholders' equity increases.

70) Which of the following is not possible when recording a transaction?
A) Liabilities increase and assets decrease.
B) Stockholders' equity increases and assets increase.
C) One asset increases and another asset decreases.
D) Stockholders' equity decreases and assets decrease.

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71) Purchasing office supplies on account will:
A) Not change assets.
B) Increase assets and decrease liabilities.
C) Increase assets and increase liabilities.
D) Increase assets and increase stockholders' equity.

72) Providing services and receiving cash will:
A) Increase assets and increase stockholders' equity.
B) Increase assets and increase liabilities.
C) Decrease assets and increase liabilities.
D) Decrease liabilities and increase stockholders' equity.

73) When a company provides services on account, the accounting equation would be affected as follows:
A) Assets increase.
B) Revenues increase.
C) Assets increase and liabilities decrease.
D) Assets increase and stockholders' equity increases.

74) Borrowing cash from the bank would have what effect on the accounting equation?
A) Assets increase and stockholders' equity increases.
B) Assets increase and liabilities increase.
C) Liabilities increase and stockholders' equity decreases.
D) Liabilities decrease and stockholders' equity increases.

75) Paying salaries to employees for the current period would have what effect on the accounting equation?
A) Liabilities increase and stockholders' equity decreases.
B) Assets decrease and liabilities decrease.
C) Assets decrease and stockholders' equity decreases.
D) Liabilities decrease and stockholders' equity increases.

76) Providing services to customers for cash would have what effect on the accounting equation?
A) Total assets increase; total stockholders' equity increases.
B) Total assets increase; total liabilities decrease.
C) Total liabilities decrease; total stockholders' equity increases.
D) Total liabilities increase; total stockholders' equity decreases.

77) Paying for supplies previously purchased would have what effect on the accounting equation?
A) Assets decrease and stockholders' equity decreases.
B) Assets increase and liabilities increase.
C) Liabilities decrease and stockholders' equity increases.
D) Assets decrease and liabilities decrease.

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78) If a company provides services on account, which of the following is true?
A) Expenses increase.
B) Liabilities increase.
C) Stockholders' equity increases.
D) Assets decrease.

79) When a payment is made on an account payable:
A) Assets and stockholders' equity decrease.
B) Assets and liabilities decrease.
C) Liabilities and revenues decrease.
D) Assets and expenses decrease.

80) Purchasing office equipment on account has what impact on the accounting equation?
A) Stockholders' equity decreases and assets increase.
B) Liabilities increase and assets increase.
C) Assets decrease and liabilities decrease.
D) Assets increase and stockholders' equity increases.

81) Purchasing supplies for cash has what effect on the accounting equation?
A) Increase assets.
B) Decrease stockholders' equity.
C) Decrease liabilities.
D) No net effect.

82) On January 1, Brad Inc. sold $30,000 in products to a customer on account. Then on January 10, Brad collected the cash on that account. What is the impact on Brad's accounting equation from the collection of cash on January 10?
A) No net effect on the accounting equation.
B) Assets increase and liabilities decrease.
C) Assets decrease and liabilities decrease.
D) Assets increase and stockholders' equity increases.

83) On September 10, MFP Co. paid employee salaries of $7,000 owed to its employees last month. What are the effects of this transaction on the accounting equation?
A) Expenses increase and liabilities increase.
B) Assets decrease and liabilities decrease.
C) Assets decrease and expenses decrease.
D) Expenses decrease and liabilities decrease.

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84) Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

Issued 10,000 shares of common stock for $15,000 cash.
Purchased land for $12,000, signing a note payable for the full amount.
Purchased office equipment for $1,200 cash.
Received cash of $14,000 for services provided to customers during the month.
Purchased $300 of office supplies on account.
Paid employees $10,000 for their first month's salaries.

What was the total amount of Gotebo's liabilities following these six transactions?
A) $12,300.
B) $27,300.
C) $22,600.
D) $15,500.

85) Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

Issued 10,000 shares of common stock for $15,000 cash.
Purchased land for $12,000, signing a note payable for the full amount.
Purchased office equipment for $1,200 cash.
Received cash of $14,000 for services provided to customers during the month.
Purchased $300 of office supplies on account.
Paid employees $10,000 for their first month's salaries.

How many of these transactions decreased Gotebo's total assets?
A) One.
B) Two.
C) Three.
D) Four.

86) Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

Issued 10,000 shares of common stock for $15,000 cash.
Purchased land for $12,000, signing a note payable for the full amount.
Purchased office equipment for $1,200 cash.
Received cash of $14,000 for services provided to customers during the month.
Purchased $300 of office supplies on account.
Paid employees $10,000 for their first month's salaries.

How many of these transactions increased Gotebo's liabilities?
A) Four.
B) Three.
C) Two.
D) One.

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87) Consider the following transactions:

Issued common stock for cash.
Purchased equipment by signing a note payable.
Paid rent for the current month.
Collected cash from customers on account.

How many of these transactions increased the company's total assets?
A) One.
B) Two.
C) Three.
D) Four.

88) How many of the following transactions would increase total assets in the current period?

• Collect cash from customer prior to providing service.
• Provide services to customer and receive cash at time of service.
• Provide services on account to customer.
• Collect cash from customer for services provided on account.
A) One.
B) Two.
C) Three.
D) Four.

89) How many of the following transactions would increase total liabilities in the current period?

• Pay for advertising that will not occur until the following period.
• Collect cash from customer prior to providing service.
• Incur, but not pay, utilities cost in the current period.
• Order supplies that have not yet been received.
A) One.
B) Two.
C) Three.
D) Four.

90) How many of the following transactions would increase total stockholders' equity in the current period?

• Pay dividends to stockholders.
• Delay payment on supplies purchased until the following period.
• Provide services on account to customers.
• Borrow cash from a local bank.
A) One.
B) Two.
C) Three.
D) Four.

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91) How many of the following transactions would decrease total stockholders' equity in the current period?

• Pay dividends to stockholders.
• Delay payment on supplies purchased until the following period.
• Provide services on account to customers.
• Borrow cash from a local bank.
A) One.
B) Two.
C) Three.
D) Four.

92) Assume that Sallisaw Sideboards, Inc. had a retained earnings balance of $10,000 on April 1, and that the company had the following transactions during April.

Issued common stock for cash, $5,000.
Provided services to customers on account, $2,000.
Provided services to customers in exchange for cash, $900.
Purchased equipment and paid cash, $4,300.
Paid April rent, $800.
Paid employees' salaries for April, $700.

What was Sallisaw's retained earnings balance at the end of April?
A) $11,400.
B) $12,100.
C) $16,400.
D) Some other amount.

93) Consider the following transactions:

Issued common stock for cash.
Purchased equipment by signing a note payable.
Provided services to customers on account.
Collected cash from customers on account.

How many of these transactions increased the company's total liabilities?
A) One.
B) Two.
C) Three.
D) Four.

94) Which of the following transactions causes a decrease in stockholders' equity?
A) Pay dividends to stockholders.
B) Obtain cash by borrowing from a local bank.
C) Provide services to customers on account.
D) Purchase office equipment for cash.

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95) How many of the following events would require an expense to be recorded?

Ordering office supplies.
Hiring a receptionist.
Paying employees' salaries for the current month.
Receiving, but not paying, a current utility bill.
Paying for insurance in advance.
A) One.
B) Two.
C) Three.
D) Four.

96) Which of the following is NOT possible for a business transaction?
A) Increase assets and decrease revenue.
B) Decrease assets and increase expenses.
C) Increase liabilities and increase expenses.
D) Decrease liabilities and increase revenue.

97) Which of the following transactions would cause a decrease in both assets and stockholders' equity?
A) Paying insurance premium for the next two years.
B) Purchasing office equipment on account.
C) Paying advertising for the current month.
D) Providing services to customers on account.

98) When a company issues common stock for cash, what is the effect on the accounting equation for the company?
A) Assets increase and liabilities increase.
B) Assets increase and stockholders' equity increases.
C) Assets decrease and liabilities decrease.
D) Liabilities decrease and stockholders' equity increases.

99) If the liabilities of a company increased by $55,000 during a month and the stockholders' equity decreased by $21,000 during that same month, did assets increase or decrease and by how much?
A) $34,000 increase.
B) $55,000 increase.
C) $34,000 decrease.
D) $76,000 increase.

100) Which of the following transactions would cause an increase in both the assets and liabilities of a company?
A) Pay for the current month's rent.
B) Pay for inventory purchased 90 days ago.
C) Purchase a building by issuing a note payable.
D) Provide services on account.

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101) When a company pays cash for equipment, what is the effect on the accounting equation for that company?
A) Increase assets and increase liabilities.
B) Decrease assets and decrease liabilities.
C) No net change.
D) Increase assets and increase stockholders' equity.

102) "Record revenue when goods or services are provided to customers" is the definition of which principle in accounting?
A) Trial balance.
B) Debits and credits.
C) Revenue recognition.
D) Accounting equation.

103) Which of the following is possible for a particular business transaction?
A) Increase assets and decrease liabilities.
B) Decrease one asset and increase another asset.
C) Decrease assets and increase stockholders' equity.
D) Decrease liabilities and increase expenses.

104) Which of the accounts are decreased on the debit side and increased on the credit side?
A) Liabilities, stockholders' equity, and revenues.
B) Dividends, liabilities, and assets.
C) Expenses, dividends, and stockholders' equity.
D) Assets, dividends, and expenses.

105) Which of the following is true about a "debit"?

I. It is part of the double-entry procedure that keeps the accounting equation in balance.
II. It represents an increase to assets.
III. It represents a decrease to liabilities.
IV. It is on the right side of a T-account.
A) I and II.
B) IV only.
C) I, II, and III.
D) I, II, III, and IV.

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106) Which of the following is true about a "credit"?

I. It is part of the double-entry procedure that keeps the accounting equation in balance.
II. It represents a decrease to assets.
III. It represents an increase to liabilities.
IV. It is on the right side of a T-account.
A) I and II.
B) IV only.
C) I, II, and III.
D) I, II, III, and IV.

107) Assets normally carry a _____ balance and are shown in the _____.
A) Debit; Statement of stockholders' equity
B) Debit; Income statement
C) Credit; Balance sheet
D) Debit; Balance sheet

108) Revenues normally carry a _____ balance and are shown in the _____.
A) Debit; Statement of stockholders' equity
B) Credit; Income statement
C) Credit; Balance sheet
D) Debit; Balance sheet

109) Dividends normally carry a _____ balance and are shown in the _____.
A) Debit; Statement of stockholders' equity
B) Debit; Income statement
C) Credit; Balance sheet
D) Debit; Balance sheet

110) Expenses normally carry a _____ balance and are shown in the _____.
A) Debit; Statement of stockholders' equity
B) Debit; Income statement
C) Credit; Balance sheet
D) Debit; Balance sheet

111) Liabilities normally carry a _____ balance and are shown in the _____.
A) Debit; Statement of stockholders' equity
B) Debit; Income statement
C) Credit; Balance sheet
D) Debit; Balance sheet

112) Which of the following accounts has a debit balance?
A) Accounts Payable.
B) Deferred Revenue.
C) Service Revenue.
D) Salaries Expense.

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113) Which of the following accounts would normally have a credit balance?
A) Accounts Payable, Service Revenue, Common Stock.
B) Salaries Payable, Deferred Revenue, Delivery Expense.
C) Income Tax Payable, Service Revenue, Dividends.
D) Cash, Repairs and Maintenance Expense, Dividends.

114) Which of the following accounts would normally have a debit balance?
A) Accounts Payable, Service Revenue, Common Stock.
B) Salaries Payable, Deferred Revenue, Utilities Expense.
C) Income Tax Payable, Service Revenue, Dividends.
D) Cash, Delivery Expense, Dividends.

115) Which of the following accounts would normally have a debit balance and appear in the balance sheet?
A) Accounts Receivable.
B) Deferred Revenue.
C) Salaries Expense.
D) Dividends.

116) Which of the following accounts has a credit balance?
A) Salaries Expense.
B) Accounts Payable.
C) Land.
D) Prepaid Rent.

117) An increase to an asset account is shown with a _____. An increase to a liability account is shown with a _____.
A) Debit; Debit
B) Credit; Debit
C) Debit; Credit
D) Credit; Credit

118) An increase to an expense account is shown with a _____. An increase to a revenue account is shown with a _____.
A) Debit; Debit
B) Debit; Credit
C) Credit; Debit
D) Credit; Credit

119) An increase to an asset account is shown with a _____. A decrease to an asset account is shown with a _____.
A) Debit; Debit
B) Credit; Debit
C) Debit; Credit
D) Credit; Credit

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120) Which of the accounts are increased with a debit and decreased with a credit?
A) Liabilities, stockholders' equity, and revenues.
B) Dividends, liabilities, and assets.
C) Expenses, dividends, and stockholders' equity.
D) Assets, dividends, and expenses.

121) Consider the following list of accounts:

Cash
Service Revenue
Salaries Expense
Accounts Payable
Equipment
Retained Earnings
Utilities Expense
Accounts Receivable
Common Stock
Dividends

How many of these accounts have a normal debit balance?
A) Four.
B) Five.
C) Six.
D) Seven.

122) Consider the following list of accounts:

Accounts Payable
Cash
Prepaid Rent
Common Stock
Salaries Payable
Equipment
Supplies
Rent Expense

How many of these accounts have a normal credit balance?
A) Two.
B) Three.
C) Four.
D) Five.

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123) Consider the following accounts:

Utilities Expense
Accounts Payable
Service Revenue
Common Stock

How many of these accounts are increased with debits?
A) One.
B) Two.
C) Three.
D) Four.

124) Which one of the following accounts will have a normal credit balance?
A) Dividends.
B) Salary Expense.
C) Supplies.
D) Common Stock.

125) Consider the following accounts:

Dividends
Insurance Expense
Cash
Service Revenue

How many of these accounts are increased with credits?
A) One.
B) Two.
C) Three.
D) Four.

126) When viewing a company's accounting records, the terms "debit" and "credit" would typically be seen in which location?
A) Financial statements
B) Source documents
C) Chart of accounts
D) Journal

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127) Cooper Law Offices has the following source document from one of its suppliers:

Allen Office Supplies

Description	Quantity	Price per unit	Total
Legal paper	100	$ 15	$ 1,500
Ink cartridge	40	$ 30	$ 1,200
			$ 2,700

Invoice Number: #127874
Date of purchase: January 17, 2021
Payment due: 30 days from date of purchase

What should Cooper record on the date of the purchase?
A) Debit Cash; Credit Accounts Receivable for $2,700.
B) Debit Supplies; Credit Accounts Payable for $2,700.
C) Debit Accounts Payable; Credit Cash for $2,700.
D) Debit Accounts Receivable; Credit Sales Revenue for $2,700.

128) The term commonly used in accounting to describe the format for recording a transaction is:
A) Chart of accounts.
B) Trial balance.
C) General ledger.
D) Journal entry.

129) Which of the following is the appropriate debit/credit format for recording a business transaction?

A.	Credit Name	Credit Amount
	Debit Name	Debit Amount
B.	Debit Amount	Debit Name
	Credit Amount	Credit Name
C.	Debit Name	Debit Amount
	Credit Name	Credit Amount
D.	Credit Name	Debit Amount
	Debit Name	Credit Amount

A) Option A
B) Option B
C) Option C
D) Option D

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130) The following statements pertain to recording transactions. Which of them are true?

I. Total debits should equal total credits.
II. It is possible to have multiple debits or credits in one journal entry.
III. Assets are always listed first in journal entries.
IV. Some journal entries will have debits only.
A) I only.
B) I and II.
C) I, II, and IV.
D) II, III, and IV.

131) Which of the following is not a possible journal entry?
A) Credit assets; Debit expenses.
B) Debit assets; Debit stockholders' equity.
C) Credit revenues; Debit assets.
D) Debit expenses; Credit liabilities.

132) Providing services on account would be recorded with a:
A) Debit to Service Revenue.
B) Credit to Accounts Receivable.
C) Credit to Accounts Payable.
D) Debit to Accounts Receivable.

133) Xenon Corporation borrows $75,000 from First Bank. Xenon Corporation records this transaction with a:
A) Debit to Investments.
B) Credit to Retained Earnings.
C) Credit to Notes Payable.
D) Credit to Interest Expense.

134) Childers Service Company provides services to customers totaling $3,000, for which it billed the customers. How would the transaction be recorded?
A) Debit Cash $3,000, credit Service Revenue $3,000.
B) Debit Accounts Receivable $3,000, credit Service Revenue $3,000.
C) Debit Accounts Receivable $3,000, credit Cash $3,000.
D) Debit Service Revenue $3,000, credit Accounts Receivable $3,000.

135) A company received a bill for newspaper advertising services, $400. The bill will be paid in 10 days. How would the transaction be recorded today?
A) Debit Advertising Expense $400, credit Accounts Payable $400.
B) Debit Accounts Payable $400, credit Advertising Expense $400.
C) Debit Accounts Payable $400, credit Cash $400.
D) Debit Advertising Expense $400, credit Cash $400.

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136) When a company pays utilities of $1,800 in cash, the transaction is recorded as:
A) Debit Utilities Expense $1,800, credit Utilities Payable $1,800.
B) Debit Utilities Payable $1,800, credit Cash $1,800.
C) Debit Cash $1,800, credit Utilities Expense $1,800.
D) Debit Utilities Expense $1,800, credit Cash $1,800.

137) Assume that cash is paid for rent to cover the next year. The appropriate debit and credit would be:
A) Debit Rent Expense, credit Cash.
B) Debit Prepaid Rent, credit Rent Expense.
C) Debit Prepaid Rent, credit Cash.
D) Debit Cash, credit Prepaid Rent.

138) Summer Leasing received $12,000 from a customer to cover 24 months of rent in advance. How should Summer record this transaction?
A) Debit Prepaid Rent; credit Rent Expense.
B) Debit Cash; credit Deferred Revenue.
C) Debit Cash; credit Service Revenue.
D) Debit Rent Expense; credit Cash.

139) Styleson Inc. performed cleaning services for its customers for cash. These transactions would be recorded as:
A) Debit Service Revenue, credit Cash.
B) Debit Cash, credit Service Revenue.
C) Debit Cash, credit Accounts Receivable.
D) Debit Accounts Receivable, credit Service Revenue.

140) Assume that $18,000 cash is paid for insurance to cover the next year. The appropriate debit and credit would be:
A) Debit Insurance Expense $18,000, credit Prepaid Insurance $18,000.
B) Debit Prepaid Insurance $18,000, credit Insurance Expense $18,000.
C) Debit Prepaid Insurance $18,000, credit Cash $18,000.
D) Debit Cash $18,000, credit Prepaid Insurance $18,000.

141) Providing services to customers for $1,000 on account is recorded as:
A) Debit Accounts Receivable $1,000, credit Service Revenue $1,000.
B) Debit Service Revenue $1,000, credit Cash $1,000.
C) Debit Cash $1,000, credit Accounts Receivable $1,000.
D) Debit Service Revenue $1,000, credit Accounts Receivable $1,000.

142) Issuing common stock for $5,000 cash is recorded as:
A) Debit Cash $5,000, credit Service Revenue $5,000.
B) Debit Cash $5,000, credit Common Stock $5,000.
C) Debit Cash $5,000, credit Dividends $5,000.
D) Debit Common Stock $5,000, credit Cash $5,000.

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143) Purchasing equipment for $10,000 cash is recorded as:
A) Debit Cash $10,000, credit Equipment $10,000.
B) Debit Equipment $10,000, credit Notes Payable $10,000.
C) Debit Equipment $10,000, credit Cash $10,000.
D) Debit Notes Payable $10,000, credit Equipment $10,000.

144) Schooner Inc. purchased equipment by signing a note payable. This transaction would be recorded as:
A) Debit Equipment, credit Cash.
B) Debit Cash, credit Notes Payable.
C) Debit Notes Payable, credit Equipment.
D) Debit Equipment, credit Notes Payable.

145) When a company pays $2,500 dividends to its stockholders, the transaction should be recorded as:
A) Debit Cash; credit Dividends.
B) Debit Retained Earnings; credit Dividends.
C) Debit Dividends; credit Cash.
D) Debit Dividends; credit Accounts Payable.

146) Daniel Dino Restaurant owes employees' salaries of $15,000. This would be recorded as:
A) Debit Salaries Expense, credit Cash.
B) Debit Salaries Payable, credit Cash.
C) Debit Salaries Expense, credit Salaries Payable.
D) Debit Salaries Payable, credit Salaries Expense.

147) Jerome purchased a building for his business by signing a note to be repaid over the next ten years. Which of the following correctly describes how to record this transaction?
A) Debit assets, credit liabilities.
B) Debit assets, credit stockholders' equity.
C) Debit liabilities, credit assets.
D) Debit expenses, credit liabilities.

148) Incurring an expense for advertising on account would be recorded by:
A) Debiting a liability account.
B) Crediting an asset account.
C) Debiting an expense account.
D) Debiting an asset account.

149) Tyler Incorporated receives $150,000 from investors in exchange for shares of its common stock. Tyler Incorporated records this transaction with a:
A) Debit to Investments.
B) Credit to Retained Earnings.
C) Credit to Common Stock.
D) Credit to Service Revenue.

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150) The owner of an office building should report rent collected in advance as a debit to Cash and a credit to:
A) A liability.
B) An asset other than Cash.
C) Revenue.
D) Stockholders' equity.

151) Clement Company paid an account payable related to a previous utility bill of $1,000. This transaction should be recorded as follows on the payment date:
A) Debit Accounts Payable $1,000, credit Cash $1,000.
B) Debit Cash $1,000, credit Accounts Payable $1,000.
C) Debit Utilities Expense $1,000, credit Cash $1,000.
D) Debit Cash $1,000, credit Utilities Expense $1,000.

152) On July 7, Saints Incorporated received $10,000 in cash from a customer for services to be provided on October 10. Which of the following describes how the transaction should be recorded on July 7?
A) Debit Cash $10,000, credit Service Revenue $10,000.
B) Debit Accounts Receivable $10,000, credit Service Revenue $10,000.
C) Debit Cash $10,000, credit Deferred Revenue $10,000.
D) Debit Deferred Revenue $10,000, credit Cash $10,000.

153) On December 1, Bears Lawn Maintenance, Inc. signed a contract with a retailer to supply maintenance for the next calendar year. How should this transaction be recorded on December 1?
A) Debit Cash, credit Service Revenue.
B) Debit Cash, credit Accounts Receivable.
C) Debit Accounts Receivable, credit Service Revenue.
D) No transaction should be recorded on December 1.

154) Sooner purchased office supplies on account. The transaction would be recorded as:
A) Debit Supplies, Credit Cash
B) Debit Cash, Credit Accounts Payable
C) Debit Accounts Payable, Credit Supplies
D) Debit Supplies, Credit Accounts Payable

155) Tomlin & Company provides music for special occasions. On January 14, the Smith family hired Tomlin for an upcoming family wedding for an agreed-upon fee of $10,000. The wedding was scheduled for May 23. As part of the agreement, the Smiths paid Tomlin half of the fee at the end of April with the remaining amount due by the end of June. How would Tomlin record the receipt of the final payment in June?
A) Credit to Accounts Receivable.
B) Credit to Service Revenue.
C) Credit to Cash.
D) Debit to Deferred Revenue.

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156) Bostel wanted to expand the size of its warehouse in order to generate more profits. The company decided to purchase the building adjacent to its existing warehouse. The company pays for the building by borrowing from the bank. The purchase would be recorded as:
A) Debit Cash; credit Notes Payable.
B) Debit Buildings; credit Cash.
C) Debit Buildings; credit Notes Payable.
D) Debit Cash and Buildings; credit Notes Payable.

157) On July 5, Harris Company purchased supplies from the hardware store for $600 on account. On July 10, Harris receives a bill from the hardware store as a reminder about the account balance. On July 17, Harris pays the account in full. How does Harris record the transaction on July 17?

A.	Supplies	600	
	Accounts Payable		600
B.	Accounts Payable	600	
	Supplies		600
C.	Cash	600	
	Accounts Payable		600
D.	Accounts Payable	600	
	Cash		600

A) Option A
B) Option B
C) Option C
D) Option D

158) On July 31, ALOE Inc. received $5,000 cash from a customer who previously purchased ALOE's products on account. What entry should ALOE Inc. record at the time it receives cash?
A) Debit Accounts Receivable, $5,000; credit Cash, $5,000.
B) Debit Cash, $5,000; credit Accounts Receivable, $5,000.
C) Debit Cash, $5,000; credit Accounts Payable, $5,000.
D) Debit Cash, $5,000; credit Service Revenue, $5,000.

159) A transaction is initially recorded in the _____, and then subsequently posted to the general _____.
A) Debit; Credit
B) Statement; Account
C) Journal; Ledger
D) Chart; Statement

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160) An account balance represents:
A) A chart showing the list of all accounts used to record transactions.
B) The net amount of all debits and credits posted to an account over a period of time.
C) All transactions that affect net income for the period.
D) The equality of debits and credits in the accounting records.

161) Posting is the process of:
A) Analyzing the impact of the transaction on the accounting equation.
B) Obtaining information about external transactions from source documents.
C) Transferring the debit and credit information from the journal to individual accounts in the general ledger.
D) Listing all accounts and their balances at a particular date.

162) A debit in a journal entry is always posted to the general ledger as a(n):
A) Increase.
B) Credit.
C) Decrease.
D) Debit.

163) Posting transactions to T-accounts involves:
A) Analyzing source documents to determine the effects of transactions on the company's accounts.
B) Listing all accounts and their balances at a particular date to ensure that debits equal credits.
C) Preparing a chronological record of all transactions affecting the company.
D) Transferring debit and credit information from the journal to the accounts in the general ledger.

164) Below is the company's Cash T-account.

Cash		
Beg.	1,200	
	5,200	3,100
End.	3,300	

The $3,100 amount could represent which of the following?
A) Purchase of supplies on account.
B) Ending balance of cash.
C) Payment for salaries.
D) Collection from customers.

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165) Below is the company's Cash T-account.

Cash			
Beg.	1,200		
	5,200	3,100	
End.	3,300		

The $5,200 amount could represent which of the following?
A) Purchase of supplies on account.
B) Ending balance of cash.
C) Payment for salaries.
D) Collection from customers.

166) The figure below is a depiction of a T-account.

Account			
		1,700	Beg.
	1,200	800	
		3,300	End.

Which of the following statements is correct?
A) The account could be a liability account.
B) During the period, a journal entry was recorded that included a credit to the account for $800.
C) The amount reported to stockholders at the end of the period for this account is $3,300.
D) All of the other answers provide a correct statement.

167) Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

Issued 10,000 shares of common stock for $15,000 cash.
Purchased land for $12,000, signing a note payable for the full amount.
Purchased office equipment for $1,200 cash.
Received cash of $14,000 for services provided to customers during the month.
Purchased $300 of office supplies on account.
Paid employees $10,000 for their first month's salaries.

What was the balance of Gotebo's Cash account following these six transactions?
A) $29,800.
B) $19,300.
C) $17,800.
D) $22,400.

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168) The Accounts Payable account has a beginning balance of $12,000 and the company purchased $50,000 of supplies on account during the month. The ending balance was $10,000.

How much did the company pay to creditors during the month?
A) $50,000.
B) $52,000.
C) $60,000.
D) $62,000.

169) On March 3, Cobra Inc. purchased a desk for $450 on account. On March 22, Cobra purchased another desk for $500 also on account, and then on March 24, Cobra paid $400 on account. At the end of March, what amount should Cobra report for desks (assuming these two desks were the only desks they had)?
A) $50.
B) $450.
C) $500.
D) $950.

170) The Accounts Receivable account has a beginning balance of $10,000 and the company provides services of $50,000 on account during the month. The ending balance was $12,000.

How much did the company receive from customers during the month?
A) $50,000.
B) $52,000.
C) $48,000.
D) $62,000.

171) A trial balance can best be explained as a list of:
A) The income statement accounts used to calculate net income.
B) Revenue, expense, and dividend accounts used to show the balances of the components of retained earnings.
C) The balance sheet accounts used to show the equality of the accounting equation.
D) All accounts and their balances at a particular date.

172) A trial balance represents the:
A) Source documents used to determine the effects of transactions on the company's accounts.
B) List of all accounts and their balances at a particular date to ensure that debits equal credits.
C) Chronological record of all transactions affecting the company.
D) Process of transferring debit and credit information from the journal to the accounts in the general ledger.

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173) Lithuanian Motors has the following balance sheet accounts:

Land	$ 170,000
Equipment	66,000
Salaries Payable	?
Notes Payable	88,000
Supplies	14,000
Cash	26,000
Common Stock	100,000
Retained Earnings	40,000
Accounts Payable	?
Prepaid Rent	12,000

If the company has total assets of $288,000, what is the balance of the company's Salaries Payable account?
A) $15,000.
B) $25,000.
C) $12,000.
D) Cannot be determined given the information provided.

174) Finnish Motors has the following balance sheet accounts:

Land	$ 150,000
Equipment	90,000
Salaries Payable	12,000
Notes Payable	99,000
Supplies	10,000
Cash	25,000
Common Stock	40,000
Retained Earnings	100,000
Accounts Payable	?
Prepaid Rent	?

If the company has total liabilities and stockholders' equity of $290,000, what is the balance of the company's Prepaid Rent account?
A) $15,000.
B) $25,000.
C) $12,000.
D) $39,000.

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175) Finnish Motors has the following balance sheet accounts:

Land	$ 150,000
Equipment	90,000
Salaries Payable	12,000
Notes Payable	99,000
Supplies	10,000
Cash	25,000
Common Stock	40,000
Retained Earnings	100,000
Accounts Payable	?
Prepaid Rent	?

If the company has total assets of $290,000, what is the balance of the company's Accounts Payable account?
A) $15,000.
B) $25,000.
C) $12,000.
D) $39,000.

Match each step of the measurement process with its description.

A) Analyze the impact of the transaction on the accounting equation.
B) Use source documents to identify accounts affected by an external transaction.
C) Record transactions in a journal using debits and credits.
D) Post transactions to the general ledger.
E) Prepare a trial balance.
F) Assess whether the transaction results in a debit or credit to the account balance.

176) Step 6

177) Step 3

178) Step 5

179) Step 2

180) Step 4

181) Step 1

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Match each term with its definition.

A) Full set of procedures used to accomplish the measurement/communication process of financial accounting.
B) A list of all account names used to record transactions of a company.
C) Events that affect the financial position of the company but do not include an exchange with a separate economic entity.
D) Activities of the company conducted with separate economic entities.
E) A summary of the effects of all transactions related to a particular item over a period of time.

182) Chart of accounts

183) Internal transactions

184) Accounting cycle

185) External transactions

186) Accounts

Match each term with how related transactions affect the accounting equation.

A) Transactions that affect the right side of the accounting equation not related to stockholders' equity.
B) Transactions that decrease stockholders' equity related to distributions to stockholders.
C) Transactions that affect the left side of the accounting equation.
D) Transactions that increase stockholders' equity.
E) Transactions that decrease stockholders' equity related to cost of generating revenues.

187) Assets

188) Revenues

189) Liabilities

190) Dividends

191) Expenses

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Match each term with its description.

A) Left side of an account.
B) Format used to record transactions of a company.
C) List of all accounts and their balances showing that debits equal credits.
D) Right side of an account.
E) Simplified form of a general ledger account.
F) Chronological record of all transactions.

192) Debit

193) Journal entry

194) Journal

195) Credit

196) Trial balance

197) T-account

198) Below are the steps in the measurement process of external transactions. Arrange them from first (1) to last (6).

(a) Post the transaction to the T-accounts in the general ledger.
(b) Assess whether the impact of the transaction results in a debit or credit to the account balance.
(c) Use source documents to identify accounts affected by external transactions.
(d) Analyze the impact of the transaction on the accounting equation.
(e) Prepare a trial balance.
(f) Record transactions using debits and credits.

199) A company received a utility bill of $600 but did not pay it. Indicate the amount of increases and decreases in the accounting equation.

200) A company purchases supplies on account for $1,700. Indicate the amount of increases and decreases in the accounting equation.

201) A company provides services to customers on account for $2,400. Indicate the amount of increases and decreases in the accounting equation.

202) A company pays $800 dividends to stockholders. Indicate the amount of increases and decreases in the accounting equation.

203) A company pays $1,300 for supplies previously purchased on account. Indicate the amount of increases and decreases in the accounting equation.

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204) The following transactions occur for the Hamilton Manufacturers.

(a) Provide services to customers on account for $4,500.
(b) Purchase equipment by signing a note with the bank for $10,000.
(c) Pay advertising of $1,500 for the current month.

Analyze each transaction and indicate the amount of increases and decreases in the accounting equation.

205) Using the notion that the accounting equation (Assets = Liabilities + Stockholders' Equity) must remain in balance, indicate whether each of the following transactions is possible.

(a) Cash decreases; Accounts Payable decreases.
(b) Salaries Expense increases; Salaries Payable decreases.
(c) Accounts Receivable decreases; Service Revenue increases.

206) Suppose a company has the following balance sheet accounts:

Accounts	Balances
Land	$9,000
Building	?
Salaries payable	3,700
Common stock	?
Accounts payable	2,600
Cash	5,300
Retained earnings	11,600
Supplies	3,200
Equipment	4,500

Calculate the missing amounts assuming the company has total assets of $40,000.

207) For each of the following accounts, indicate whether a debit or credit is used to increase (+) or decrease (-) the balance of the account.

Account	Debit	Credit
(a) Common Stock		
(b) Liability		
(c) Asset		
(d) Revenue		
(e) Dividend		
(f) Retained Earnings		
(g) Expense		

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208) For each of the following accounts, indicate whether we use a debit or a credit to increase the balance of the account.

(a) Accounts Receivable
(b) Accounts Payable
(c) Salaries Expense
(d) Service Revenue
(e) Supplies
(f) Common Stock
(g) Advertising Expense
(h) Dividends

209) For each of the following accounts, indicate whether we use a debit or a credit to decrease the balance of the account.

(a) Accounts Receivable
(b) Accounts Payable
(c) Salaries Expense
(d) Service Revenue
(e) Supplies
(f) Common Stock
(g) Advertising Expense
(h) Dividends

210) A company issues common stock for $20,000 cash. Record the transaction.

211) A company purchases a building for $100,000, signing a note payable. Record the transaction.

212) A company purchases equipment for $15,000 cash. Record the transaction.

213) A company purchases office supplies on account for $7,500. Record the transaction.

214) A company provides services to customers on account, $3,500. Record the transaction.

215) A company provides services to customers for $2,400 cash. Record the transaction.

216) A company pays employees' salaries of $4,200 for the current period. Record the transaction.

217) A company pays $2,000 dividends to its stockholders. Record the transaction.

218) A company collects $4,000 cash from customers for services previously provided on account. Record the transaction.

219) A company receives $6,500 cash in advance from customers for services to be provided next year. Record the transaction.

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220) A company pays $5,400 for maintenance in the current period. Record the transaction.

221) A company pays $12,000 to purchase a one-year insurance policy. Record the transaction.

222) Record the following transactions for Acme Builders:

(a) Purchase office supplies on account, $1,200.
(b) Provide services to customers for cash, $2,500.
(c) Pay $1,100 in salaries for the current month.

223) Record the following transactions for the Stroud Music Store:

(a) Provide music lessons to students for $12,000 on account.
(b) Purchase music supplies on account, $1,500.
(c) Pay rent for the current month, $2,000.
(d) Receive $10,000 cash from students in (a) above.

224) Rite Shoes was involved in the transactions described below. Record each transaction. If an entry is not required, state "No Entry."

(a) Purchased $8,200 of supplies on account.
(b) Paid weekly salaries, $920.
(c) Provided services to customers on account, $5,300.
(d) Paid for supplies purchased in (a) above.
(e) Placed an order for $6,200 of supplies.

225) Record the following transactions. If an entry is not required, state "No Entry."

(a) Started business by issuing 10,000 shares of common stock for $20,000.
(b) Hired Rebecca as an administrative assistant, promising to pay her $2,000 every two weeks.
(c) Rented a building for three years at $500 per month and paid six months' rent in advance.
(d) Purchased equipment for $5,400 cash.
(e) Purchased $1,800 of supplies on account.
(f) Provided services to customers for $7,800 cash.
(g) Paid employees' salaries, $5,200.
(h) Paid for supplies purchased in item (e).
(i) Paid $800 for current advertising in a local newspaper.
(j) Paid utility bill of $1,300 for the current month.

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226) Consider the following T-account for Accounts Payable.

Accounts Payable	
	10,200
8,800	
	4,500

1. Compute the balance of the Accounts Payable account.
2. Give an example of a transaction that would have resulted in the $8,800 posting to the account.
3. Give an example of a transaction that would have resulted in the $4,500 posting to the account.

227) Consider the following transactions for Mittel Corporation:

a. Issue common stock for $10,000.
b. Purchase equipment for $11,500 cash.
c. Pay employees' salaries of $3,700.
e. Provide services to customers for $6,200 cash.

1. Post these transactions to the Cash T-account. Assume the balance of Cash before these transactions is $4,200.
2. Calculate the ending balance of the Cash account.

228) Use the following information to prepare a trial balance.

Cash	$6,200
Deferred revenue	1,200
Prepaid insurance	1,200
Accounts payable	1,900
Retained earnings	1,600
Utilities expense	3,000
Dividends	1,200
Salaries expense	2,200
Accounts receivable	3,400
Common stock	6,200
Service revenue	7,100
Maintenance expense	800

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229) Below is a list of activities.

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Obtain a loan at the bank	Increase	=	Increase	+	No Effect
2. Issue common stock to stockholders for cash.					
3. Purchase equipment for cash.					
4. Pay cash for insurance in advance.					
5. Pay cash for employees' salaries in the current period.					
6. Pay accounts payable.					
7. Purchase office supplies on account.					
8. Provide services to customers for cash.					
9. Provide services to customers on account.					
10. Pay cash dividends to stockholders.					
11. Pay cash for utilities in the current period.					

Required:
For each activity, indicate whether the transaction increases, decreases, or has no effect on assets, liabilities, and/or stockholders' equity.

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230) Below is a list of activities.

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Issue common stock in exchange for cash, $15,000	+$15,000	=	$0	+	+$15,000
2. Purchase equipment for cash, $20,000.					
3. Pay cash for insurance in advance, $2,400.					
4. Pay cash for employees' salaries in the current period, $17,200.					
5. Pay accounts payable, $1,000.					
6. Purchase office supplies on account, $3,750.					
7. Provide services to customers for cash, $6,800.					
8. Provide services to customers on account, $12,300.					
9. Pay cash dividends to stockholders, $2,500.					
10. Pay cash for utilities in the current period, $1,200.					
Totals					

Required:
For each activity, indicate the impact on the accounting equation. After doing all the transactions, ensure that the accounting equation remains in balance.

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231) Reed owns a consulting services company, while Sophie operates an auto maintenance shop. For the month of June, the following transactions occurred.

June 2	Sophie decides that she would like consulting services at the end of the month and pays Reed $300 in advance.
June 5	Sophie provides maintenance services to Reed on account, $175.
June 7	Reed borrows $500 from Sophie by signing a note to repay her.
June 14	Sophie purchases maintenance supplies from Tap Corporation, paying cash of $250.
June 19	Reed pays $175 to Sophie for maintenance services provided on June 5.
June 25	Reed pays the utility bill for the month of June, $200.
June 28	Sophie receives consulting services from Reed, equaling the amount paid on June 2.
June 30	Reed pays $500 to Sophie for money borrowed on June 7.

Required:
Record each transaction for Reed. Keep in mind that Reed may not need to record all transactions.

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232) Reed owns a consulting services company, while Sophie operates an auto maintenance shop. For the month of June, the following transactions occurred.

June 2	Sophie decides that she would like consulting services at the end of the month and pays Reed $300 in advance.
June 5	Sophie provides maintenance services to Reed on account, $175.
June 7	Reed borrows $500 from Sophie by signing a note promising to repay her.
June 14	Sophie purchases maintenance supplies from Tap Corporation, paying cash of $250.
June 19	Reed pays $175 to Sophie for maintenance services provided on June 5.
June 25	Reed pays the utility bill for the month of June, $200.
June 28	Sophie receives consulting services from Reed, equaling the amount paid on June 2.
June 30	Reed pays $500 to Sophie for money borrowed on June 7.

	Reed					Sophie				
	Assets	**=**	**Liabilities**	**+**	**Stockholders' Equity**	**Assets**	**=**	**Liabilities**	**+**	**Stockholders' Equity**
June 2	+$300	=	+$300	+	$0	+$300	=	$0	+	$0
						-$300				
5										
7										
14										
19										
25										
28										
30										

Required:
1. Record transactions for Sophie. Keep in mind that Sophie may not need to record all transactions.
2. Using the format shown above, indicate the impact of each transaction on the accounting equation for each company.

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233) Below is a list of typical accounts.

Accounts	Type of Account	Normal Balance (Debit or Credit)
1. Service Revenue		
2. Common Stock		
3. Dividends		
4. Salaries Expense		
5. Accounts Payable		
6. Buildings		
7. Deferred Revenue		
8. Accounts Receivable		
9. Retained Earnings		
10. Notes Payable		
11. Utilities Expense		
12. Advertising Expense		

Required:
For each account, (1) indicate the type of account and (2) whether the normal account balance is a debit or credit. For type of account, choose from asset, liability, stockholders' equity, dividend, revenue, or expense.

234) Below are the transactions for Cleaning Racer, Inc. for April, the first month of operations.

April 1	Borrow$50,000 from the bank by signing a note.
April 2	Issue common stock in exchange for cash of $20,000.
April 7	Purchase equipment for $40,000 cash.
April 10	Purchase cleaning supplies of $4,000 on account.
April 12	Provide services of $5,000 for cash.
April 16	Pay employees $1,200 for work performed.
April 19	Pay for advertising in a local newspaper, costing $500.
April 23	Provide services of $7,000 on account.
April 29	Pay employees $1,500 for work performed.
April 30	A utility bill of $1,200 for the current month is paid.
April 30	Pay dividends of $700 to stockholders.

Required:
1. Record each transaction.
2. Post each transaction to the appropriate T-accounts.
3. Calculate the balance of each account.
4. Prepare a trial balance for June.

Racer uses the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Notes Payable, Common Stock, Dividends, Service Revenue, Salaries Expense, Advertising Expense, and Utilities Expense.

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235) Wolverine Incorporated had the following trial balance at the beginning of April.

Account Title	Debits	Credits
Cash	$2,800	
Accounts receivable	900	
Supplies	3,600	
Equipment	9,100	
Accounts payable		$2,200
Notes payable		3,600
Common stock		9,000
Retained earnings		1,600

The following transactions occur in April:

April 1	Issue common stock in exchange for $15,000 cash.
April 2	Purchase equipment with a long-term note for $4,500 from Hoosier Corporation.
April 4	Purchase supplies for $1,500 on account.
April 10	Provide services to customers on account for $9,000.
April 15	Pay creditors on accounts payable, $1,200.
April 20	Pay employees $2,300 for the first half of the month.
April 22	Provide services to customers for $11,500 cash.
April 24	Pay $1,300 on the note from Hoosier Corporation.
April 26	Collect $7,100 on account from customers.
April 28	Pay $1,700 to the local utility company for April gas and electricity.
April 30	Pay $3,200 rent for the month of April.

Required:
1. Record each transaction.
2. Post each transaction to the appropriate T-accounts.
3. Calculate the balance of each account at April 30. (Hint: Be sure to include the balance at the beginning of April in each T-account.)
4. Prepare a trial balance as of April 30.

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236) Baker Incorporated specializes in training and veterinary services for household pets, such as cats, dogs, birds, lizards, and fish. After the first 11 months of operations in 2021, Baker has the following account balances.

Account Title	Debits	Credits
Cash	$13,300	
Supplies	2,600	
Prepaid rent	4,800	
Equipment	82,100	
Buildings	200,000	
Accounts payable		$9,500
Deferred revenue		3,400
Common stock		145,000
Retained earnings		50,200
Dividends	9,000	
Service revenue		250,000
Salaries expense	100,000	
Advertising expense	15,600	
Utilities expense	30,700	
Totals	458,100	$458,100

The following transactions occur during December 2021:

December 1-31	Throughout the month, Baker provides services to customers for cash, $25,400.(Hint: Record the entire month's services in a single entry.)
December 4	Purchase pet supplies on account, $2,700.
December 8	Pay for fliers to be distributed to local residences to advertise the company's services, $3,100.
December 9	Pay for supplies purchased on December 4.
December 12	Issue additional shares of common stock for cash, $6,000.
December 16	Pay cash on accounts payable, $6,600.
December 19	Purchase equipment with cash, $7,800.
December 22	Pay utilities for December, $4,400.
December 24	Receive cash from customers for services to be provided next January, $2,500.
December 27	One of Baker's trainers takes a part-time job at the zoo and earns a salary of $1,300. The zoo and Baker are separate companies.
December 30	Pay employees' salaries for the current month, $10,000.
December 31	Pay dividends to stockholders, $3,000.

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Required:
1. Record each transaction.
2. Post each transaction to the appropriate T-accounts.
3. Calculate the balance of each account at December 31. (Hint: Be sure to include the balance at the beginning of December in each T-account.)
4. Prepare a trial balance as of December 31.

237) Below are the account balances of Heron Company at the end of November.

Accounts	**Balances**
Cash	$12,000
Accounts Receivable	?
Rent Expense	1,000
Supplies	5,000
Equipment	19,000
Accounts Payable	7,000
Service Revenue	40,000
Utilities Payable	1,000
Deferred Revenue	6,000
Common Stock	19,000
Utilities Expense	2,000
Retained Earnings	15,000
Salaries Payable	2,000
Salaries Expense	9,000
Insurance Expense	6,000
Advertising Expense	1,000
Supplies Expense	10,000
Dividends	3,000
Prepaid Insurance	4,000
Legal Fees Expense	6,000

Required:
Prepare a trial balance by placing amounts in the appropriate debit or credit column and determining the balance of the Accounts Receivable account.

238) Describe the external events and give two examples.

239) Describe the six steps in the measurement process of external transactions.

240) Explain what it means that external transactions have a dual effect.

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Financial Accounting, 5e **(Spiceland)**
Chapter 2 The Accounting Cycle: During the Period

1) External transactions are transactions the company conducts with a separate economic entity, such as selling products to a customer, purchasing supplies from a vendor, paying salaries to an employee, and borrowing money from a bank.

Answer: TRUE
Difficulty: 1 Easy
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

2) Internal transactions are events that affect the financial position of the company but do not include an exchange with a separate economic entity.

Answer: TRUE
Difficulty: 1 Easy
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

3) A list of all account names used to record transactions of a company is referred to as a T-account.

Answer: FALSE
Explanation: This is referred to as a chart of accounts.
Difficulty: 1 Easy
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

4) A source document provides information related to external transactions.

Answer: TRUE
Difficulty: 1 Easy
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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5) After recording each transaction, total assets must equal total liabilities plus stockholders' equity.

Answer: TRUE
Difficulty: 1 Easy
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: FN Measurement

6) If a transaction causes total assets of the company to increase by $2,000, then liabilities plus stockholders' equity also increases by $2,000.

Answer: TRUE
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
AICPA: FN Measurement

7) If a transaction causes total assets of the company to increase by $5,000 and total liabilities to increase by $3,000, then stockholders' equity increases by $8,000.

Answer: FALSE
Explanation: Stockholders' equity increases by $2,000.
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

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8) Borrowing cash from the bank causes assets to increase and liabilities to increase.

Answer: TRUE
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

9) Purchasing equipment using cash causes assets to increase.

Answer: FALSE
Explanation: One asset goes up; another asset goes down. There is no change to total assets.
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

10) Providing services to customers for cash causes stockholders' equity to increase.

Answer: TRUE
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

11) Paying employees' salaries for the current month causes no change to stockholders' equity.

Answer: FALSE
Explanation: Salaries expense would reduce stockholders' equity.
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

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12) Paying dividends to its stockholders causes a company's stockholders' equity to decrease.

Answer: TRUE
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

13) Selling common stock for cash causes assets to increase and stockholders' equity to decrease.

Answer: FALSE
Explanation: Stockholders' equity increases.
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

14) Purchasing office supplies on account causes assets to increase and liabilities to increase.

Answer: TRUE
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

15) Providing services to customers on account causes assets to increase and stockholders' equity to increase.

Answer: TRUE
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

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16) Receiving cash in advance from a customer for services to be provided in the future causes assets to increase and stockholders' equity to increase.

Answer: FALSE
Explanation: Assets increase and liabilities increase.
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

17) Paying for one year of rent in advance causes one asset to increase and another asset to decrease, so there is no effect on the accounting equation.

Answer: TRUE
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

18) Purchasing supplies on account increases the balance of the Accounts Receivable account.

Answer: FALSE
Explanation: The balance of Accounts Payable increases.
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

19) Amounts owed from customers are recorded in the Accounts Receivable account.

Answer: TRUE
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

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20) The two components of stockholders' equity are Debits and Credits.

Answer: FALSE
Explanation: The two components of stockholders' equity are Common Stock and Retained Earnings.
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

21) Revenues have the effect of increasing retained earnings.

Answer: TRUE
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

22) Expenses have the effect of decreasing retained earnings.

Answer: TRUE
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
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AICPA: FN Measurement

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23) Receiving cash in advance from customers increases the Service Revenue account.

Answer: FALSE
Explanation: Receiving cash in advance from customers increases the Deferred Revenue account.
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

24) Deferred Revenue is a liability account.

Answer: TRUE
Difficulty: 1 Easy
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: FN Measurement

25) Liability accounts increase with a debit and decrease with a credit.

Answer: FALSE
Explanation: Liability accounts increase with a credit and decrease with a debit.
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

26) Liability accounts increase with a credit and decrease with a debit.

Answer: TRUE
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

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27) Common Stock increases with a credit and decreases with a debit.

Answer: TRUE
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

28) Revenue accounts increase with a debit and decrease with a credit.

Answer: FALSE
Explanation: Revenue accounts increase with a credit and decrease with a debit.
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

29) Expense accounts increase with a debit and decrease with a credit.

Answer: TRUE
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

30) The Dividends account increases with a credit and decreases with a debit.

Answer: FALSE
Explanation: The Dividends account increases with a debit and decreases with a credit.
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
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31) A debit to an account balance always results in the balance increasing.

Answer: FALSE
Explanation: A debit increases assets, dividends, and expenses, but decreases liabilities, stockholders' equity, and revenues.
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

32) A credit to an account balance always results in the balance decreasing.

Answer: FALSE
Explanation: A credit decreases assets, dividends, and expenses, but increases liabilities, stockholders' equity, and revenues.
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

33) A journal provides a chronological record of all transactions affecting a firm.

Answer: TRUE
Difficulty: 1 Easy
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

34) For each transaction, there must be at least one debit amount and one credit amount.

Answer: TRUE
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

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35) For each transaction, the total debit amounts must equal the total credit amounts.

Answer: TRUE
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

36) Selling common stock for cash is recorded with a debit to common stock.

Answer: FALSE
Explanation: Selling common stock for cash is recorded with a credit to common stock.
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

37) Borrowing cash from the bank is recorded with a debit to cash.

Answer: TRUE
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

38) Purchasing office supplies is recorded with a credit to office supplies.

Answer: FALSE
Explanation: Purchasing office supplies is recorded with a debit to office supplies.
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
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39) Paying employees' salaries for the current period is recorded with a debit to Salaries Expense.

Answer: TRUE
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

40) Providing services to customers is recorded with a debit to Service Revenue.

Answer: FALSE
Explanation: Providing services to customers is recorded with a credit to Service Revenue.
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

41) The general ledger includes all accounts used to record the company's transactions.

Answer: TRUE
Difficulty: 1 Easy
Topic: Posting to the General Ledger
Learning Objective: 02-05 Post transactions to the general ledger.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

42) The process of transferring the debit and credit information from the journal to individual accounts in the general ledger is called journalizing.

Answer: FALSE
Explanation: This process is called posting.
Difficulty: 1 Easy
Topic: Posting to the General Ledger
Learning Objective: 02-05 Post transactions to the general ledger.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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43) After posting transactions to the general ledger accounts, the sum of the accounts with debit balances should equal the sum of the accounts with credit balances.

Answer: TRUE
Difficulty: 2 Medium
Topic: Trial Balance
Learning Objective: 02-06 Prepare a trial balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

44) A trial balance is a list of all accounts and their balances at a particular date, showing that assets equal liabilities.

Answer: FALSE
Explanation: The trial balance shows that total debits equal total credits.
Difficulty: 1 Easy
Topic: Trial Balance
Learning Objective: 02-06 Prepare a trial balance.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

45) If total debits equal total credits in the trial balance, then all balances are correct.

Answer: FALSE
Explanation: A trial balance could contain offsetting errors where the balance of one account is misstated in one direction but the balance of another account (with the same type of debit or credit balance) is misstated in the other direction.
Difficulty: 2 Medium
Topic: Trial Balance
Learning Objective: 02-06 Prepare a trial balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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46) Which of the following is not part of measuring external transactions?
A) Using source documents to analyze accounts affected.
B) Recording transactions.
C) Making payments on all amounts owed.
D) Analyzing transactions for their effect on the accounting equation.

Answer: C
Difficulty: 1 Easy
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

47) External events include all of the following except:
A) Paying rent.
B) Purchasing equipment.
C) Using office supplies.
D) Collecting an account receivable.

Answer: C
Difficulty: 2 Medium
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

48) The full set of procedures used to accomplish the measurement/communication process of financial accounting is referred to as the:
A) Trial balance.
B) Accounting cycle.
C) Chart of accounts.
D) General ledger.

Answer: B
Difficulty: 1 Easy
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Remember
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49) Which step in the process of measuring external transactions involves assessing the equality of total debits and total credits for the period?
A) Use source documents to determine accounts affected by the transaction.
B) Prepare a trial balance.
C) Analyze the impact of the transaction on the accounting equation.
D) Post the transaction to the T-account in the general ledger.

Answer: B
Difficulty: 2 Medium
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

50) Which step in the process of measuring external transactions involves determining the effect on assets, liabilities, and stockholders' equity?
A) Use source documents to determine accounts affected by the transaction.
B) Prepare a trial balance.
C) Analyze the impact of the transaction on the accounting equation.
D) Post the transaction to the T-account in the general ledger.

Answer: C
Difficulty: 2 Medium
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

51) Which of the following typically is considered a source document for gathering information about a transaction?
A) Trial balance.
B) Income statement.
C) Sales invoice.
D) General ledger.

Answer: C
Difficulty: 1 Easy
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Remember
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52) Which of the following best describes a purpose of source documents?
A) Provide information related to external transactions, such as date and amount.
B) Used by accountants to record transactions in specific accounts.
C) Keep a record of transactions between the company and its vendors, customers, and other parties with whom the company conducts business.
D) All of the other answers provide a correct statement.

Answer: D
Difficulty: 2 Medium
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

53) A(n) _____ summarizes all transactions related to a particular item over a period of time.
A) Debit
B) Account
C) Chart of accounts
D) Source document

Answer: B
Difficulty: 1 Easy
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

54) A list of all account names used to record transactions of a company is referred to as the:
A) Chart of Accounts.
B) Income statement.
C) General journal.
D) Balance sheet.

Answer: A
Difficulty: 1 Easy
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
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55) For each transaction recorded in an accounting system, the basic equation that must be maintained at all times is:
A) Assets = Liabilities + Stockholders' Equity.
B) Cash Increases = Cash Decreases.
C) Revenues = Expenses + Dividends.
D) Assets = Liabilities.

Answer: A
Difficulty: 1 Easy
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: FN Measurement

56) The equation which shows a company's resources equal claims to those resources is:
A) Revenues − Expenses = Net Income.
B) Cash Increases − Cash Decreases = Change in Cash.
C) Common Stock + Retained Earnings = Stockholders' Equity.
D) Assets = Liabilities + Stockholders' Equity.

Answer: D
Difficulty: 1 Easy
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: FN Measurement

57) The equation that shows assets equal liabilities plus stockholders' equity signifies that a company:
A) Is able to pay its obligations as they come due.
B) Is profitable.
C) Has resources equal to claims to those resources.
D) All of the other answers provide a correct statement.

Answer: C
Difficulty: 1 Easy
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
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58) The following amounts are reported in the ledger of Mariah Company:

Assets	$ 80,000
Liabilities	36,000
Retained Earnings	12,000

What is the balance in the Common Stock account?
A) $44,000.
B) $32,000.
C) $48,000.
D) $42,000.

Answer: B
Explanation: Assets ($80,000) = Liabilities ($36,000) + Stockholders' Equity ($32,000 + $12,000)
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

59) When a company pays employees' salaries for the current period, how will the basic accounting equation be affected?
A) Stockholders' equity decreases.
B) Revenues decrease.
C) Expenses decrease.
D) Liabilities decrease.

Answer: A
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
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60) When cash payments are made to stockholders, what is the effect on the company's accounts?
A) Cash decreases and dividends increase.
B) Cash increases and dividends decrease.
C) Cash decreases and common stock decreases.
D) Cash increases and common stock increases.

Answer: A
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

61) Receiving cash from customers before services are performed results in:
A) Prepaid Assets.
B) Service Revenue.
C) Deferred Revenues.
D) Accounts Receivable.

Answer: C
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

62) When the company pays stockholders a dividend, what is the effect on the accounting equation for that company?
A) Decrease stockholders' equity and increase assets.
B) Increase liabilities and increase assets.
C) Decrease assets and decrease liabilities.
D) Decrease assets and decrease stockholders' equity.

Answer: D
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
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63) Pumpkin Inc. sold $500 in pumpkins to a customer on account on January 1. On January 11, Pumpkin collected the cash from that customer. What is the impact on Pumpkin's accounting equation from the collection of cash?
A) No net effect to the accounting equation.
B) Decrease assets and increase liabilities.
C) Increase assets and increase liabilities.
D) Decrease assets and decrease liabilities.

Answer: A
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

64) A company receives a $50,000 cash deposit from a customer on October 15, but will not provide services until November 20. Which of the following statements is true?
A) The company records service revenue on October 15.
B) The company records cash collection on November 20.
C) The company records deferred revenue on October 15.
D) The company records nothing on October 15.

Answer: C
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

65) Which of the following would increase assets and increase liabilities?
A) Provide services to customers on account.
B) Purchase office supplies on account.
C) Pay dividends to stockholders.
D) Receive a utility bill for the current month. Plan to pay bill beginning of next month.

Answer: B
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
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66) Receiving cash from an account receivable:
A) Increases revenue and decreases an asset.
B) Decreases a liability and increases an asset.
C) Increases an asset and increases revenue.
D) Increases one asset and decreases another asset.

Answer: D
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

67) An expense has what effect on the accounting equation?
A) Decrease liabilities.
B) Decrease stockholders' equity.
C) Increase assets.
D) No effect.

Answer: B
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

68) Revenues have what effect on the accounting equation?
A) Increase liabilities.
B) Decrease assets.
C) Increase stockholders' equity.
D) No effect.

Answer: C
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
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69) Investments by stockholders have what effect on the accounting equation?
A) Assets increase and liabilities increase.
B) Expenses increase and liabilities increase.
C) Assets increase and revenues increase.
D) Assets increase and stockholders' equity increases.

Answer: D
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

70) Which of the following is not possible when recording a transaction?
A) Liabilities increase and assets decrease.
B) Stockholders' equity increases and assets increase.
C) One asset increases and another asset decreases.
D) Stockholders' equity decreases and assets decrease.

Answer: A
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand; Apply
AACSB: Knowledge Application
AICPA: FN Measurement

71) Purchasing office supplies on account will:
A) Not change assets.
B) Increase assets and decrease liabilities.
C) Increase assets and increase liabilities.
D) Increase assets and increase stockholders' equity.

Answer: C
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
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72) Providing services and receiving cash will:
A) Increase assets and increase stockholders' equity.
B) Increase assets and increase liabilities.
C) Decrease assets and increase liabilities.
D) Decrease liabilities and increase stockholders' equity.

Answer: A
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

73) When a company provides services on account, the accounting equation would be affected as follows:
A) Assets increase.
B) Revenues increase.
C) Assets increase and liabilities decrease.
D) Assets increase and stockholders' equity increases.

Answer: D
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

74) Borrowing cash from the bank would have what effect on the accounting equation?
A) Assets increase and stockholders' equity increases.
B) Assets increase and liabilities increase.
C) Liabilities increase and stockholders' equity decreases.
D) Liabilities decrease and stockholders' equity increases.

Answer: B
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
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75) Paying salaries to employees for the current period would have what effect on the accounting equation?
A) Liabilities increase and stockholders' equity decreases.
B) Assets decrease and liabilities decrease.
C) Assets decrease and stockholders' equity decreases.
D) Liabilities decrease and stockholders' equity increases.

Answer: C
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

76) Providing services to customers for cash would have what effect on the accounting equation?
A) Total assets increase; total stockholders' equity increases.
B) Total assets increase; total liabilities decrease.
C) Total liabilities decrease; total stockholders' equity increases.
D) Total liabilities increase; total stockholders' equity decreases.

Answer: A
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

77) Paying for supplies previously purchased would have what effect on the accounting equation?
A) Assets decrease and stockholders' equity decreases.
B) Assets increase and liabilities increase.
C) Liabilities decrease and stockholders' equity increases.
D) Assets decrease and liabilities decrease.

Answer: D
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
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78) If a company provides services on account, which of the following is true?
A) Expenses increase.
B) Liabilities increase.
C) Stockholders' equity increases.
D) Assets decrease.

Answer: C
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

79) When a payment is made on an account payable:
A) Assets and stockholders' equity decrease.
B) Assets and liabilities decrease.
C) Liabilities and revenues decrease.
D) Assets and expenses decrease.

Answer: B
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

80) Purchasing office equipment on account has what impact on the accounting equation?
A) Stockholders' equity decreases and assets increase.
B) Liabilities increase and assets increase.
C) Assets decrease and liabilities decrease.
D) Assets increase and stockholders' equity increases.

Answer: B
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
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81) Purchasing supplies for cash has what effect on the accounting equation?
A) Increase assets.
B) Decrease stockholders' equity.
C) Decrease liabilities.
D) No net effect.

Answer: D
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

82) On January 1, Brad Inc. sold $30,000 in products to a customer on account. Then on January 10, Brad collected the cash on that account. What is the impact on Brad's accounting equation from the collection of cash on January 10?
A) No net effect on the accounting equation.
B) Assets increase and liabilities decrease.
C) Assets decrease and liabilities decrease.
D) Assets increase and stockholders' equity increases.

Answer: A
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

83) On September 10, MFP Co. paid employee salaries of $7,000 owed to its employees last month. What are the effects of this transaction on the accounting equation?
A) Expenses increase and liabilities increase.
B) Assets decrease and liabilities decrease.
C) Assets decrease and expenses decrease.
D) Expenses decrease and liabilities decrease.

Answer: B
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Apply
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84) Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

Issued 10,000 shares of common stock for $15,000 cash.
Purchased land for $12,000, signing a note payable for the full amount.
Purchased office equipment for $1,200 cash.
Received cash of $14,000 for services provided to customers during the month.
Purchased $300 of office supplies on account.
Paid employees $10,000 for their first month's salaries.

What was the total amount of Gotebo's liabilities following these six transactions?
A) $12,300.
B) $27,300.
C) $22,600.
D) $15,500.

Answer: A
Explanation: Liabilities = ($12,000 + $300) = $12,300.
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Apply
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85) Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

Issued 10,000 shares of common stock for $15,000 cash.
Purchased land for $12,000, signing a note payable for the full amount.
Purchased office equipment for $1,200 cash.
Received cash of $14,000 for services provided to customers during the month.
Purchased $300 of office supplies on account.
Paid employees $10,000 for their first month's salaries.

How many of these transactions decreased Gotebo's total assets?
A) One.
B) Two.
C) Three.
D) Four.

Answer: A
Explanation: Transaction #6.
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
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86) Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

Issued 10,000 shares of common stock for $15,000 cash.
Purchased land for $12,000, signing a note payable for the full amount.
Purchased office equipment for $1,200 cash.
Received cash of $14,000 for services provided to customers during the month.
Purchased $300 of office supplies on account.
Paid employees $10,000 for their first month's salaries.

How many of these transactions increased Gotebo's liabilities?
A) Four.
B) Three.
C) Two.
D) One.

Answer: C
Explanation: Transactions #2 and #5.
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
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87) Consider the following transactions:

Issued common stock for cash.
Purchased equipment by signing a note payable.
Paid rent for the current month.
Collected cash from customers on account.

How many of these transactions increased the company's total assets?
A) One.
B) Two.
C) Three.
D) Four.

Answer: B
Explanation: (1) Issued common stock for cash, and (2) purchased equipment by signing a note payable.
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

88) How many of the following transactions would increase total assets in the current period?

• Collect cash from customer prior to providing service.
• Provide services to customer and receive cash at time of service.
• Provide services on account to customer.
• Collect cash from customer for services provided on account.
A) One.
B) Two.
C) Three.
D) Four.

Answer: C
Explanation: (1) Collect cash from customer prior to providing service, (2) provide services to customer and receive cash at time of service, and (3) provide services on account to customer.
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
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89) How many of the following transactions would increase total liabilities in the current period?

• Pay for advertising that will not occur until the following period.
• Collect cash from customer prior to providing service.
• Incur, but not pay, utilities cost in the current period.
• Order supplies that have not yet been received.
A) One.
B) Two.
C) Three.
D) Four.

Answer: B
Explanation: (1) Collect cash from customer prior to providing service, and (2) incur, but not pay, utilities cost in the current period.
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

90) How many of the following transactions would increase total stockholders' equity in the current period?

• Pay dividends to stockholders.
• Delay payment on supplies purchased until the following period.
• Provide services on account to customers.
• Borrow cash from a local bank.
A) One.
B) Two.
C) Three.
D) Four.

Answer: A
Explanation: Provide services on account to customers.
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
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91) How many of the following transactions would decrease total stockholders' equity in the current period?

• Pay dividends to stockholders.
• Delay payment on supplies purchased until the following period.
• Provide services on account to customers.
• Borrow cash from a local bank.
A) One.
B) Two.
C) Three.
D) Four.

Answer: A
Explanation: Pay dividends to stockholders.
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
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92) Assume that Sallisaw Sideboards, Inc. had a retained earnings balance of $10,000 on April 1, and that the company had the following transactions during April.

Issued common stock for cash, $5,000.
Provided services to customers on account, $2,000.
Provided services to customers in exchange for cash, $900.
Purchased equipment and paid cash, $4,300.
Paid April rent, $800.
Paid employees' salaries for April, $700.

What was Sallisaw's retained earnings balance at the end of April?
A) $11,400.
B) $12,100.
C) $16,400.
D) Some other amount.

Answer: A
Explanation: Beginning retained earnings $10,000 + Net income $1,400 − Dividends $0 = Ending retained earnings $11,400. Net Income = Revenue ($2,000 + $900) − Expenses ($800 + $700) = $1,400.
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: FN Measurement

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93) Consider the following transactions:

Issued common stock for cash.
Purchased equipment by signing a note payable.
Provided services to customers on account.
Collected cash from customers on account.

How many of these transactions increased the company's total liabilities?
A) One.
B) Two.
C) Three.
D) Four.

Answer: A
Explanation: Purchased equipment by signing a note payable.
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

94) Which of the following transactions causes a decrease in stockholders' equity?
A) Pay dividends to stockholders.
B) Obtain cash by borrowing from a local bank.
C) Provide services to customers on account.
D) Purchase office equipment for cash.

Answer: A
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

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95) How many of the following events would require an expense to be recorded?

Ordering office supplies.
Hiring a receptionist.
Paying employees' salaries for the current month.
Receiving, but not paying, a current utility bill.
Paying for insurance in advance.
A) One.
B) Two.
C) Three.
D) Four.

Answer: B
Explanation: (1) Paying employee salaries for the current month, and (2) receiving, but not paying, a current utility bill.
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

96) Which of the following is NOT possible for a business transaction?
A) Increase assets and decrease revenue.
B) Decrease assets and increase expenses.
C) Increase liabilities and increase expenses.
D) Decrease liabilities and increase revenue.

Answer: A
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Apply
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97) Which of the following transactions would cause a decrease in both assets and stockholders' equity?
A) Paying insurance premium for the next two years.
B) Purchasing office equipment on account.
C) Paying advertising for the current month.
D) Providing services to customers on account.

Answer: C
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

98) When a company issues common stock for cash, what is the effect on the accounting equation for the company?
A) Assets increase and liabilities increase.
B) Assets increase and stockholders' equity increases.
C) Assets decrease and liabilities decrease.
D) Liabilities decrease and stockholders' equity increases.

Answer: B
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
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99) If the liabilities of a company increased by $55,000 during a month and the stockholders' equity decreased by $21,000 during that same month, did assets increase or decrease and by how much?
A) $34,000 increase.
B) $55,000 increase.
C) $34,000 decrease.
D) $76,000 increase.

Answer: A
Explanation: Increase in Liabilities ($55,000) − Decrease in Stockholders' Equity ($21,000) = Increase in Assets ($34,000).
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: FN Measurement

100) Which of the following transactions would cause an increase in both the assets and liabilities of a company?
A) Pay for the current month's rent.
B) Pay for inventory purchased 90 days ago.
C) Purchase a building by issuing a note payable.
D) Provide services on account.

Answer: C
Explanation: One asset (building) and one liability (notes payable) increases.
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Apply
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101) When a company pays cash for equipment, what is the effect on the accounting equation for that company?
A) Increase assets and increase liabilities.
B) Decrease assets and decrease liabilities.
C) No net change.
D) Increase assets and increase stockholders' equity.

Answer: C
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

102) "Record revenue when goods or services are provided to customers" is the definition of which principle in accounting?
A) Trial balance.
B) Debits and credits.
C) Revenue recognition.
D) Accounting equation.

Answer: C
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

103) Which of the following is possible for a particular business transaction?
A) Increase assets and decrease liabilities.
B) Decrease one asset and increase another asset.
C) Decrease assets and increase stockholders' equity.
D) Decrease liabilities and increase expenses.

Answer: B
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Apply
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104) Which of the accounts are decreased on the debit side and increased on the credit side?
A) Liabilities, stockholders' equity, and revenues.
B) Dividends, liabilities, and assets.
C) Expenses, dividends, and stockholders' equity.
D) Assets, dividends, and expenses.

Answer: A
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

105) Which of the following is true about a "debit"?

I. It is part of the double-entry procedure that keeps the accounting equation in balance.
II. It represents an increase to assets.
III. It represents a decrease to liabilities.
IV. It is on the right side of a T-account.
A) I and II.
B) IV only.
C) I, II, and III.
D) I, II, III, and IV.

Answer: C
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
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106) Which of the following is true about a "credit"?

I. It is part of the double-entry procedure that keeps the accounting equation in balance.
II. It represents a decrease to assets.
III. It represents an increase to liabilities.
IV. It is on the right side of a T-account.
A) I and II.
B) IV only.
C) I, II, and III.
D) I, II, III, and IV.

Answer: D
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

107) Assets normally carry a _____ balance and are shown in the _____.
A) Debit; Statement of stockholders' equity
B) Debit; Income statement
C) Credit; Balance sheet
D) Debit; Balance sheet

Answer: D
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement; FN Reporting

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108) Revenues normally carry a _____ balance and are shown in the _____.
A) Debit; Statement of stockholders' equity
B) Credit; Income statement
C) Credit; Balance sheet
D) Debit; Balance sheet

Answer: B
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement; FN Reporting

109) Dividends normally carry a _____ balance and are shown in the _____.
A) Debit; Statement of stockholders' equity
B) Debit; Income statement
C) Credit; Balance sheet
D) Debit; Balance sheet

Answer: A
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement; FN Reporting

110) Expenses normally carry a _____ balance and are shown in the _____.
A) Debit; Statement of stockholders' equity
B) Debit; Income statement
C) Credit; Balance sheet
D) Debit; Balance sheet

Answer: B
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
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111) Liabilities normally carry a _____ balance and are shown in the _____.
A) Debit; Statement of stockholders' equity
B) Debit; Income statement
C) Credit; Balance sheet
D) Debit; Balance sheet

Answer: C
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement; FN Reporting

112) Which of the following accounts has a debit balance?
A) Accounts Payable.
B) Deferred Revenue.
C) Service Revenue.
D) Salaries Expense.

Answer: D
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

113) Which of the following accounts would normally have a credit balance?
A) Accounts Payable, Service Revenue, Common Stock.
B) Salaries Payable, Deferred Revenue, Delivery Expense.
C) Income Tax Payable, Service Revenue, Dividends.
D) Cash, Repairs and Maintenance Expense, Dividends.

Answer: A
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
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114) Which of the following accounts would normally have a debit balance?
A) Accounts Payable, Service Revenue, Common Stock.
B) Salaries Payable, Deferred Revenue, Utilities Expense.
C) Income Tax Payable, Service Revenue, Dividends.
D) Cash, Delivery Expense, Dividends.

Answer: D
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
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115) Which of the following accounts would normally have a debit balance and appear in the balance sheet?
A) Accounts Receivable.
B) Deferred Revenue.
C) Salaries Expense.
D) Dividends.

Answer: A
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement; FN Reporting

116) Which of the following accounts has a credit balance?
A) Salaries Expense.
B) Accounts Payable.
C) Land.
D) Prepaid Rent.

Answer: B
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
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117) An increase to an asset account is shown with a _____. An increase to a liability account is shown with a _____.
A) Debit; Debit
B) Credit; Debit
C) Debit; Credit
D) Credit; Credit

Answer: C
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

118) An increase to an expense account is shown with a _____. An increase to a revenue account is shown with a _____.
A) Debit; Debit
B) Debit; Credit
C) Credit; Debit
D) Credit; Credit

Answer: B
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

119) An increase to an asset account is shown with a _____. A decrease to an asset account is shown with a _____.
A) Debit; Debit
B) Credit; Debit
C) Debit; Credit
D) Credit; Credit

Answer: C
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
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120) Which of the accounts are increased with a debit and decreased with a credit?
A) Liabilities, stockholders' equity, and revenues.
B) Dividends, liabilities, and assets.
C) Expenses, dividends, and stockholders' equity.
D) Assets, dividends, and expenses.

Answer: D
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

121) Consider the following list of accounts:

Cash
Service Revenue
Salaries Expense
Accounts Payable
Equipment
Retained Earnings
Utilities Expense
Accounts Receivable
Common Stock
Dividends

How many of these accounts have a normal debit balance?
A) Four.
B) Five.
C) Six.
D) Seven.

Answer: C
Explanation: Cash, Salaries Expense, Equipment, Utilities Expense, Accounts Receivable, Dividends.
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
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122) Consider the following list of accounts:

Accounts Payable
Cash
Prepaid Rent
Common Stock
Salaries Payable
Equipment
Supplies
Rent Expense

How many of these accounts have a normal credit balance?
A) Two.
B) Three.
C) Four.
D) Five.

Answer: B
Explanation: Accounts Payable, Common Stock, Salaries Payable.
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
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123) Consider the following accounts:

Utilities Expense
Accounts Payable
Service Revenue
Common Stock

How many of these accounts are increased with debits?
A) One.
B) Two.
C) Three.
D) Four.

Answer: A
Explanation: Utilities Expense.
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

124) Which one of the following accounts will have a normal credit balance?
A) Dividends.
B) Salary Expense.
C) Supplies.
D) Common Stock.

Answer: D
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
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125) Consider the following accounts:

Dividends
Insurance Expense
Cash
Service Revenue

How many of these accounts are increased with credits?
A) One.
B) Two.
C) Three.
D) Four.

Answer: A
Explanation: Service Revenue.
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
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126) When viewing a company's accounting records, the terms "debit" and "credit" would typically be seen in which location?
A) Financial statements
B) Source documents
C) Chart of accounts
D) Journal

Answer: D
Difficulty: 1 Easy
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Remember
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127) Cooper Law Offices has the following source document from one of its suppliers:

Allen Office Supplies

Description	Quantity	Price per unit	Total
Legal paper	100	$ 15	$ 1,500
Ink cartridge	40	$ 30	$ 1,200
			$ 2,700

Invoice Number: #127874
Date of purchase: January 17, 2021
Payment due: 30 days from date of purchase

What should Cooper record on the date of the purchase?
A) Debit Cash; Credit Accounts Receivable for $2,700.
B) Debit Supplies; Credit Accounts Payable for $2,700.
C) Debit Accounts Payable; Credit Cash for $2,700.
D) Debit Accounts Receivable; Credit Sales Revenue for $2,700.

Answer: B
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

128) The term commonly used in accounting to describe the format for recording a transaction is:
A) Chart of accounts.
B) Trial balance.
C) General ledger.
D) Journal entry.

Answer: D
Difficulty: 1 Easy
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
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129) Which of the following is the appropriate debit/credit format for recording a business transaction?

A.	Credit Name	Credit Amount
	Debit Name	Debit Amount
B.	Debit Amount	Debit Name
	Credit Amount	Credit Name
C.	Debit Name	Debit Amount
	Credit Name	Credit Amount
D.	Credit Name	Debit Amount
	Debit Name	Credit Amount

A) Option A
B) Option B
C) Option C
D) Option D

Answer: C
Difficulty: 1 Easy
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

130) The following statements pertain to recording transactions. Which of them are true?

I. Total debits should equal total credits.
II. It is possible to have multiple debits or credits in one journal entry.
III. Assets are always listed first in journal entries.
IV. Some journal entries will have debits only.
A) I only.
B) I and II.
C) I, II, and IV.
D) II, III, and IV.

Answer: B
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
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131) Which of the following is not a possible journal entry?
A) Credit assets; Debit expenses.
B) Debit assets; Debit stockholders' equity.
C) Credit revenues; Debit assets.
D) Debit expenses; Credit liabilities.

Answer: B
Difficulty: 3 Hard
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

132) Providing services on account would be recorded with a:
A) Debit to Service Revenue.
B) Credit to Accounts Receivable.
C) Credit to Accounts Payable.
D) Debit to Accounts Receivable.

Answer: D
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

133) Xenon Corporation borrows $75,000 from First Bank. Xenon Corporation records this transaction with a:
A) Debit to Investments.
B) Credit to Retained Earnings.
C) Credit to Notes Payable.
D) Credit to Interest Expense.

Answer: C
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
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134) Childers Service Company provides services to customers totaling $3,000, for which it billed the customers. How would the transaction be recorded?
A) Debit Cash $3,000, credit Service Revenue $3,000.
B) Debit Accounts Receivable $3,000, credit Service Revenue $3,000.
C) Debit Accounts Receivable $3,000, credit Cash $3,000.
D) Debit Service Revenue $3,000, credit Accounts Receivable $3,000.

Answer: B
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

135) A company received a bill for newspaper advertising services, $400. The bill will be paid in 10 days. How would the transaction be recorded today?
A) Debit Advertising Expense $400, credit Accounts Payable $400.
B) Debit Accounts Payable $400, credit Advertising Expense $400.
C) Debit Accounts Payable $400, credit Cash $400.
D) Debit Advertising Expense $400, credit Cash $400.

Answer: A
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

136) When a company pays utilities of $1,800 in cash, the transaction is recorded as:
A) Debit Utilities Expense $1,800, credit Utilities Payable $1,800.
B) Debit Utilities Payable $1,800, credit Cash $1,800.
C) Debit Cash $1,800, credit Utilities Expense $1,800.
D) Debit Utilities Expense $1,800, credit Cash $1,800.

Answer: D
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
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137) Assume that cash is paid for rent to cover the next year. The appropriate debit and credit would be:
A) Debit Rent Expense, credit Cash.
B) Debit Prepaid Rent, credit Rent Expense.
C) Debit Prepaid Rent, credit Cash.
D) Debit Cash, credit Prepaid Rent.

Answer: C
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

138) Summer Leasing received $12,000 from a customer to cover 24 months of rent in advance. How should Summer record this transaction?
A) Debit Prepaid Rent; credit Rent Expense.
B) Debit Cash; credit Deferred Revenue.
C) Debit Cash; credit Service Revenue.
D) Debit Rent Expense; credit Cash.

Answer: B
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

139) Styleson Inc. performed cleaning services for its customers for cash. These transactions would be recorded as:
A) Debit Service Revenue, credit Cash.
B) Debit Cash, credit Service Revenue.
C) Debit Cash, credit Accounts Receivable.
D) Debit Accounts Receivable, credit Service Revenue.

Answer: B
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
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140) Assume that $18,000 cash is paid for insurance to cover the next year. The appropriate debit and credit would be:
A) Debit Insurance Expense $18,000, credit Prepaid Insurance $18,000.
B) Debit Prepaid Insurance $18,000, credit Insurance Expense $18,000.
C) Debit Prepaid Insurance $18,000, credit Cash $18,000.
D) Debit Cash $18,000, credit Prepaid Insurance $18,000.

Answer: C
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

141) Providing services to customers for $1,000 on account is recorded as:
A) Debit Accounts Receivable $1,000, credit Service Revenue $1,000.
B) Debit Service Revenue $1,000, credit Cash $1,000.
C) Debit Cash $1,000, credit Accounts Receivable $1,000.
D) Debit Service Revenue $1,000, credit Accounts Receivable $1,000.

Answer: A
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

142) Issuing common stock for $5,000 cash is recorded as:
A) Debit Cash $5,000, credit Service Revenue $5,000.
B) Debit Cash $5,000, credit Common Stock $5,000.
C) Debit Cash $5,000, credit Dividends $5,000.
D) Debit Common Stock $5,000, credit Cash $5,000.

Answer: B
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
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143) Purchasing equipment for $10,000 cash is recorded as:
A) Debit Cash $10,000, credit Equipment $10,000.
B) Debit Equipment $10,000, credit Notes Payable $10,000.
C) Debit Equipment $10,000, credit Cash $10,000.
D) Debit Notes Payable $10,000, credit Equipment $10,000.

Answer: C
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

144) Schooner Inc. purchased equipment by signing a note payable. This transaction would be recorded as:
A) Debit Equipment, credit Cash.
B) Debit Cash, credit Notes Payable.
C) Debit Notes Payable, credit Equipment.
D) Debit Equipment, credit Notes Payable.

Answer: D
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

145) When a company pays $2,500 dividends to its stockholders, the transaction should be recorded as:
A) Debit Cash; credit Dividends.
B) Debit Retained Earnings; credit Dividends.
C) Debit Dividends; credit Cash.
D) Debit Dividends; credit Accounts Payable.

Answer: C
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
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146) Daniel Dino Restaurant owes employees' salaries of $15,000. This would be recorded as:
A) Debit Salaries Expense, credit Cash.
B) Debit Salaries Payable, credit Cash.
C) Debit Salaries Expense, credit Salaries Payable.
D) Debit Salaries Payable, credit Salaries Expense.

Answer: C
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

147) Jerome purchased a building for his business by signing a note to be repaid over the next ten years. Which of the following correctly describes how to record this transaction?
A) Debit assets, credit liabilities.
B) Debit assets, credit stockholders' equity.
C) Debit liabilities, credit assets.
D) Debit expenses, credit liabilities.

Answer: A
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

148) Incurring an expense for advertising on account would be recorded by:
A) Debiting a liability account.
B) Crediting an asset account.
C) Debiting an expense account.
D) Debiting an asset account.

Answer: C
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

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149) Tyler Incorporated receives $150,000 from investors in exchange for shares of its common stock. Tyler Incorporated records this transaction with a:
A) Debit to Investments.
B) Credit to Retained Earnings.
C) Credit to Common Stock.
D) Credit to Service Revenue.

Answer: C
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

150) The owner of an office building should report rent collected in advance as a debit to Cash and a credit to:
A) A liability.
B) An asset other than Cash.
C) Revenue.
D) Stockholders' equity.

Answer: A
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

151) Clement Company paid an account payable related to a previous utility bill of $1,000. This transaction should be recorded as follows on the payment date:
A) Debit Accounts Payable $1,000, credit Cash $1,000.
B) Debit Cash $1,000, credit Accounts Payable $1,000.
C) Debit Utilities Expense $1,000, credit Cash $1,000.
D) Debit Cash $1,000, credit Utilities Expense $1,000.

Answer: A
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
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152) On July 7, Saints Incorporated received $10,000 in cash from a customer for services to be provided on October 10. Which of the following describes how the transaction should be recorded on July 7?
A) Debit Cash $10,000, credit Service Revenue $10,000.
B) Debit Accounts Receivable $10,000, credit Service Revenue $10,000.
C) Debit Cash $10,000, credit Deferred Revenue $10,000.
D) Debit Deferred Revenue $10,000, credit Cash $10,000.

Answer: C
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

153) On December 1, Bears Lawn Maintenance, Inc. signed a contract with a retailer to supply maintenance for the next calendar year. How should this transaction be recorded on December 1?
A) Debit Cash, credit Service Revenue.
B) Debit Cash, credit Accounts Receivable.
C) Debit Accounts Receivable, credit Service Revenue.
D) No transaction should be recorded on December 1.

Answer: D
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

154) Sooner purchased office supplies on account. The transaction would be recorded as:
A) Debit Supplies, Credit Cash
B) Debit Cash, Credit Accounts Payable
C) Debit Accounts Payable, Credit Supplies
D) Debit Supplies, Credit Accounts Payable

Answer: D
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
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155) Tomlin & Company provides music for special occasions. On January 14, the Smith family hired Tomlin for an upcoming family wedding for an agreed-upon fee of $10,000. The wedding was scheduled for May 23. As part of the agreement, the Smiths paid Tomlin half of the fee at the end of April with the remaining amount due by the end of June. How would Tomlin record the receipt of the final payment in June?
A) Credit to Accounts Receivable.
B) Credit to Service Revenue.
C) Credit to Cash.
D) Debit to Deferred Revenue.

Answer: A
Difficulty: 3 Hard
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

156) Bostel wanted to expand the size of its warehouse in order to generate more profits. The company decided to purchase the building adjacent to its existing warehouse. The company pays for the building by borrowing from the bank. The purchase would be recorded as:
A) Debit Cash; credit Notes Payable.
B) Debit Buildings; credit Cash.
C) Debit Buildings; credit Notes Payable.
D) Debit Cash and Buildings; credit Notes Payable.

Answer: C
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

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157) On July 5, Harris Company purchased supplies from the hardware store for $600 on account. On July 10, Harris receives a bill from the hardware store as a reminder about the account balance. On July 17, Harris pays the account in full. How does Harris record the transaction on July 17?

A.	Supplies	600	
	Accounts Payable		600
B.	Accounts Payable	600	
	Supplies		600
C.	Cash	600	
	Accounts Payable		600
D.	Accounts Payable	600	
	Cash		600

A) Option A
B) Option B
C) Option C
D) Option D

Answer: D
Difficulty: 3 Hard
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

158) On July 31, ALOE Inc. received $5,000 cash from a customer who previously purchased ALOE's products on account. What entry should ALOE Inc. record at the time it receives cash?
A) Debit Accounts Receivable, $5,000; credit Cash, $5,000.
B) Debit Cash, $5,000; credit Accounts Receivable, $5,000.
C) Debit Cash, $5,000; credit Accounts Payable, $5,000.
D) Debit Cash, $5,000; credit Service Revenue, $5,000.

Answer: B
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
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159) A transaction is initially recorded in the _____, and then subsequently posted to the general _____.
A) Debit; Credit
B) Statement; Account
C) Journal; Ledger
D) Chart; Statement

Answer: C
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal; Posting to the General Ledger
Learning Objective: 02-04 Record transactions in a journal using debits and credits.; 02-05 Post transactions to the general ledger.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

160) An account balance represents:
A) A chart showing the list of all accounts used to record transactions.
B) The net amount of all debits and credits posted to an account over a period of time.
C) All transactions that affect net income for the period.
D) The equality of debits and credits in the accounting records.

Answer: B
Difficulty: 1 Easy
Topic: Posting to the General Ledger
Learning Objective: 02-05 Post transactions to the general ledger.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

161) Posting is the process of:
A) Analyzing the impact of the transaction on the accounting equation.
B) Obtaining information about external transactions from source documents.
C) Transferring the debit and credit information from the journal to individual accounts in the general ledger.
D) Listing all accounts and their balances at a particular date.

Answer: C
Difficulty: 1 Easy
Topic: Posting to the General Ledger
Learning Objective: 02-05 Post transactions to the general ledger.
Bloom's: Remember
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162) A debit in a journal entry is always posted to the general ledger as a(n):
A) Increase.
B) Credit.
C) Decrease.
D) Debit.

Answer: D
Difficulty: 2 Medium
Topic: Posting to the General Ledger
Learning Objective: 02-05 Post transactions to the general ledger.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

163) Posting transactions to T-accounts involves:
A) Analyzing source documents to determine the effects of transactions on the company's accounts.
B) Listing all accounts and their balances at a particular date to ensure that debits equal credits.
C) Preparing a chronological record of all transactions affecting the company.
D) Transferring debit and credit information from the journal to the accounts in the general ledger.

Answer: D
Difficulty: 2 Medium
Topic: Posting to the General Ledger
Learning Objective: 02-05 Post transactions to the general ledger.
Bloom's: Understand
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164) Below is the company's Cash T-account.

Cash		
Beg.	1,200	
	5,200	3,100
End.	3,300	

The $3,100 amount could represent which of the following?
A) Purchase of supplies on account.
B) Ending balance of cash.
C) Payment for salaries.
D) Collection from customers.

Answer: C
Difficulty: 2 Medium
Topic: Posting to the General Ledger
Learning Objective: 02-05 Post transactions to the general ledger.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

165) Below is the company's Cash T-account.

Cash		
Beg.	1,200	
	5,200	3,100
End.	3,300	

The $5,200 amount could represent which of the following?
A) Purchase of supplies on account.
B) Ending balance of cash.
C) Payment for salaries.
D) Collection from customers.

Answer: D
Difficulty: 2 Medium
Topic: Posting to the General Ledger
Learning Objective: 02-05 Post transactions to the general ledger.
Bloom's: Understand
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166) The figure below is a depiction of a T-account.

Account		
	1,700	Beg.
1,200	800	
	3,300	End.

Which of the following statements is correct?
A) The account could be a liability account.
B) During the period, a journal entry was recorded that included a credit to the account for $800.
C) The amount reported to stockholders at the end of the period for this account is $3,300.
D) All of the other answers provide a correct statement.

Answer: D
Difficulty: 2 Medium
Topic: Posting to the General Ledger
Learning Objective: 02-05 Post transactions to the general ledger.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

167) Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

Issued 10,000 shares of common stock for $15,000 cash.
Purchased land for $12,000, signing a note payable for the full amount.
Purchased office equipment for $1,200 cash.
Received cash of $14,000 for services provided to customers during the month.
Purchased $300 of office supplies on account.
Paid employees $10,000 for their first month's salaries.

What was the balance of Gotebo's Cash account following these six transactions?
A) $29,800.
B) $19,300.
C) $17,800.
D) $22,400.

Answer: C
Explanation: Cash = ($15,000 − $1,200 + $14,000 − $10,000) = $17,800.
Difficulty: 3 Hard
Topic: Posting to the General Ledger
Learning Objective: 02-05 Post transactions to the general ledger.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

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168) The Accounts Payable account has a beginning balance of $12,000 and the company purchased $50,000 of supplies on account during the month. The ending balance was $10,000.

How much did the company pay to creditors during the month?
A) $50,000.
B) $52,000.
C) $60,000.
D) $62,000.

Answer: B
Explanation: $12,000 + $50,000 − $10,000 = $52,000.
Difficulty: 3 Hard
Topic: Posting to the General Ledger
Learning Objective: 02-05 Post transactions to the general ledger.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

169) On March 3, Cobra Inc. purchased a desk for $450 on account. On March 22, Cobra purchased another desk for $500 also on account, and then on March 24, Cobra paid $400 on account. At the end of March, what amount should Cobra report for desks (assuming these two desks were the only desks they had)?
A) $50.
B) $450.
C) $500.
D) $950.

Answer: D
Explanation: $450 + $500 = $950
Difficulty: 3 Hard
Topic: Posting to the General Ledger
Learning Objective: 02-05 Post transactions to the general ledger.
Bloom's: Apply
AACSB: Knowledge Application
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170) The Accounts Receivable account has a beginning balance of $10,000 and the company provides services of $50,000 on account during the month. The ending balance was $12,000.

How much did the company receive from customers during the month?
A) $50,000.
B) $52,000.
C) $48,000.
D) $62,000.

Answer: C
Explanation: $10,000 + $50,000 − $12,000 = $48,000.
Difficulty: 3 Hard
Topic: Posting to the General Ledger
Learning Objective: 02-05 Post transactions to the general ledger.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

171) A trial balance can best be explained as a list of:
A) The income statement accounts used to calculate net income.
B) Revenue, expense, and dividend accounts used to show the balances of the components of retained earnings.
C) The balance sheet accounts used to show the equality of the accounting equation.
D) All accounts and their balances at a particular date.

Answer: D
Difficulty: 1 Easy
Topic: Trial Balance
Learning Objective: 02-06 Prepare a trial balance.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

172) A trial balance represents the:
A) Source documents used to determine the effects of transactions on the company's accounts.
B) List of all accounts and their balances at a particular date to ensure that debits equal credits.
C) Chronological record of all transactions affecting the company.
D) Process of transferring debit and credit information from the journal to the accounts in the general ledger.

Answer: B
Difficulty: 1 Easy
Topic: Trial Balance
Learning Objective: 02-06 Prepare a trial balance.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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173) Lithuanian Motors has the following balance sheet accounts:

Land	$ 170,000
Equipment	66,000
Salaries Payable	?
Notes Payable	88,000
Supplies	14,000
Cash	26,000
Common Stock	100,000
Retained Earnings	40,000
Accounts Payable	?
Prepaid Rent	12,000

If the company has total assets of $288,000, what is the balance of the company's Salaries Payable account?
A) $15,000.
B) $25,000.
C) $12,000.
D) Cannot be determined given the information provided.

Answer: D
Explanation: Total liabilities + Stockholders' equity = ($288,000) = Accounts Payable (?) + Salaries Payable (?) + Notes Payable ($88,000) + Common Stock ($100,000) + Retained Earnings ($40,000); therefore, with two unknowns there is not enough information to solve the problem.
Difficulty: 3 Hard
Topic: Trial Balance
Learning Objective: 02-06 Prepare a trial balance.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: FN Measurement

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174) Finnish Motors has the following balance sheet accounts:

Land	$ 150,000
Equipment	90,000
Salaries Payable	12,000
Notes Payable	99,000
Supplies	10,000
Cash	25,000
Common Stock	40,000
Retained Earnings	100,000
Accounts Payable	?
Prepaid Rent	?

If the company has total liabilities and stockholders' equity of $290,000, what is the balance of the company's Prepaid Rent account?
A) $15,000.
B) $25,000.
C) $12,000.
D) $39,000.

Answer: A
Explanation: Total assets ($290,000) = Land ($150,000) + Equipment ($90,000) + Supplies ($10,000) + Cash ($25,000) + Prepaid Rent (?); therefore, Prepaid Rent = $15,000.
Difficulty: 3 Hard
Topic: Trial Balance
Learning Objective: 02-06 Prepare a trial balance.
Bloom's: Analyze
AACSB: Analytical Thinking
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175) Finnish Motors has the following balance sheet accounts:

Land	$ 150,000
Equipment	90,000
Salaries Payable	12,000
Notes Payable	99,000
Supplies	10,000
Cash	25,000
Common Stock	40,000
Retained Earnings	100,000
Accounts Payable	?
Prepaid Rent	?

If the company has total assets of $290,000, what is the balance of the company's Accounts Payable account?
A) $15,000.
B) $25,000.
C) $12,000.
D) $39,000.

Answer: D
Explanation: Total liabilities and stockholders' equity ($290,000) = Salaries Payable ($12,000) + Notes Payable ($99,000) + Common Stock ($40,000) + Retained Earnings ($100,000) + Accounts Payable (?); therefore, Accounts Payable = $39,000.
Difficulty: 3 Hard
Topic: Trial Balance
Learning Objective: 02-06 Prepare a trial balance.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: FN Measurement

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Match each step of the measurement process with its description.

A) Assess whether the transaction results in a debit or credit to the account balance.
B) Post transactions to the general ledger.
C) Analyze the impact of the transaction on the accounting equation.
D) Use source documents to identify accounts affected by an external transaction.
E) Prepare a trial balance.
F) Record transactions in a journal using debits and credits.

176) Step 6
Difficulty: 2 Medium
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

177) Step 3
Difficulty: 2 Medium
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

178) Step 5
Difficulty: 2 Medium
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

179) Step 2
Difficulty: 2 Medium
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Understand
AACSB: Reflective Thinking
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180) Step 4
Difficulty: 2 Medium
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

181) Step 1
Difficulty: 2 Medium
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

Answers: 176) E 177) A 178) B 179) C 180) F 181) D

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Match each term with its definition.

A) Activities of the company conducted with separate economic entities.
B) Events that affect the financial position of the company but do not include an exchange with a separate economic entity.
C) A summary of the effects of all transactions related to a particular item over a period of time.
D) Full set of procedures used to accomplish the measurement/communication process of financial accounting.
E) A list of all account names used to record transactions of a company.

182) Chart of accounts
Difficulty: 2 Medium
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

183) Internal transactions
Difficulty: 2 Medium
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

184) Accounting cycle
Difficulty: 2 Medium
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

185) External transactions
Difficulty: 2 Medium
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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186) Accounts
Difficulty: 2 Medium
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

Answers: 182) E 183) B 184) D 185) A 186) C

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Match each term with how related transactions affect the accounting equation.

A) Transactions that increase stockholders' equity.
B) Transactions that decrease stockholders' equity related to distributions to stockholders.
C) Transactions that affect the right side of the accounting equation not related to stockholders' equity.
D) Transactions that affect the left side of the accounting equation.
E) Transactions that decrease stockholders' equity related to cost of generating revenues.

187) Assets
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

188) Revenues
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

189) Liabilities
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

190) Dividends
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
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AICPA: BB Critical Thinking

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191) Expenses
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

Answers: 187) D 188) A 189) C 190) B 191) E

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Match each term with its description.

A) Simplified form of a general ledger account.
B) List of all accounts and their balances showing that debits equal credits.
C) Right side of an account.
D) Left side of an account.
E) Format used to record transactions of a company.
F) Chronological record of all transactions.

192) Debit
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal; Posting to the General Ledger; Trial Balance
Learning Objective: 02-04 Record transactions in a journal using debits and credits.; 02-05 Post transactions to the general ledger.; 02-06 Prepare a trial balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

193) Journal entry
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal; Posting to the General Ledger; Trial Balance
Learning Objective: 02-04 Record transactions in a journal using debits and credits.; 02-05 Post transactions to the general ledger.; 02-06 Prepare a trial balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

194) Journal
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal; Posting to the General Ledger; Trial Balance
Learning Objective: 02-04 Record transactions in a journal using debits and credits.; 02-05 Post transactions to the general ledger.; 02-06 Prepare a trial balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

195) Credit
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal; Posting to the General Ledger; Trial Balance
Learning Objective: 02-04 Record transactions in a journal using debits and credits.; 02-05 Post transactions to the general ledger.; 02-06 Prepare a trial balance.
Bloom's: Understand
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196) Trial balance
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal; Posting to the General Ledger; Trial Balance
Learning Objective: 02-04 Record transactions in a journal using debits and credits.; 02-05 Post transactions to the general ledger.; 02-06 Prepare a trial balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

197) T-account
Difficulty: 2 Medium
Topic: Recording Transactions in a Journal; Posting to the General Ledger; Trial Balance
Learning Objective: 02-04 Record transactions in a journal using debits and credits.; 02-05 Post transactions to the general ledger.; 02-06 Prepare a trial balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

Answers: 192) D 193) E 194) F 195) C 196) B 197) A

198) Below are the steps in the measurement process of external transactions. Arrange them from first (1) to last (6).

(a) Post the transaction to the T-accounts in the general ledger.
(b) Assess whether the impact of the transaction results in a debit or credit to the account balance.
(c) Use source documents to identify accounts affected by external transactions.
(d) Analyze the impact of the transaction on the accounting equation.
(e) Prepare a trial balance.
(f) Record transactions using debits and credits.

Answer: 1(c); 2(d); 3(b); 4(f); 5(a); 6(e)
Difficulty: 2 Medium
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Understand
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199) A company received a utility bill of $600 but did not pay it. Indicate the amount of increases and decreases in the accounting equation.

Answer:

Assets	=	Liabilities	+	Stockholders' Equity
$0	=	$600	+	-$600

Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

200) A company purchases supplies on account for $1,700. Indicate the amount of increases and decreases in the accounting equation.

Answer:

Assets	=	Liabilities	+	Stockholders' Equity
$1,700	=	$1,700	+	$0

Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

201) A company provides services to customers on account for $2,400. Indicate the amount of increases and decreases in the accounting equation.

Answer:

Assets	=	Liabilities	+	Stockholders' Equity
$2,400	=	$0	+	$2,400

Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
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202) A company pays $800 dividends to stockholders. Indicate the amount of increases and decreases in the accounting equation.

Answer:

Assets	=	Liabilities	+	Stockholders' Equity
-$800	=	$0	+	-$800

Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

203) A company pays $1,300 for supplies previously purchased on account. Indicate the amount of increases and decreases in the accounting equation.

Answer:

Assets	=	Liabilities	+	Stockholders' Equity
-$1,300	=	-$1,300	+	$0

Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
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204) The following transactions occur for the Hamilton Manufacturers.

(a) Provide services to customers on account for $4,500.
(b) Purchase equipment by signing a note with the bank for $10,000.
(c) Pay advertising of $1,500 for the current month.

Analyze each transaction and indicate the amount of increases and decreases in the accounting equation.

Answer:

	Assets	=	Liabilities	+	Stockholders' Equity
(a)	+$4,500	=	$0	+	+$4,500
(b)	+$10,000	=	+$10,000	+	$0
(c)	-$1,500	=	$0	+	-$1,500

Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

205) Using the notion that the accounting equation (Assets = Liabilities + Stockholders' Equity) must remain in balance, indicate whether each of the following transactions is possible.

(a) Cash decreases; Accounts Payable decreases.
(b) Salaries Expense increases; Salaries Payable decreases.
(c) Accounts Receivable decreases; Service Revenue increases.

Answer: (a) Yes; (b) No; (c) No
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Apply
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206) Suppose a company has the following balance sheet accounts:

Accounts	Balances
Land	$9,000
Building	?
Salaries payable	3,700
Common stock	?
Accounts payable	2,600
Cash	5,300
Retained earnings	11,600
Supplies	3,200
Equipment	4,500

Calculate the missing amounts assuming the company has total assets of $40,000.

Answer: Building = $18,000; Common stock = $22,100.
Feedback: Building: Total Assets ($40,000) = Land ($9,000) + Building (?) + Cash ($5,300) + Supplies ($3,200) + Equipment ($4,500); therefore, Building = $18,000.
Total Liabilities and Stockholders' Equity ($40,000) = Salaries Payable ($3,700) + Common Stock (?) + Accounts Payable ($2,600) + Retained Earnings ($11,600); therefore, Common Stock = $22,100.
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
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207) For each of the following accounts, indicate whether a debit or credit is used to increase (+) or decrease (-) the balance of the account.

Account	Debit	Credit
(a) Common Stock		
(b) Liability		
(c) Asset		
(d) Revenue		
(e) Dividend		
(f) Retained Earnings		
(g) Expense		

Answer: (a) -,+; (b) -,+; (c) +,-; (d) -,+; (e) +,-; (f) -,+; (g) +,-
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

208) For each of the following accounts, indicate whether we use a debit or a credit to increase the balance of the account.

(a) Accounts Receivable
(b) Accounts Payable
(c) Salaries Expense
(d) Service Revenue
(e) Supplies
(f) Common Stock
(g) Advertising Expense
(h) Dividends

Answer: (a) debit; (b) credit; (c) debit; (d) credit; (e) debit; (f) credit; (g) debit; (h) debit
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
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209) For each of the following accounts, indicate whether we use a debit or a credit to decrease the balance of the account.

(a) Accounts Receivable
(b) Accounts Payable
(c) Salaries Expense
(d) Service Revenue
(e) Supplies
(f) Common Stock
(g) Advertising Expense
(h) Dividends

Answer: (a) credit; (b) debit; (c) credit; (d) debit; (e) credit; (f) debit; (g) credit; (h) credit
Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

210) A company issues common stock for $20,000 cash. Record the transaction.

Answer:

Cash	20,000	
Common Stock		20,000

Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

211) A company purchases a building for $100,000, signing a note payable. Record the transaction.

Answer:

Building	100,000	
Notes Payable		100,000

Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
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212) A company purchases equipment for $15,000 cash. Record the transaction.

Answer:

Equipment	15,000	
Cash		15,000

Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

213) A company purchases office supplies on account for $7,500. Record the transaction.

Answer:

Office Supplies	7,500	
Accounts Payable		7,500

Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

214) A company provides services to customers on account, $3,500. Record the transaction.

Answer:

Accounts Receivable	3,500	
Service Revenue		3,500

Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
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215) A company provides services to customers for $2,400 cash. Record the transaction.

Answer:

Cash	2,400	
Service Revenue		2,400

Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

216) A company pays employees' salaries of $4,200 for the current period. Record the transaction.

Answer:

Salaries Expense	4,200	
Cash		4,200

Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

217) A company pays $2,000 dividends to its stockholders. Record the transaction.

Answer:

Dividends	2,000	
Cash		2,000

Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
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218) A company collects $4,000 cash from customers for services previously provided on account. Record the transaction.

Answer:

Cash	4,000	
Accounts Receivable		4,000

Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

219) A company receives $6,500 cash in advance from customers for services to be provided next year. Record the transaction.

Answer:

Cash	6,500	
Deferred Revenue		6,500

Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

220) A company pays $5,400 for maintenance in the current period. Record the transaction.

Answer:

Maintenance Expense	5,400	
Cash		5,400

Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
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221) A company pays $12,000 to purchase a one-year insurance policy. Record the transaction.

Answer:

Prepaid Insurance	12,000	
Cash		12,000

Difficulty: 2 Medium
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

222) Record the following transactions for Acme Builders:

(a) Purchase office supplies on account, $1,200.
(b) Provide services to customers for cash, $2,500.
(c) Pay $1,100 in salaries for the current month.

Answer:

(a)	Supplies	1,200	
	Accounts Payable		1,200
(b)	Cash	2,500	
	Service Revenue		2,500
(c)	Salaries Expense	1,100	
	Cash		1,100

Difficulty: 3 Hard
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Apply
AACSB: Knowledge Application
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223) Record the following transactions for the Stroud Music Store:

(a) Provide music lessons to students for $12,000 on account.
(b) Purchase music supplies on account, $1,500.
(c) Pay rent for the current month, $2,000.
(d) Receive $10,000 cash from students in (a) above.

Answer:

(a)	Accounts Receivable	12,000	
	Service Revenue		12,000
(b)	Supplies	1,500	
	Accounts Payable		1,500
(c)	Rent Expense	2,000	
	Cash		2,000
(d)	Cash	10,000	
	Accounts Receivable		10,000

Difficulty: 3 Hard
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Apply
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224) Rite Shoes was involved in the transactions described below. Record each transaction. If an entry is not required, state "No Entry."

(a) Purchased $8,200 of supplies on account.
(b) Paid weekly salaries, $920.
(c) Provided services to customers on account, $5,300.
(d) Paid for supplies purchased in (a) above.
(e) Placed an order for $6,200 of supplies.

Answer:

(a)	Supplies	8,200	
	Accounts Payable		8,200
(b)	Salaries expense	920	
	Cash		920
(c)	Accounts Receivable	5,300	
	Service Revenue		5,300
(d)	Accounts Payable	8,200	
	Cash		8,200
(e)	No Entry.		

Difficulty: 3 Hard
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: FN Measurement

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225) Record the following transactions. If an entry is not required, state "No Entry."

(a) Started business by issuing 10,000 shares of common stock for $20,000.
(b) Hired Rebecca as an administrative assistant, promising to pay her $2,000 every two weeks.
(c) Rented a building for three years at $500 per month and paid six months' rent in advance.
(d) Purchased equipment for $5,400 cash.
(e) Purchased $1,800 of supplies on account.
(f) Provided services to customers for $7,800 cash.
(g) Paid employees' salaries, $5,200.
(h) Paid for supplies purchased in item (e).
(i) Paid $800 for current advertising in a local newspaper.
(j) Paid utility bill of $1,300 for the current month.

Answer:

(a)	Cash	20,000	
	Common Stock		20,000
(b)	No Entry.		
(c)	Prepaid Rent	3,000	
	Cash		3,000
(d)	Equipment	5,400	
	Cash		5,400
(e)	Supplies	1,800	
	Accounts Payable		1,800
(f)	Cash	7,800	
	Service Revenue		7,800
(g)	Salaries expense	5,200	
	Cash		5,200
(h)	Accounts Payable	1,800	
	Cash		1,800
(i)	Advertising Expense	800	
	Cash		800
(j)	Utilities Expense	1,300	
	Cash		1,300

Difficulty: 3 Hard
Topic: Recording Transactions in a Journal
Learning Objective: 02-04 Record transactions in a journal using debits and credits.
Bloom's: Apply
AACSB: Knowledge Application
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226) Consider the following T-account for Accounts Payable.

Accounts Payable	
	10,200
8,800	
	4,500

1. Compute the balance of the Accounts Payable account.
2. Give an example of a transaction that would have resulted in the $8,800 posting to the account.
3. Give an example of a transaction that would have resulted in the $4,500 posting to the account.

Answer: 1. $10,200 - $8,800 + $4,500 = $5,900.
2. Postings on the left side (or debit side) of the Accounts Payable T-account represent decreases to accounts payable, such as making a payment on the account.
3. Postings on the right side (or credit side) of the Accounts Payable T-account represent increases to accounts payable, such as purchasing office supplies on account.
Difficulty: 3 Hard
Topic: Posting to the General Ledger
Learning Objective: 02-05 Post transactions to the general ledger.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: FN Measurement

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227) Consider the following transactions for Mittel Corporation:

a. Issue common stock for $10,000.
b. Purchase equipment for $11,500 cash.
c. Pay employees' salaries of $3,700.
e. Provide services to customers for $6,200 cash.

1. Post these transactions to the Cash T-account. Assume the balance of Cash before these transactions is $4,200.
2. Calculate the ending balance of the Cash account.

Answer: **Cash**

4,200	
10,000	11,500
6,200	3,700
5,200	

Difficulty: 3 Hard
Topic: Posting to the General Ledger
Learning Objective: 02-05 Post transactions to the general ledger.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: FN Measurement

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228) Use the following information to prepare a trial balance.

Cash	$6,200
Deferred revenue	1,200
Prepaid insurance	1,200
Accounts payable	1,900
Retained earnings	1,600
Utilities expense	3,000
Dividends	1,200
Salaries expense	2,200
Accounts receivable	3,400
Common stock	6,200
Service revenue	7,100
Maintenance expense	800

Answer:

Trial Balance

	Debit	**Credit**
Cash	$6,200	
Accounts Receivable	3,400	
Prepaid insurance	1,200	
Accounts payable		$1,900
Deferred revenue		1,200
Common stock		6,200
Retained earnings		1,600
Dividends	1,200	
Service revenue		7,100
Salaries expense	2,200	
Utilities expense	3,000	
Maintenance expense	800	
Totals	$18,000	$18,000

Difficulty: 3 Hard
Topic: Trial Balance
Learning Objective: 02-06 Prepare a trial balance.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: FN Measurement

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229) Below is a list of activities.

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Obtain a loan at the bank	Increase	=	Increase	+	No Effect
2. Issue common stock to stockholders for cash.					
3. Purchase equipment for cash.					
4. Pay cash for insurance in advance.					
5. Pay cash for employees' salaries in the current period.					
6. Pay accounts payable.					
7. Purchase office supplies on account.					
8. Provide services to customers for cash.					
9. Provide services to customers on account.					
10. Pay cash dividends to stockholders.					
11. Pay cash for utilities in the current period.					

Required:
For each activity, indicate whether the transaction increases, decreases, or has no effect on assets, liabilities, and/or stockholders' equity.

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Financial Accounting 5th edition Spiceland Test Bank

Answer:

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Obtain a loan at the bank.	Increase	=	Increase	+	No effect
2. Issue common stock to stockholders for cash.	Increase	=	No effect	+	Increase
3. Purchase equipment for cash.	No effect*	=	No effect	+	No effect
4. Pay cash for insurance in advance.	No effect*	=	No effect	+	No effect
5. Pay cash for employees' salaries in the current period.	Decrease	=	No effect	+	Decrease
6. Pay accounts payable.	Decrease	=	Decrease	+	No effect
7. Purchase office supplies on account.	Increase	=	Increase	+	No effect
8. Provide services to customers for cash.	Increase	=	No effect	+	Increase
9. Provide services to customers on account.	Increase	=	No effect	+	Increase
10. Pay cash dividends to stockholders.	Decrease	=	No effect	+	Decrease
11. Pay cash for utilities in the current period.	Decrease	=	No effect	+	Decrease

*One asset increases and another asset decreases.
Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: FN Measurement

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230) Below is a list of activities.

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Issue common stock in exchange for cash, $15,000	+$15,000	=	$0	+	+$15,000
2. Purchase equipment for cash, $20,000.					
3. Pay cash for insurance in advance, $2,400.					
4. Pay cash for employees' salaries in the current period, $17,200.					
5. Pay accounts payable, $1,000.					
6. Purchase office supplies on account, $3,750.					
7. Provide services to customers for cash, $6,800.					
8. Provide services to customers on account, $12,300.					
9. Pay cash dividends to stockholders, $2,500.					
10. Pay cash for utilities in the current period, $1,200.					
Totals					

Required:
For each activity, indicate the impact on the accounting equation. After doing all the transactions, ensure that the accounting equation remains in balance.

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Answer:

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Issue common stock in exchange for cash, $15,000.	+$15,000	=	$0	+	+$15,000
2. Purchase equipment for cash, 20,000.	+$20,000	=	$0	+	$0
	-$20,000				
3. Pay cash for insurance in advance, $2,400.	+$2,400	=	$0	+	$0
	-$2,400				
4. Pay cash for employees' salaries in the current period, $7,200.	-$17,200	=	$0	+	-$17,200
5. Pay accounts payable, $1,000.	-$1,000	=	-$1,000	+	$0
6. Purchase office supplies on account, $3,750.	+$3,750	=	+$3,750	+	$0
7. Provide services to customers for cash, $6,800.	+$6,800	=	$0	+	+$6,800
8. Provide services to customers on account, $12,300.	+$12,300	=	$0	+	+$12,300
9. Pay cash dividends to stockholders, $2,500.	-$2,500	=	$0	+	-$2,500
10. Pay cash for utilities in the current period, $1,200.	-$1,200	=	$0	+	-$1,200
Totals	+$15,950	=	+$2,750	+	+$13,200

Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: FN Measurement

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231) Reed owns a consulting services company, while Sophie operates an auto maintenance shop. For the month of June, the following transactions occurred.

June 2	Sophie decides that she would like consulting services at the end of the month and pays Reed $300 in advance.
June 5	Sophie provides maintenance services to Reed on account, $175.
June 7	Reed borrows $500 from Sophie by signing a note to repay her.
June 14	Sophie purchases maintenance supplies from Tap Corporation, paying cash of $250.
June 19	Reed pays $175 to Sophie for maintenance services provided on June 5.
June 25	Reed pays the utility bill for the month of June, $200.
June 28	Sophie receives consulting services from Reed, equaling the amount paid on June 2.
June 30	Reed pays $500 to Sophie for money borrowed on June 7.

Required:
Record each transaction for Reed. Keep in mind that Reed may not need to record all transactions.

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Answer:

Transactions for Reed

		Debit	Credit
June 2	Cash	300	
	Deferred Revenue		300
	(Receive cash in advance from customer)		
June 5	Maintenance Expense	175	
	Accounts Payable		175
	(Receive maintenance services on account)		
June 7	Cash	500	
	Notes Payable		500
	(Receive cash and sign note payable)		
June 14	No entry for Reed.		
June 19	Accounts Payable	175	
	Cash		175
	(Pay cash on account)		
June 25	Utilities Expense	200	
	Cash		200
	(Pay utilities for the current month)		
June 28	Deferred Revenue	300	
	Service Revenue		300
	(Provide service previously paid)		
June 30	Notes Payable	500	
	Cash		500
	(Pay cash on note payable)		

Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation; Effects of Debits and Credits on Account Balances; Recording Transactions in a Journal
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.; 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.; 02-04 Record transactions in a journal using debits and credits.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: FN Measurement

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Financial Accounting 5th edition Spiceland Test Bank

232) Reed owns a consulting services company, while Sophie operates an auto maintenance shop. For the month of June, the following transactions occurred.

June 2	Sophie decides that she would like consulting services at the end of the month and pays Reed $300 in advance.
June 5	Sophie provides maintenance services to Reed on account, $175.
June 7	Reed borrows $500 from Sophie by signing a note promising to repay her.
June 14	Sophie purchases maintenance supplies from Tap Corporation, paying cash of $250.
June 19	Reed pays $175 to Sophie for maintenance services provided on June 5.
June 25	Reed pays the utility bill for the month of June, $200.
June 28	Sophie receives consulting services from Reed, equaling the amount paid on June 2.
June 30	Reed pays $500 to Sophie for money borrowed on June 7.

	Reed					**Sophie**				
	Assets	**=**	**Liabilities**	**+**	**Stockholders' Equity**	**Assets**	**=**	**Liabilities**	**+**	**Stockholders' Equity**
June 2	+$300	=	+$300	+	$0	+$300	=	$0	+	$0
						-$300				
5										
7										
14										
19										
25										
28										
30										

Required:
1. Record transactions for Sophie. Keep in mind that Sophie may not need to record all transactions.
2. Using the format shown above, indicate the impact of each transaction on the accounting equation for each company.

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Answer:
Requirement 1

	Transactions for Sophie	Debit	Credit
June 2	Prepaid Services	300	
	Cash		300
	(Pay for consulting services in advance)		
June 5	Accounts Receivable	175	
	Service Revenue		175
	(Provide services on account)		
June 7	Notes Receivable	500	
	Cash		500
	(Loan cash and accept note receivable)		
June 14	Supplies	250	
	Cash		250
	(Purchase maintenance supplies with cash)		
June 19	Cash	175	
	Accounts Receivable		175
	(Receive cash on account)		
June 25	No entry for Sophie.		
June 28	Consulting Expense	300	
	Prepaid Services		300
	(Received services paid in advance)		
June 30	Cash	500	
	Notes Receivable		500
	(Receive cash on note receivable)		

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Requirement 2

	Reed					Sophie				
	Assets	**=**	**Liabilities**	**+**	**Stockholders' Equity**	**Assets**	**=**	**Liabilities**	**+**	**Stockholders' Equity**
June 2	+$300	=	+$300	+	$0	+$300	=	$0	+	$0
						-$300				
5	$0	=	+$175	+	-$175	+$175	=	$0	+	+$175
7	+$500	=	+$500	+	$0	+$500 -$500	=	$0	+	$0
14	$0	=	$0	+	$0	+$250 -$250	=	$0	+	$0
19	-$175	=	-$175	+	$0	+$175 -$175	=	$0	+	$0
25	-$200	=	$0	+	-$200	$0	=	$0	+	$0
28	$0	=	-$300	+	+$300	-$300	=	$0	+	-$300
30	-$500	=	-$500	+	$0	+$500 -$500	=	$0	+	$0

Difficulty: 3 Hard
Topic: Effects of Transactions on the Accounting Equation; Effects of Debits and Credits on Account Balances; Recording Transactions in a Journal
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.; 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.; 02-04 Record transactions in a journal using debits and credits.
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AACSB: Analytical Thinking
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233) Below is a list of typical accounts.

Accounts	Type of Account	Normal Balance (Debit or Credit)
1. Service Revenue		
2. Common Stock		
3. Dividends		
4. Salaries Expense		
5. Accounts Payable		
6. Buildings		
7. Deferred Revenue		
8. Accounts Receivable		
9. Retained Earnings		
10. Notes Payable		
11. Utilities Expense		
12. Advertising Expense		

Required:
For each account, (1) indicate the type of account and (2) whether the normal account balance is a debit or credit. For type of account, choose from asset, liability, stockholders' equity, dividend, revenue, or expense.

Answer:

Account Title	Type of Account	Normal Balance (Debit or Credit)
1. Service Revenue	Revenue	Credit
2. Common Stock	Stockholders' equity	Credit
3. Dividends	Dividends	Debit
4. Salaries Expense	Expense	Debit
5. Accounts Payable	Liability	Credit
6. Building	Asset	Debit
7. Deferred Revenue	Liability	Credit
8. Accounts Receivable	Asset	Debit
9. Retained Earnings	Stockholders' equity	Credit
10. Notes Payable	Liability	Credit
11. Utilities Expense	Expense	Debit
12. Advertising Expense	Expense	Debit

Difficulty: 2 Medium
Topic: Effects of Debits and Credits on Account Balances
Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: FN Measurement

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Financial Accounting 5th edition Spiceland Test Bank

234) Below are the transactions for Cleaning Racer, Inc. for April, the first month of operations.

April 1	Borrow$50,000 from the bank by signing a note.
April 2	Issue common stock in exchange for cash of $20,000.
April 7	Purchase equipment for $40,000 cash.
April 10	Purchase cleaning supplies of $4,000 on account.
April 12	Provide services of $5,000 for cash.
April 16	Pay employees $1,200 for work performed.
April 19	Pay for advertising in a local newspaper, costing $500.
April 23	Provide services of $7,000 on account.
April 29	Pay employees $1,500 for work performed.
April 30	A utility bill of $1,200 for the current month is paid.
April 30	Pay dividends of $700 to stockholders.

Required:
1. Record each transaction.
2. Post each transaction to the appropriate T-accounts.
3. Calculate the balance of each account.
4. Prepare a trial balance for June.

Racer uses the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Notes Payable, Common Stock, Dividends, Service Revenue, Salaries Expense, Advertising Expense, and Utilities Expense.

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Financial Accounting 5th edition Spiceland Test Bank

Answer:
Requirement 1

		Debit	Credit
April 1	Cash	50,000	
	Notes Payable		50,000
	(Borrow from bank)		
April 2	Cash	20,000	
	Common Stock		20,000
	(Issue common stock)		
April 7	Equipment	40,000	
	Cash		40,000
	(Purchase equipment)		
April 10	Supplies	4,000	
	Accounts Payable		4,000
	(Purchase cleaning supplies on account)		
April 12	Cash	5,000	
	Service Revenue		5,000
	(Provide services for cash)		
April 16	Salaries Expense	1,200	
	Cash		1,200
	(Pay employees' salaries)		
April 19	Advertising Expense	500	
	Cash		500
	(Pay for current advertising)		
April 23	Accounts Receivable	7,000	
	Service Revenue		7,000
	(Provide services on account)		

April 29	Salaries Expense	1,500	
	Cash		1,500
	(Pay employees' salaries)		
April 30	Utilities Expense	1,200	
	Cash		1,200
	(Pay current utility bill)		
April 30	Dividends	700	
	Cash		700
	(Pay dividends to stockholders)		

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Financial Accounting 5th edition Spiceland Test Bank

Requirements 2 and 3

Cash		Accounts Receivable		Supplies	
50,000	40,000	7,000		4,000	
20,000	1,200	Bal. 7,000		Bal. 4,000	
5,000	500				
	1,500	**Equipment**		**Accounts Payable**	
	1,200	40,000			4,000
	700				
Bal. 29,900		Bal. 40,000			Bal. 4,000
Notes Payable		**Common Stock**		**Dividends**	
	50,000		20,000	700	
	Bal. 50,000		Bal. 20,000	Bal. 700	
Service Revenue		**Salaries Expense**		**Advertising Expense**	
	5,000	1,200		500	
	7,000	1,500			
	Bal. 12,000	Bal. 2,700		Bal. 500	
Utilities Expense					
1,200					
Bal. 1,200					

Requirement 4

Cleaning Racer Inc.
Trial Balance
June 30

Account Title	Debit	Credit
Cash	$29,900	
Accounts Receivable	7,000	
Supplies	4,000	
Equipment	40,000	
Accounts Payable		$4,000
Notes Payable		50,000
Common Stock		20,000
Dividends	700	
Service Revenue		12,000
Salaries Expense	2,700	
Advertising Expense	500	
Utilities Expense	1,200	
Totals	$86,000	$86,000

Difficulty: 3 Hard
Topic: Recording Transactions in a Journal; Posting to the General Ledger; Trial Balance
Learning Objective: 02-04 Record transactions in a journal using debits and credits.; 02-05 Post transactions to the general ledger.; 02-06 Prepare a trial balance.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: FN Measurement

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235) Wolverine Incorporated had the following trial balance at the beginning of April.

Account Title	Debits	Credits
Cash	$2,800	
Accounts receivable	900	
Supplies	3,600	
Equipment	9,100	
Accounts payable		$2,200
Notes payable		3,600
Common stock		9,000
Retained earnings		1,600

The following transactions occur in April:

April 1	Issue common stock in exchange for $15,000 cash.
April 2	Purchase equipment with a long-term note for $4,500 from Hoosier Corporation.
April 4	Purchase supplies for $1,500 on account.
April 10	Provide services to customers on account for $9,000.
April 15	Pay creditors on accounts payable, $1,200.
April 20	Pay employees $2,300 for the first half of the month.
April 22	Provide services to customers for $11,500 cash.
April 24	Pay $1,300 on the note from Hoosier Corporation.
April 26	Collect $7,100 on account from customers.
April 28	Pay $1,700 to the local utility company for April gas and electricity.
April 30	Pay $3,200 rent for the month of April.

Required:
1. Record each transaction.
2. Post each transaction to the appropriate T-accounts.
3. Calculate the balance of each account at April 30. (Hint: Be sure to include the balance at the beginning of April in each T-account.)
4. Prepare a trial balance as of April 30.

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Financial Accounting 5th edition Spiceland Test Bank

Answer:
Requirement 1

		Debit	Credit
April 1	Cash	15,000	
	Common Stock		15,000
	(Issue common stock)		
April 2	Equipment	4,500	
	Notes Payable		4,500
	(Purchase equipment with note payable)		
April 4	Supplies	1,500	
	Accounts Payable		1,500
	(Purchase supplies on account)		
April 10	Accounts Receivable	9,000	
	Service Revenue		9,000
	(Provide services on account)		
April 15	Accounts Payable	1,200	
	Cash		1,200
	(Pay cash on account)		
April 20	Salaries Expense	2,300	
	Cash		2,300
	(Pay current salaries)		
April 22	Cash	11,500	
	Service Revenue		11,500
	(Provide services for cash)		
April 24	Notes Payable	1,300	
	Cash		1,300
	(Pay on note payable)		
April 26	Cash	7,100	
	Accounts receivable		7,100
	(Receive cash on account)		
April 28	Utilities Expense	1,700	
	Cash		1,700
	(Pay utilities for current month)		
April 30	Rent Expense	3,200	
	Cash		3,200
	(Pay rent for current month)		

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Financial Accounting 5th edition Spiceland Test Bank

Requirements 2 and 3

Cash		Accounts Receivable		Supplies	
Bal. 2,800	1,200	Bal. 900	7,100	Bal. 3,600	
15,000	2,300	9,000		1,500	
11,500	1,300				
7,100	1,700				
	3,200				
Bal. 26,700		Bal. 2,800		Bal. 5,100	
Equipment		**Accounts Payable**		**Notes Payable**	
Bal. 9,100		1,200	Bal. 2,200	1,300	Bal. 3,600
4,500			1,500		4,500
Bal. 13,600			Bal. 2,500		Bal. 6,800
Common Stock		**Retained Earnings**		**Service Revenue**	
	Bal. 9,000		Bal. 1,600		9,000
	15,000				11,500
	Bal. 24,000		Bal. 1,600		Bal. 20,500
Salaries Expense		**Utilities Expense**		**Rent Expense**	
2,300		1,700		3,200	
Bal. 2,300		Bal. 1,700		Bal. 3,200	

Requirement 4

Wolverine Incorporated
Trial Balance
April 30

Account Title	Debit	Credit
Cash	$26,700	
Accounts Receivable	2,800	
Supplies	5,100	
Equipment	13,600	
Accounts Payable		$2,500
Notes Payable		6,800
Common Stock		24,000
Retained Earnings		1,600
Service Revenue		20,500
Salaries Expense	2,300	
Utilities Expense	1,700	
Rent Expense	3,200	
Totals	$55,400	$55,400

Difficulty: 3 Hard
Topic: Recording Transactions in a Journal; Posting to the General Ledger; Trial Balance
Learning Objective: 02-04 Record transactions in a journal using debits and credits.; 02-05 Post transactions to the general ledger.; 02-06 Prepare a trial balance.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: FN Measurement

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Financial Accounting 5th edition Spiceland Test Bank

236) Baker Incorporated specializes in training and veterinary services for household pets, such as cats, dogs, birds, lizards, and fish. After the first 11 months of operations in 2021, Baker has the following account balances.

Account Title	Debits	Credits
Cash	$13,300	
Supplies	2,600	
Prepaid rent	4,800	
Equipment	82,100	
Buildings	200,000	
Accounts payable		$9,500
Deferred revenue		3,400
Common stock		145,000
Retained earnings		50,200
Dividends	9,000	
Service revenue		250,000
Salaries expense	100,000	
Advertising expense	15,600	
Utilities expense	30,700	
Totals	458,100	$458,100

The following transactions occur during December 2021:

December 1-31	Throughout the month, Baker provides services to customers for cash, $25,400.(Hint: Record the entire month's services in a single entry.)
December 4	Purchase pet supplies on account, $2,700.
December 8	Pay for fliers to be distributed to local residences to advertise the company's services, $3,100.
December 9	Pay for supplies purchased on December 4.
December 12	Issue additional shares of common stock for cash, $6,000.
December 16	Pay cash on accounts payable, $6,600.
December 19	Purchase equipment with cash, $7,800.
December 22	Pay utilities for December, $4,400.
December 24	Receive cash from customers for services to be provided next January, $2,500.
December 27	One of Baker's trainers takes a part-time job at the zoo and earns a salary of $1,300. The zoo and Baker are separate companies.
December 30	Pay employees' salaries for the current month, $10,000.
December 31	Pay dividends to stockholders, $3,000.

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Required:
1. Record each transaction.
2. Post each transaction to the appropriate T-accounts.
3. Calculate the balance of each account at December 31. (Hint: Be sure to include the balance at the beginning of December in each T-account.)
4. Prepare a trial balance as of December 31.

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Financial Accounting 5th edition Spiceland Test Bank

Answer:
Requirement 1

Entries are numbered for posting.

			Debit	Credit
(1)	December 1-31	Cash	25,400	
		Service Revenue		25,400
		(Provide services for cash)		
(2)	December 4	Supplies	2,700	
		Accounts Payable		2,700
		(Purchase supplies on account)		
(3)	December 8	Advertising Expense	3,100	
		Cash		3,100
		(Purchase advertising for December)		
(4)	December 9	Accounts Payable	2,700	
		Cash		2,700
		(Pay cash on account)		
(5)	December 12	Cash	6,000	
		Common Stock		6,000
		(Issue shares of common stock)		
(6)	December 16	Accounts Payable	6,600	
		Cash		6,600
		(Pay cash on account)		
(7)	December 19	Equipment	7,800	
		Cash		7,800
		(Purchase equipment)		
(8)	December 22	Utilities Expense	4,400	
		Cash		4,400
		(Pay utilities for current month)		
(9)	December 24	Cash	2,500	
		Deferred Revenue		2,500
		(Receive cash in advance from customers)		
	December 27	No journal entry is required		
(10)	December 30	Salaries Expense	10,000	
		Cash		10,000
		(Pay salaries for December)		
(11)	December 31	Dividends	3,000	
		Cash		3,000
		(Pay dividends)		

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Financial Accounting 5th edition Spiceland Test Bank

Requirements 2 and 3

Cash		Supplies		Prepaid Rent	
	(3) 3,100				
	(4) 2,700				
	(6) 6,600				
Bal. 13,300	(7) 7,800				
(1) 25,400	(8) 4,400				
(5) 6,000	(10) 10,000	Bal. 2,600			
(9) 2,500	(11) 3,000	(2) 2,700		Bal. 4,800	
Bal. 9,600		Bal. 5,300		Bal. 4,800	
Equipment		**Buildings**		**Accounts Payable**	
Bal. 82,100				(4) 2,700	Bal. 9,500
(7) 7,800		Bal. 200,000		(6) 6,600	(2) 2,700
Bal. 89,900		Bal. 200,000			Bal. 2,900
Deferred Revenue		**Common Stock**		**Retained Earnings**	
			Bal. 145,000		
	Bal. 3,400		(5) 6,000		Bal. 50,200
	(9) 2,500				
	Bal. 5,900		Bal. 151,000		Bal. 50,200
Dividends		**Service Revenue**		**Salaries Expense**	
			Bal. 250,000	Bal. 100,000	
Bal. 9,000			(1) 25,400	(10) 10,000	
(11) 3,000					
			Bal. 275,400	Bal. 110,000	
Bal. 12,000					
Advertising Expense		**Utilities Expense**			
Bal. 15,600		Bal. 30,700			
(3) 3,100		(8) 4,400			
Bal. 18,700		Bal. 35,100			

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Requirement 4

Baker Incorporated
Trial Balance
December 31

Accounts	Debit	Credit
Cash	$9,600	
Supplies	5,300	
Prepaid Rent	4,800	
Equipment	89,900	
Buildings	200,000	
Accounts Payable		$2,900
Deferred Revenue		5,900
Common Stock		151,000
Retained Earnings		50,200
Dividends	12,000	
Service Revenue		275,400
Salaries Expense	110,000	
Advertising Expense	18,700	
Utilities Expense	35,100	
Totals	$485,400	$485,400

Difficulty: 3 Hard
Topic: Recording Transactions in a Journal; Posting to the General Ledger; Trial Balance
Learning Objective: 02-04 Record transactions in a journal using debits and credits.; 02-05 Post transactions to the general ledger.; 02-06 Prepare a trial balance.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: FN Measurement

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237) Below are the account balances of Heron Company at the end of November.

Accounts	Balances
Cash	$12,000
Accounts Receivable	?
Rent Expense	1,000
Supplies	5,000
Equipment	19,000
Accounts Payable	7,000
Service Revenue	40,000
Utilities Payable	1,000
Deferred Revenue	6,000
Common Stock	19,000
Utilities Expense	2,000
Retained Earnings	15,000
Salaries Payable	2,000
Salaries Expense	9,000
Insurance Expense	6,000
Advertising Expense	1,000
Supplies Expense	10,000
Dividends	3,000
Prepaid Insurance	4,000
Legal Fees Expense	6,000

Required:
Prepare a trial balance by placing amounts in the appropriate debit or credit column and determining the balance of the Accounts Receivable account.

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Answer:

Accounts	Debits	Credits
Cash	$12,000	
Accounts Receivable	**12,000**	
Supplies	5,000	
Prepaid Insurance	4,000	
Equipment	19,000	
Accounts Payable		$7,000
Utilities Payable		1,000
Salaries Payable		2,000
Deferred Revenue		6,000
Common Stock		19,000
Retained Earnings		15,000
Dividends	3,000	
Service Revenue		40,000
Rent Expense	1,000	
Utilities Expense	2,000	
Salaries Expense	9,000	
Insurance Expense	6,000	
Advertising Expense	1,000	
Supplies Expense	10,000	
Legal Fees Expense	6,000	
	$90,000	$90,000

Difficulty: 3 Hard
Topic: Trial Balance
Learning Objective: 02-06 Prepare a trial balance.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: FN Measurement

238) Describe the external events and give two examples.

Answer: External events involve an exchange between the company and a separate economic entity. Examples include purchasing office supplies on account or borrowing money from a bank.
Difficulty: 2 Medium
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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239) Describe the six steps in the measurement process of external transactions.

Answer: The six steps include: (1) Use source documents to identify accounts affected by an external transaction, (2) analyze the impact of the transaction on the accounting equation, (3) assess whether the transaction results in a debit or credit to the account balances, (4) record the transaction in a journal using debits and credits, (5) post the transaction to the to the general ledger, and (6) prepare a trial balance.
Difficulty: 2 Medium
Topic: External Transactions
Learning Objective: 02-01 Identify the basic steps in measuring external transactions.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

240) Explain what it means that external transactions have a dual effect.

Answer: Dual effect refers to each transaction having at least two effects on the accounting equation. Either an economic event increases (decreases) one side of the equation and also increases (decreases) the other side of the equation by the same amount, or the economic event increases one element and decreases another element by an equal amount, both on the same side of the accounting equation.
Difficulty: 2 Medium
Topic: Effects of Transactions on the Accounting Equation
Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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