College Accounting A Contemporary Approach 4th edition Haddock Test Bank

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Chapter 02 Analyzing Business Transactions

MULTIPLE CHOICE QUESTIONS

1) The entire process of analyzing, recording, and reporting business transactions is based on the fundamental accounting equation.
   A) True
   B) False

2) When using the fundamental accounting equation, an accountant must make sure that total assets are always equal to total liabilities minus owner's equity.
   A) True
   B) False

3) Assets always equal debts of the business plus the financial interest of the owner.
   A) True
   B) False

4) When cash is paid to a creditor, the firm's liabilities decrease.
   A) True
   B) False

5) Al Dunn Bakery bought a new oven for $1,380. Al paid $300 as a cash down payment and will pay the balance in 30 days. Total assets increased by $1,080.
   A) True
   B) False

6) If the owner takes cash out of the business for personal use, the withdrawal should be recorded as an expense of the business.
   A) True
   B) False

7) When cash is collected from accounts receivable, the total amount of assets increases.
   A) True
   B) False

8) A company has assets of $56,320 and liabilities of $29,500. The owner's equity is $85,820.
   A) True
   B) False

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9) The expenses for a period are reported on the balance sheet.
A) True
B) False

10) A double line drawn under the figures in a money column shows that the computation is complete.
A) True
B) False

11) A business transaction is a financial event that affects the resources of a business.
A) True
B) False

12) If there is an excess of expenses over revenues, the excess represents a profit.
A) True
B) False

13) A withdrawal of funds by the owner for personal use is considered a business expense.
A) True
B) False

14) The statement of owner's equity is prepared before the balance sheet so that the ending capital balance is available.
A) True
B) False

15) If assets are $8,000 and liabilities are $2,000, owner's equity is $10,000.
A) True
B) False

16) The amount of net income or net loss is needed to complete the statement of owner's equity.
A) True
B) False

17) Withdrawals by the owner are reported on the income statement.
A) True
B) False

18) The income statement is also known as the profit and loss statement.
A) True
B) False

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19) The net income or net loss for the period is shown on both the income statement and the balance sheet.
A) True
B) False

20) Which of the following equations is the Fundamental Accounting Equation?
A) Assets – Owner's Equity = Liabilities
B) Assets + Liabilities = Owner's Equity
C) Assets = Liabilities + Owner's Equity
D) Assets – Liabilities = Owner's Equity

21) The balance sheet shows:
A) all revenues and expenses.
B) the financial position of a business at a given time.
C) the results of business operations.
D) the amount of net income or loss.

22) The Income Statement shows:
A) the financial position of a business at a given time.
B) the change in owner's equity for a period of time.
C) the amount of net income or net loss.
D) assets, liabilities and expenses.

23) Amounts that a business must pay in the future are known as:
A) capital.
B) liabilities.
C) expenses.
D) assets.

24) Examples of assets are:
A) cash and accounts receivable.
B) investments by the owner and revenue.
C) accounts receivable and rent expense.
D) equipment and revenue.

25) Ginger Yale Ice Company receives money from a customer on account. Recording this transaction will:
A) decrease Accounts Payable.
B) increase Cash.
C) increase Accounts Receivable.
D) decrease G. Yale, Capital.

26) If a business issues a check for $100 to purchase office supplies, What is the effect on the accounting equation?
A) Owner's Equity will decrease
B) Assets will decrease
C) Owner's Equity will increase
D) Total Assets will remain the same

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27) If a business issued a check for $1,000 to pay for two months rent in advance, what is the effect on the firms' assets, liabilities and owner's equity.

A) Owner's Capital will increase
B) Accounts Payable will increase
C) Prepaid Rent will decrease
D) Cash will decrease

28) The owner's investment or equity in a business is called:

A) accounts payable.
B) drawing.
C) cash.
D) capital.

29) At the end of the first month of operations for SloMo Delivery Service, the business had the following accounts: Accounts Receivable, $11,350; Prepaid Insurance, $400; Equipment, $26,200 and Cash, $21,650. On the same date, SloMo owed the following creditors: Simpson Supply Company, $17,000; Allen Office Equipment, $14,500.

The total assets for the SloMo Delivery Service are:

A) $59,600.
B) $21,650.
C) $33,400.
D) $33,000.

30) At the end of the first month of operations for SloMo Delivery Service, the business had the following accounts: Accounts Receivable, $11,350; Prepaid Insurance, $400; Equipment, $26,200 and Cash, $21,650. On the same date, SloMo owed the following creditors: Simpson Supply Company, $17,000; Allen Office Equipment, $14,500.

The total amount of Liabilities is:

A) $17,000.
B) $14,500.
C) $28,100.
D) $31,500.

31) Total assets of Douglas Fuhr Furniture Co. are $84,000 and the total liabilities are $37,000. What is the amount of the owner's equity?

A) $47,000
B) $121,000
C) $84,000
D) $6,000

32) If during the year total assets increase by $75,000 and total liabilities decrease by $16,000, by how much did owner's equity increase/decrease?

A) $59,000 decrease
B) $75,000 increase
C) $91,000 increase
D) $91,000 decrease

33) Which financial statement is reported as of a specific date?

A) Statement of Changes in Financial Position
B) Income Statement
C) Statement of Owner's Equity
D) Balance Sheet

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34) A net loss results:
A) when revenue is greater than expenses.
B) when expenses are greater than assets.
C) when expenses are greater than revenue.
D) when assets are greater than liabilities.

35) The income statement shows:
A) revenue and owner's equity.
B) the results of operations for a period of time.
C) the total value of the business.
D) the financial position of a business on a specific date.

36) If the income statement covered a six-month period ending on November 30, 2019, the third line of the income statement heading would read:
A) Month of November, 2019.
B) November 30, 2019.
C) Six-month Period Ended November 30, 2019.
D) Month Ended November 30, 2019.

37) When the owner invests equipment in a business,
A) assets and owner's equity increase.
B) assets and revenue increase.
C) liabilities decrease and owner's equity increases.
D) assets increase and owner's equity decreases.

38) When equipment is purchased on credit,
A) assets increase and liabilities decrease.
B) assets and owner's equity increase.
C) assets and expenses increase.
D) assets and liabilities increase.

39) When equipment is purchased for cash,
A) assets decrease and expenses increase.
B) one asset increases and another asset decreases.
C) assets increase and liabilities decrease.
D) assets and owner's equity increase.

40) If a business receives $5,000 on account from clients who owed money for services previously billed, identify the effect on the accounting equation:
A) assets decrease and liabilities increase.
B) assets remain the same and owner's equity remains the same.
C) liabilities decrease and owner's equity decreases.
D) owner's equity increases and revenue increases.

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41) When the owner withdraws cash for personal use,
A) assets decrease and owner's equity decreases.
B) assets decrease and owner's equity increases.
C) assets decrease and expenses increase.
D) owner's equity decreases and revenue decreases.

42) When the owner writes a company check to pay the company's electric bill,
A) expenses increase and owner's equity increases.
B) assets and owner's equity increase.
C) assets and liabilities decrease.
D) assets and owner's equity decrease.

43) Identify the account below that is classified as an asset account and would appear on the left side of the accounting equation.
A) Accounts Payable. B) Owner's Capital.
C) Fees Income. D) Accounts Receivable.

44) Assets and liabilities are reported on:
A) both the balance sheet and the income statement.
B) the statement of owner's equity.
C) the income statement.
D) the balance sheet.

45) The financial statement that is prepared first is:
A) the balance sheet. B) up to the accountant.
C) the income statement. D) the statement of owner's equity.

46) The rent paid for future months is a(n):
A) asset. B) liability. C) revenue. D) expense.

47) The statement of financial position is another term for which financial statement?
A) Balance Sheet B) Income Statement
C) Statement of Owner's Equity D) Trial Balance

48) Which financial statement is a representation of the accounting equation?
A) Balance Sheet B) Income Statement
C) Statement of Owner's Equity D) Profit and Loss Statement

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49) The Statement of Owner's Equity is calculated as follows:
A) beginning capital + net income - withdrawals + additional investments = ending capital
B) beginning capital + net income + withdrawals + additional investments = ending capital
C) beginning capital + net loss - withdrawals + additional investments = ending capital
D) beginning capital + net loss + withdrawals + additional investments = ending capital

50) An Income Statement is all of the following except:
A) a profit and loss statement.
B) a formal report of business operations.
C) a statement of income and expenses.
D) a statement of revenues less withdrawals and expenses.

51) At the end of the first month of operations for Jackson's Catering Service, the business had the following accounts: Cash, $21,000; Prepaid Rent, $500; Equipment, $7,500 and Accounts Payable $4,000. By the end of the month, Jackson's had earned $32,000 of Revenues, and used $1,800 of Utilities Expenses, $4,000 of Rent Expense and $3,600 of Salaries Expenses. Calculate the net income to be reported by the company for this first month.
A) $32,000 B) $26,200 C) $22,600 D) $23,100

52) At the end of its first year of operations, Shapiro's Consulting Services reported net income of $27,000. They also had account balances of: Cash, $16,000; Office Supplies, $3,200, Equipment, $24,000 and Accounts Receivable, $8,000. The owner's total investment for this first year was $15,000 and the owner withdrew $2,000 for personal use. Calculate the **ending** balance to be reported on the Statement of Owner's Equity in the Owner's Capital account.
A) $40,000 B) $42,200 C) $58,000 D) $27,000

53) At the end of its first year of operations, Shapiro's Consulting Services reported net income of $27,000. They also had account balances of: Cash, $16,000; Office Supplies, $3,200; Equipment, $24,000 and Accounts Receivable, $8,000. The owner's total investment for this first year was $15,000 and the owner withdrew $2,000 for personal use.

What are the total liabilities of Shapiro's Consulting Services at the end of the first year of operations?
A) $24,200 B) $11,200 C) $42,000 D) $27,000

54) Identify the type of accounts that would appear on a firm's income statement
A) liabilities and expenses. B) assets and revenues.
C) assets and liabilities. D) revenues and expenses.

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55) Owner's equity is:
A) the amount taken out of a business by the owner for personal use.
B) the revenues less the expenses.
C) the amount the owner owes the business.
D) the financial interest of the owner of a business.

56) Given the options below, identify the correct accounting equation formula.
A) Assets = Liabilities + Owner's Equity.
B) Assets + Liabilities = Owner's Equity.
C) Assets + Owner's Equity = Liabilities.
D) Liabilities = Assets + Owner's Equity.

57) The balance sheet shows each of the following except the:
A) amount and types of property the business owns.
B) net income of the business.
C) owner's interest.
D) amount owed creditors.

58) The Balance Sheet heading includes each of the following except:
A) firm's address.
B) title of the report.
C) date of the report.
D) firm's name.

59) Choose the option below that reflects the correct order in which to prepare the three financial statements
A) Income Statement; Statement of Owner's Equity; Balance Sheet.
B) Statement of Owner's Equity; Balance Sheet; Income Statement.
C) Income Statement; Balance Sheet; Statement of Owner's Equity.
D) Balance Sheet; Income Statement; Statement of Owner's Equity.

60) Which of the following is an example of an expense:
A) an owner withdrawal for personal use.
B) the payment of the monthly utility bill.
C) the receipt of cash from a credit customer.
D) the payment of a creditor on account.

61) Revenue by definition is:
A) the collection of amounts owed by customers.
B) an amount a business must pay in the future.
C) the payment of amounts owed to creditors.
D) amounts earned from the sale of goods or services.

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SHORT ANSWER QUESTIONS

62) The property that a business owns is referred to as its _____.

63) The debts or obligations of a business are known as its _____.

64) On the income statement, revenues minus expenses equals _____ for a period of time.

65) The financial interest of the owner in a business is called owner's equity or _____.

66) The account used to record amounts that are owed for goods or services purchased on credit is known as _____.

67) When a business sells services for cash, assets increase and revenue_____.

68) The account used to record amounts that will be collected from charge account customers in the future is referred to as_____.

69) The _____ is the financial report that shows the assets, liabilities, and owner's equity of a business on a specific date.

70) If assets are $17,000 and owner's equity is $10,000, liabilities are _____.

71) When a business pays cash for salaries, assets decrease and expenses _____.

72) In a business transaction, when revenue increases, owner's equity will_____.

73) In a business transaction, when expenses increase, owner's equity will _____.

74) Funds taken from the business by the owner for personal use are called _____.

75) The _____ reports the changes that have occurred in the owner's financial interest during the accounting period.

76) When revenue is greater than expenses, the result is a net _____.

77) When revenue and expenses are equal, the firm is said to _____.

78) The three-line heading of a financial statement shows who, what, and _____.

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79) On December 1, 2019, Geneva Jordan opened her new business with the following assets and liabilities. Complete the accounting equation for the firm.

Accounts Payable	$ 2,100	Prepaid Rent	$ 7,000
Cash	3,750	Loans Payable	15,000
Equipment	26,200	Supplies	1,900

Assets $_____ = Liabilities $_____ + Owner's Equity $_____

80) During October, a firm had the following transactions involving revenue and expenses. Did the firm earn a net income or incur a net loss for the period? What was the amount?

Paid $1,600 for rent for October
Provided services for $4,750 in cash
Paid $350 for the October telephone service
Provided services for $1,700 on credit
Paid salaries of $2,675 to employees
Paid $350 for the monthly office cleaning service

ESSAY QUESTIONS

The following information should be used for questions 81-90.

The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

Cash	K. Mitchell, Capital
Accounts Receivable	Revenue
Equipment	Expenses
Accounts Payable	

81) Performed services on credit

SHORT ANSWER QUESTIONS

82) Paid cash for utilities

83) Sent a check to a creditor

84) Issued checks to pay salaries

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85) Purchased a computer for cash

86) Received cash from credit customers

87) Performed services for cash

88) The owner made an additional investment of cash

89) Purchased Equipment on credit

90) Had a computer repaired; payment is due in 30 days

91) Guy McKinley started the McKinley Charter Service at the beginning of August 2019. On August 31, 2019, the accounting records of the business showed the following information. Prepare an income statement and a statement of owner's equity for the month and a balance sheet as of August 31, 2019.

Equipment	$ 18,000	Rent Expense	$4,800
Accounts Receivable	2,600	Cash	6,200
Fees Income	30,000	Salaries Expense	10,800
Boats	103,000	Utilities Expense	1,900
Gasoline Expense	7,500	Supplies	3,600
Loans Payable	77,500	Initial Investment	51,000
Owners' Withdrawal	4,100	Accounts Payable	4,000

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ESSAY QUESTIONS

The following information should be used for questions 92-94.

On September 1, Shawn Dahl established Whitewater Rentals, a canoe and kayak rental business. The following transactions occurred in the month of September and affected the following accounts:

Cash	Accounts Payable
Accounts Receivable	Shawn Dahl, Capital
Office Equipment	Revenue
Canoe and Kayak Equipment	Expenses

Transactions
1. Shawn Dahl invested $50,000 in cash to open the business
2. Paid $14,200 in cash for the purchase of kayak and canoe equipment
3. Paid $2,200 in cash for rent expense
4. Purchased additional kayak and canoe equipment for $4,900 on credit
5. Received $4,600 in cash for kayak rentals
6. Rented canoes and kayaks for $3,400 on account
7. Purchased office equipment for $375 in cash
8. Received $1,350 in cash from credit clients
9. Shawn Dahl withdrew $1,800 in cash for personal expenses

92) Based on the information shown in transaction #4 above, indicate the accounts affected and use plus and minus to show the changes caused by the transaction.

SHORT ANSWER QUESTIONS

93) Based on the information shown above, what is the balance of Accounts Receivable for Whitewater Rentals at the end of September?

94) Based on the information above, what is the fundamental accounting equation at the end of September for Whitewater Rentals?

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ESSAY QUESTIONS

95) On June 1, Donna Banhil established Solo Services, a voice consulting service. Enter the following transactions for June in the table below using + and — to indicate increases or decreases:

Transactions

1. Donna Banhil invested $21,000 in cash to open the business
2. Paid $1,650 for June's rent
3. Paid $4,950 for rent in advance, for the next three months (July-September)
4. Purchased office supplies for $550 on credit
5. Performed voice consulting services and immediately received $3,300 from clients.
6. Gave voice lessons to charge account clients and earned $8,800
7. Paid $220 cash for the supplies purchased earlier in the month
8. Received $1,000 in cash from credit clients billed earlier in the month

Trans		Assets			=	Liab.		Owner's Equity		
	Cash	Accts. Rec.	Prepaid Rent	Office Supplies		Accts. Pay.		D. Banhil, Capital	Rev.	Expense
1										
2										
3										
4										
5										
6										
7										
8										
Bal										

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SHORT ANSWER QUESTIONS

The following information should be used for questions 96-98.

The figure below shows the transactions for Sawyer Architecture Services during June. Greg Sawyer opened this business on June 1 with a capital investment of $78,000 (Transaction 1).

Trans		Assets		=	Liab.		Owner's Equity		
	Cash	Accts Rec	Supp	Equip	Accts Pay		G. Sawyer, Capital	Rev.	Expense
1	+78,000						+78,000		
2	- 8,200			+8,200					
3		+5,200						+5,200	
4				+3,680	+3,680				
5	- 3,500								-3,500
6	+ 670	- 670							
7	- 2,400						- 2,400		
8	- 450		+450						
Bal	64,120 +	4,530 +	450 +	11,880=	3,680	+	75,600 +	5,200 +	-3,500

96) What was the net income or net loss for Sawyer Architecture Services for the month of June?

ESSAY QUESTIONS

97) Prepare the statement of owner's equity for Sawyer Architecture Services for the month ended June 30, 2019.

98) Prepare the balance sheet for Sawyer Architecture Services as of June 30, 2019.

SHORT ANSWER QUESTIONS

The following information should be used for questions 99-100.

Cullen Beatty plans to start a consulting business–Cullen Consulting Services. In preparation to do this, on April 1, 2019, he invested $56,000 in cash and $23,000 in equipment, and opened an account at Office Plus by purchasing $1,750 in office supplies which is due by the end of the month. He then signed a one-year lease agreement on an office building for $8,400, paying the full amount in advance.

99) Prepare a Balance Sheet for Cullen Consulting Services as of April 1, 2019, before he conducts any services.

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ESSAY QUESTIONS

100) Cullen would like an explanation of the accounting for his business actions as of April 1, 2019. Explain the terms and interactions between the categories on a Balance Sheet.

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