Financial Accounting Fundamentals 7th edition Wild Test Bank

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Financial Accounting Fundamentals, 7e **(Wild)**
Chapter 2 Accounting for Business Transactions

1) Business transactions and events are the starting points of financial statements.

Answer: TRUE
Difficulty: 1 Easy
Topic: Analyzing and Recording Process
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

2) Preparation of a trial balance is the first step in processing a financial transaction.

Answer: FALSE
Difficulty: 1 Easy
Topic: Analyzing and Recording Process
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Bloom's: Remember
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3) Source documents identify and describe transactions and events entering the accounting process.

Answer: TRUE
Difficulty: 1 Easy
Topic: Analyzing and Recording Process
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Bloom's: Remember
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4) Items such as sales receipts, bank statements, checks, and purchase orders are examples of a business's source documents.

Answer: TRUE
Difficulty: 1 Easy
Topic: Analyzing and Recording Process
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
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5) An account is a record of increases and decreases in a specific asset, liability, equity, revenue, or expense item.

Answer: TRUE
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

6) A customer's promise to pay on credit is classified as an *account payable* by the seller.

Answer: FALSE
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

7) Dividends are subtracted on the income statement as a business expense.

Answer: FALSE
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
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8) The purchase of land and buildings will generally be recorded in the same ledger account.

Answer: FALSE
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

9) Unearned revenues are classified as liabilities.

Answer: TRUE
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

10) Cash dividends paid to stockholders are not reported on the income statement.

Answer: TRUE
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
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11) When a company provides services for which cash will not be received until some future date, the company should record the amount billed as accounts receivable.

Answer: TRUE
Difficulty: 2 Medium
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
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12) Dividends always decrease equity.

Answer: TRUE
Difficulty: 2 Medium
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

13) Expenses always decrease equity.

Answer: TRUE
Difficulty: 2 Medium
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

14) Revenues always increase equity.

Answer: TRUE
Difficulty: 2 Medium
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

15) The issuance of common stock always decrease equity.

Answer: FALSE
Difficulty: 2 Medium
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
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16) Unearned revenue is a liability that is settled in the future when a company delivers its products or services.

Answer: TRUE
Difficulty: 2 Medium
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
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17) A company's chart of accounts is a list of all the accounts used and includes an identification number assigned to each account.

Answer: TRUE
Difficulty: 1 Easy
Topic: Ledger and Chart of Accounts
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

18) An account's balance is the difference between the total debits and total credits for the account, including any beginning balance.

Answer: TRUE
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
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19) The right side of an account is called the *debit* side.

Answer: FALSE
Difficulty: 1 Easy
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
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20) In a double-entry accounting system, total debits must equal total credits for all entries, and total debit account balances in the ledger must equal total credit account balances.

Answer: TRUE
Difficulty: 1 Easy
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
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21) Increases in liability accounts are recorded as debits.

Answer: FALSE
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
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22) Debits increase asset and expense accounts.

Answer: TRUE
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
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23) *Credits* always increase account balances.

Answer: FALSE
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
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24) An expense account normally has a credit balance.

Answer: FALSE
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
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25) A revenue account normally has a debit balance.

Answer: FALSE
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

26) Asset accounts are decreased by debits.

Answer: FALSE
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

27) *Debit* means increase and *credit* means decrease for all accounts.

Answer: FALSE
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
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28) Asset accounts normally have debit balances and revenue accounts normally have credit balances.

Answer: TRUE
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

29) The Dividends account normally has a debit balance.

Answer: TRUE
Difficulty: 1 Easy
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Remember
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AICPA: BB Industry; FN Decision Making

30) A debit entry always increases an account.

Answer: FALSE
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
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31) A transaction that credits an asset account and credits a liability account must also affect one or more other accounts.

Answer: TRUE
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Apply
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32) A transaction that decreases a liability and increases an asset must also affect one or more other accounts.

Answer: TRUE
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

33) If insurance coverage for the next two years is paid for in advance, the amount of the payment is debited to an asset account called Prepaid Insurance.

Answer: TRUE
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

34) The purchase of supplies on credit should be recorded with a debit to Supplies and a credit to Accounts Payable.

Answer: TRUE
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

35) If a company purchases equipment paying cash, the journal entry to record this transaction will include a debit to Cash.

Answer: FALSE
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
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36) If a company provides services to a customer on credit, the company providing the service should credit Accounts Receivable.

Answer: FALSE
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

37) When a company bills a customer for $700 for services performed, the journal entry to record this transaction will include a $700 debit to Services Revenue.

Answer: FALSE
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

38) The debt ratio helps to assess the risk a company has of failing to pay its debts and is helpful to both its owners and creditors.

Answer: TRUE
Difficulty: 2 Medium
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
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39) The higher a company's debt ratio, the lower the risk of a company not being able to pay its debts.

Answer: FALSE
Difficulty: 2 Medium
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

40) The debt ratio is calculated by dividing total assets by total liabilities.

Answer: FALSE
Difficulty: 1 Easy
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Bloom's: Remember
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

41) A company that finances a relatively large portion of its assets with liabilities is said to have a high degree of financial leverage.

Answer: TRUE
Difficulty: 3 Hard
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

42) If a company is highly leveraged, this means that it has relatively high risk of not being able to repay its debt.

Answer: TRUE
Difficulty: 3 Hard
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
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43) Stark Co. has liabilities of $105 million and total assets of $350 million. Its debt ratio is 40.0%.

Answer: FALSE
Explanation: Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = $105 million/$350 million = 30%
Difficulty: 2 Medium
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

44) A journal entry that affects only two accounts is called a compound entry.

Answer: FALSE
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Understand
AACSB/Accessibility: Reflective Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

45) *Posting* is the transfer of journal entry information to the ledger.

Answer: TRUE
Difficulty: 1 Easy
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

46) Transactions are recorded first in the ledger and then transferred to the journal.

Answer: FALSE
Difficulty: 2 Medium
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
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47) A general journal gives a complete record of each transaction in one place, and shows the debits and credits for each transaction.

Answer: TRUE
Difficulty: 1 Easy
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

48) The general journal is a collection of all accounts and their balances.

Answer: FALSE
Difficulty: 1 Easy
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

49) At a given point in time, a trial balance is a list of all ledger accounts and their balances.

Answer: TRUE
Difficulty: 1 Easy
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

50) Errors made in journalizing transactions, posting to the ledger, and preparing the trial balance can still exist in a balanced trial balance.

Answer: TRUE
Difficulty: 2 Medium
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
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51) The trial balance can serve as a replacement for the balance sheet, since total debits must equal total credits.

Answer: FALSE
Difficulty: 2 Medium
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

52) A balanced trial balance is proof that no errors were made in journalizing transactions, posting to the ledger, and preparing the trial balance.

Answer: FALSE
Difficulty: 1 Easy
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Bloom's: Remember
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53) If cash was incorrectly debited for $100 instead of correctly debiting accounts receivable for $100, assuming no other errors, the trial balance will balance.

Answer: TRUE
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

54) The financial statement that summarizes how equity changes over the reporting period is called the balance sheet.

Answer: FALSE
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Understand
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55) An income statement reports revenues earned minus expenses incurred over a period of time.

Answer: TRUE
Difficulty: 1 Easy
Topic: Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

56) The detail of individual revenue and expense accounts is reported on the balance sheet.

Answer: FALSE
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

57) The heading on every financial statement lists the three W's—Who (the name of the business); What (the name of the statement); and Where (the organization's address).

Answer: FALSE
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Reporting

58) If the Common stock account had a $10,000 credit balance at the beginning of the period, and during the period, an additional $5,000 of common stock is issued, the balance in the common stock account listed on the trial balance will be equal to a debit balance of $5,000.

Answer: FALSE
Explanation: $10,000cr + $5,000cr = $15,000 credit balance
Difficulty: 2 Medium
Topic: Debits and Credits; Preparing a Trial Balance
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.; 02-P2 Prepare and explain the use of a trial balance.
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59) Dividends paid to stockholders are **not** reported on a business's income statement.

Answer: TRUE
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Reporting

60) An income statement reports the revenues earned minus expenses incurred by a business over a period of time.

Answer: TRUE
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Reporting

61) The balance sheet reports the financial position of a company at a point in time.

Answer: TRUE
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Reporting

62) The same four basic financial statements are prepared by both U.S. GAAP and IFRS.

Answer: TRUE
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
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63) Neither U.S. GAAP nor IFRS require the use of accrual basis accounting.

Answer: FALSE
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Global; FN Reporting

64) The amount of net income is added on the statement of retained earnings.

Answer: TRUE
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

65) The accounting process begins with:
A) Analysis of business transactions and source documents.
B) Preparing financial statements and other reports.
C) Analysis of prepared financial statements.
D) Presentation of financial information to decision-makers.
E) Preparation of the trial balance.

Answer: A
Difficulty: 2 Medium
Topic: Analyzing and Recording Process
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
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66) Which of the following statements is ***not*** true:
A) Accounts receivable are held by a seller.
B) Accounts receivable arise from credit sales.
C) Accounts receivable are increased by customer payments.
D) Accounts receivable are classified as assets.
E) Accounts receivable are increased by billings to customers.

Answer: C
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

67) A business's source documents may include all of the following ***except***:
A) Sales receipts.
B) Ledgers.
C) Checks.
D) Purchase orders.
E) Bank statements.

Answer: B
Difficulty: 2 Medium
Topic: Analyzing and Recording Process
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

68) A business's source documents:
A) Include the ledger.
B) Provide objective evidence that a transaction has taken place.
C) Must be in electronic form.
D) Are records of all increases and decreases in specific asset.
E) Include the chart of accounts.

Answer: B
Difficulty: 2 Medium
Topic: Analyzing and Recording Process
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
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69) A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense is known as a(n):
A) Journal.
B) Posting.
C) Trial balance.
D) Account.
E) Chart of accounts.

Answer: D
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
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70) When cash is received from a stockholder in exchange for common stock, the transaction is recorded by debiting Cash and crediting a(n):
A) Asset account.
B) Equity account.
C) Revenue account.
D) Expense account.
E) Liability account.

Answer: B
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Remember
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71) Identify the account used by businesses to record the transfer of assets from a business to its stockholders:
A) A revenue account.
B) The Dividends account.
C) The Common stock account.
D) An expense account.
E) A liability account.

Answer: B
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Remember
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72) Identify the statement below that is correct.
A) When a future expense is paid in advance, the payment is normally recorded in a liability account called Prepaid Expense.
B) Promises of future payment by the customer are called accounts receivable.
C) Increases and decreases in cash are always recorded in the common stock account.
D) An account called Land is commonly used to record increases and decreases in both the land and buildings owned by a business.
E) Accrued liabilities include accounts receivable.

Answer: B
Difficulty: 3 Hard
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Apply
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Measurement

73) Unearned revenues are generally:
A) Revenues that have been earned and received in cash.
B) Revenues that have been earned but not yet collected in cash.
C) Liabilities created when a customer pays in advance for products or services before the revenue is earned.
D) Recorded as an asset in the accounting records.
E) Increases to common stock.

Answer: C
Difficulty: 2 Medium
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
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74) Unearned revenues refer to a(n):
A) Asset that will be used over time.
B) Expense incurred because a customer has paid in advance.
C) Liability that is settled in the future when a company delivers its products or services.
D) Increase in assets as a result of delivering products or services to a customer.
E) Decrease in an asset.

Answer: C
Difficulty: 2 Medium
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Understand
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75) Prepaid accounts (also called prepaid expenses) are generally:
A) Payments made for products and services that never expire.
B) Classified as liabilities on the balance sheet.
C) Classified as equity on the balance sheet.
D) Assets that represent prepayments of future expenses.
E) Promises of payments by customers.

Answer: D
Difficulty: 2 Medium
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

76) A company's written promise to pay (in the form of a promissory note) a future amount is a(n):
A) Unearned revenue.
B) Prepaid expense.
C) Credit account.
D) Note payable.
E) Account receivable.

Answer: D
Difficulty: 2 Medium
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
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77) The record of all accounts and their balances used by a business is called a:
A) Journal.
B) Chart of accounts.
C) General Journal.
D) Balance column journal.
E) Ledger (or General Ledger).

Answer: E
Difficulty: 2 Medium
Topic: Ledger and Chart of Accounts
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Reporting

78) A company's ledger is:
A) A record containing increases and decreases in a specific asset, liability, equity, revenue, or expense item.
B) A journal in which transactions are first recorded.
C) A collection of documents that describe transactions and events entering the accounting process.
D) A list of all identification numbers used by the company.
E) A record containing all accounts and their balances used by the company.

Answer: E
Difficulty: 2 Medium
Topic: Ledger and Chart of Accounts
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Bloom's: Understand
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79) A company's list of accounts and the identification numbers assigned to each account is called a:
A) Source document.
B) Journal.
C) Trial balance.
D) Chart of accounts.
E) General Journal.

Answer: D
Difficulty: 2 Medium
Topic: Ledger and Chart of Accounts
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
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80) A credit:
A) Always decreases an account.
B) Is the right-hand side of a T-account.
C) Always increases an account.
D) Is the left-hand side of a T-account.
E) Always increases asset accounts.

Answer: B
Difficulty: 2 Medium
Topic: Ledger and Chart of Accounts
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Bloom's: Understand
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81) A debit:
A) Always increases an account.
B) Is the right-hand side of a T-account.
C) Always decreases an account.
D) Is the left-hand side of a T-account.
E) Always increases liability accounts.

Answer: D
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
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82) The right side of a T-account is a(n):
A) Debit.
B) Increase.
C) Credit.
D) Decrease.
E) Account balance.

Answer: C
Difficulty: 1 Easy
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
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83) Identify the statement below that is *incorrect*.
A) The normal balance of accounts receivable is a debit.
B) The normal balance of dividends is a debit.
C) The normal balance of unearned revenues is a credit.
D) The normal balance of an expense account is a credit.
E) The normal balance of the common stock account is a credit.

Answer: D
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
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84) A credit is used to record an increase in all of the following accounts *except*:
A) Accounts Payable
B) Service Revenue
C) Unearned Revenue
D) Wages Expense
E) Common Stock

Answer: D
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
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85) A debit is used to record an increase in all of the following accounts *except*:
A) Supplies
B) Cash
C) Accounts Payable
D) Dividends
E) Prepaid Insurance

Answer: C
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
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86) Identify the account below that is classified as a liability in a company's chart of accounts:
A) Cash
B) Unearned Revenue
C) Salaries Expense
D) Accounts Receivable
E) Supplies

Answer: B
Difficulty: 2 Medium
Topic: Chart of Accounts
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Bloom's: Understand
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87) Identify the account below that is classified as an asset in a company's chart of accounts:
A) Accounts Receivable
B) Accounts Payable
C) Common Stock
D) Unearned Revenue
E) Service Revenue

Answer: A
Difficulty: 1 Easy
Topic: Chart of Accounts
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Bloom's: Remember
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88) Identify the account below that is classified as an *asset* account:
A) Unearned Revenue
B) Accounts Payable
C) Supplies
D) Retained Earnings
E) Service Revenue

Answer: C
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
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89) Identify the account below that is classified as a *liability* account:
A) Cash
B) Accounts Payable
C) Salaries Expense
D) Retained Earnings
E) Equipment

Answer: B
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
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90) Identify the account below that impacts the *equity* of a business:
A) Utilities Expense
B) Accounts Payable
C) Accounts Receivable
D) Cash
E) Unearned Revenue

Answer: A
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Remember
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91) Which of the following is NOT an equity account:
A) Unearned Revenue
B) Retained Earnings
C) Services Revenue
D) Wages Expense
E) Dividends

Answer: A
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
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92) Which of the following is NOT an asset account:
A) Cash
B) Land
C) Services Revenue
D) Buildings
E) Equipment

Answer: C
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Remember
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93) A business uses a credit to record:
A) An increase in an expense account.
B) A decrease in an asset account.
C) A decrease in an unearned revenue account.
D) A decrease in a revenue account.
E) A decrease in a common stock account.

Answer: B
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
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94) A tool that represents a ledger account and is used to show the effects of transactions is called a:
A) Dividends account.
B) Retained earnings account.
C) Trial balance.
D) T-account.
E) Balance column sheet.

Answer: D
Difficulty: 1 Easy
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
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95) Identify the statement below that is correct:
A) The left side of a T-account is the credit side.
B) Debits decrease asset and expense accounts, and increase liability, equity, and revenue accounts.
C) The left side of a T-account is the debit side.
D) Credits increase asset and expense accounts, and decrease liability, equity, and revenue accounts.
E) The total amount debited need not equal the total amount credited for a particular transaction.

Answer: C
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
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96) An account balance is:
A) The total of the credit side of the account.
B) The total of the debit side of the account.
C) The difference between the total debits and total credits for an account including the beginning balance.
D) Used to identify source documents.
E) Always a credit.

Answer: C
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
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97) Select the account below that normally has a credit balance.
A) Cash.
B) Office Equipment.
C) Wages Payable.
D) Dividends.
E) Sales Salaries Expense.

Answer: C
Difficulty: 1 Easy
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
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98) A debit is used to record which of the following:
A) A decrease in an asset account.
B) A decrease in an expense account.
C) An increase in a revenue account.
D) An increase in the common stock account.
E) An increase in the dividends account.

Answer: E
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
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99) A credit entry:
A) Increases asset and expense accounts, and decreases liability, common stock, and revenue accounts.
B) Always decreases an account.
C) Decreases asset and expense accounts, and increases liability, common stock, and revenue accounts.
D) Is recorded on the left side of a T-account.
E) Always increases an account.

Answer: C
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
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100) A double-entry accounting system is an accounting system:
A) That records each transaction twice.
B) That records the effect of each transaction in at least two accounts with equal debits and credits.
C) In which each transaction affects and is recorded in two or more accounts but that could include two debits and no credits.
D) That allows total credits to be greater than total debits.
E) That allows total debits to be greater than total credits.

Answer: B
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
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101) Edison Consulting received a $300 utilities bill and immediately paid it. Edison's general journal entry to record this transaction will include a:
A) Debit to Utilities Expense for $300.
B) Credit to Accounts Payable for $300.
C) Debit to Cash for $300.
D) Credit to Utilities Expense for $300.
E) Debit to Accounts Payable for $300.

Answer: A
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
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102) GreenLawn Co. provides landscaping services to clients. On May 1, a customer paid GreenLawn $60,000 for 6-months services in advance. GreenLawn's general journal entry to record this transaction will include a:
A) Debit to Unearned Revenue for $60,000.
B) Credit to Accounts Receivable for $60,000.
C) Credit to Cash for $60,000.
D) Credit to Unearned Revenue for $60,000.
E) Debit to Accounts Receivable for $60,000.

Answer: D
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
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103) Willow Rentals purchased office supplies on credit. The general journal entry made by Willow Rentals will include a:
A) Debit to Accounts Payable.
B) Debit to Accounts Receivable.
C) Credit to Cash.
D) Credit to Accounts Payable.
E) Credit to Common Stock.

Answer: D
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
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104) An asset created by prepayment of an insurance premium is:
A) Recorded as a debit to Unearned Revenue.
B) Recorded as a debit to Prepaid Insurance.
C) Recorded as a credit to Unearned Revenue.
D) Recorded as a credit to Prepaid Insurance.
E) Not recorded in the accounting records until the insurance period expires.

Answer: B
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Understand
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105) Victor Cruz contributed $70,000 in cash and land worth $130,000 to open a new business, VC Consulting, in exchange for common stock. Which of the following general journal entries will VC Consulting make to record this transaction?
A) Debit Accounts Payable $200,000; Credit Common Stock, $200,000.
B) Credit Cash and Land, $200,000; Credit Common Stock, $200,000.
C) Debit Cash $70,000; Debit Land $130,000; Credit Common Stock, $200,000.
D) Debit Common Stock, $200,000; Credit Cash $70,000, Credit Land, $130,000.
E) Debit Common Stock, $200,000; Credit Assets, $200,000.

Answer: C
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
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106) Green Cleaning purchased $500 of office supplies on credit. The company's policy is to initially record prepaid and unearned items in balance sheet accounts. Which of the following general journal entries will Green Cleaning make to record this transaction?
A) Debit Office supplies expense, $500; credit Cash, $500.
B) Debit Cash, $500; credit Office supplies, $500.
C) Debit Office supplies, $500; credit Cash, $500.
D) Debit Office supplies, $500; credit Accounts payable, $500.
E) Debit Accounts payable, $500; credit Office supplies, $500.

Answer: D
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
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107) Alicia Tax Services paid $500 to settle an account payable. Which of the following general journal entries will Alicia Tax Services make to record this transaction?
A) Debit Office supplies expense, $500; credit Cash, $500.
B) Debit Cash, $500; credit Office supplies, $500.
C) Debit Office supplies, $500; credit Cash, $500.
D) Debit Office supplies, $500; credit Accounts payable, $500.
E) Debit Accounts payable, $500; credit Cash, $500.

Answer: E
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
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108) A law firm billed a client $1,800 for work performed in the current month. Which of the following general journal entries will the firm make to record this transaction?
A) Debit Accounts Receivable, $1,800; credit Unearned Legal Fees Revenue, $1,800.
B) Debit Cash, $1,800; credit Unearned Legal Fees Revenue, $1,800.
C) Debit Legal Fees Revenue, $1,800; credit Accounts Receivable, $1,800.
D) Debit Accounts Receivable, $1,800; credit Legal Fees Revenue, $1,800.
E) Debit Cash, $1,800; credit Accounts Receivable, $1,800.

Answer: D
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Measurement

109) A law firm collected $1,800 on account for work performed in the previous month. Which of the following general journal entries will the firm make to record this collection of cash?
A) Debit Accounts Receivable, $1,800; credit Unearned Legal Fees Revenue, $1,800.
B) Debit Cash, $1,800; credit Unearned Legal Fees Revenue, $1,800.
C) Debit Legal Fees Revenue, $1,800; credit Accounts Receivable, $1,800.
D) Debit Accounts Receivable, $1,800; credit Legal Fees Revenue, $1,800.
E) Debit Cash, $1,800; credit Accounts Receivable, $1,800.

Answer: E
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
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110) A law firm collected $1,800 in advance for work to be performed in three months. Which of the following general journal entries will the firm make to record this transaction?
A) Debit Accounts Receivable, $1,800; credit Unearned Legal Fees Revenue, $1,800.
B) Debit Cash, $1,800; credit Unearned Legal Fees Revenue, $1,800.
C) Debit Legal Fees Revenue, $1,800; credit Accounts Receivable, $1,800.
D) Debit Accounts Receivable, $1,800; credit Legal Fees Revenue, $1,800.
E) Debit Cash, $1,800; credit Accounts Receivable, $1,800.

Answer: B
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
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111) Specter Consulting purchased $7,000 of supplies and paid cash immediately. Which of the following general journal entries will Specter Consulting make to record this transaction? Assume the company's policy is to initially record prepaid and unearned items in balance sheet accounts.

A)

Accounts Payable	7,000	
Supplies		7,000

B)

Cash	7,000	
Supplies		7,000

C)

Supplies	7,000	
Cash		7,000

D)

Supplies	7,000	
Accounts Payable		7,000

E)

Supplies Expense	7,000	
Accounts Payable		7,000

Answer: C
Difficulty: 2 Medium
Topic: Analyzing Transactions; Journal Entries
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.
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112) Jose Consulting paid $500 cash for utilities for the current month. Determine the general journal entry that Jose Consulting will make to record this transaction.

A)

Utilities Expense	500	
Cash		500

B)

Cash	500	
Utilities Expense		500

C)

Cash	500	
Accounts Payable		500

D)

Utilities Expense	500	
Accounts Payable		500

E)

Prepaid Utilities	500	
Accounts Payable		500

Answer: A
Difficulty: 2 Medium
Topic: Analyzing Transactions; Journal Entries
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.
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113) Alejandro Consulting paid $2,500 cash for a 5-month insurance policy that begins on March 1. Given the choices below, determine the general journal entry that Alejandro Consulting will make to record the cash payment. Assume the company's policy is to initially record prepaid and unearned items in balance sheet accounts.

A)

Insurance Expense	2,500	
Cash		2,500

B)

Cash	2,500	
Insurance Expense		2,500

C)

Cash	2,500	
Prepaid Insurance		2,500

D)

Prepaid Insurance	2,500	
Cash		2,500

E)

Insurance Expense	2,500	
Prepaid Insurance		2,500

Answer: D
Difficulty: 2 Medium
Topic: Analyzing Transactions; Journal Entries
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Understand
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Financial Accounting Fundamentals 7th edition Wild Test Bank

114) Ted Catering received $800 cash in advance from a customer for catering services to be provided in three months. Determine the general journal entry that Ted Catering will make to record the cash receipt. Assume the company's policy is to initially record prepaid and unearned items in balance sheet accounts.

A)

Unearned Catering Revenue	800	
Catering Revenue		800

B)

Cash	800	
Accounts Receivable		800

C)

Cash	800	
Unearned Catering Revenue		800

D)

Cash	800	
Catering Revenue		800

E)

Accounts Receivable	800	
Catering Revenue		800

Answer: C
Difficulty: 3 Hard
Topic: Analyzing Transactions; Journal Entries
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Apply
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Financial Accounting Fundamentals 7th edition Wild Test Bank

115) Gloria Catering provided $1,000 of catering services and billed its client for the amount owed. Determine the general journal entry that Gloria Catering will make to record this transaction.

A)

Unearned Catering Revenue	1,000	
Catering Revenue		1,000

B)

Catering Revenue	1,000	
Accounts Receivable		1,000

C)

Accounts Receivable	1,000	
Unearned Catering Revenue		1,000

D)

Accounts Receivable	1,000	
Catering Revenue		1,000

E)

Accounts Payable	1,000	
Catering Revenue		1,000

Answer: D
Difficulty: 2 Medium
Topic: Analyzing Transactions; Journal Entries
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.
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Financial Accounting Fundamentals 7th edition Wild Test Bank

116) Adriana Graphic Design receives $1,500 from a client billed in a previous month for services provided. Which of the following general journal entries will Adriana Graphic Design make to record this transaction?

A)

Cash	1,500	
Accounts Receivable		1,500

B)

Cash	1,500	
Unearned Design Revenue		1,500

C)

Accounts Receivable	1,500	
Unearned Design Revenue		1,500

D)

Accounts Payable	1,500	
Design Revenue		1,500

E)

Accounts Receivable	1,500	
Cash		1,500

Answer: A
Difficulty: 2 Medium
Topic: Analyzing Transactions; Journal Entries
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.
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Financial Accounting Fundamentals 7th edition Wild Test Bank

117) Jay's Limo Services paid cash dividends of $100. Which of the following general journal entries will Jay's Limo Services make to record this transaction?

A)

Dividends	100	
Cash		100

B)

Cash	100	
Common Stock		100

C)

Common Stock	100	
Dividends		100

D)

Dividends	100	
Retained Earnings		100

E)

Cash	100	
Dividends		100

Answer: A
Difficulty: 2 Medium
Topic: Analyzing Transactions; Journal Entries
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.
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Financial Accounting Fundamentals 7th edition Wild Test Bank

118) Jay's Limo Services paid $300 cash to employees for work performed in the current period. Which of the following general journal entries will Jay's Limo Services make to record this transaction?

A)

Salaries Expense	300	
Accounts Payable		300

B)

Cash	300	
Salaries Expense		300

C)

Salaries Expense	300	
Dividends		300

D)

Salaries Payable	300	
Salaries Expense		300

E)

Salaries Expense	300	
Cash		300

Answer: E
Difficulty: 2 Medium
Topic: Analyzing Transactions; Journal Entries
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.
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Financial Accounting Fundamentals 7th edition Wild Test Bank

119) Russell Co. received a $400 utility bill for the current month's electricity. It is not due until the end of the next month which is when they intend to pay it. Which of the following general journal entries will Russell Co. make to record the receipt of the bill?

A)

Utilities Expense	400	
Accounts Receivable		400

B)

Cash	400	
Utilities Expense		400

C)

Utilities Expense	400	
Accounts Payable		400

D)

Accounts Payable	400	
Utilities Expense		400

E) No journal entry is required.

Answer: C
Difficulty: 2 Medium
Topic: Analyzing Transactions; Journal Entries
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.
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Financial Accounting Fundamentals 7th edition Wild Test Bank

120) Sharp Services provided $800 of consulting work and $100 of design work to the same client. It billed the client for the total amount and is expecting to collect from the customer next month. Which of the following general journal entries did Sharp Services make to record the billing of the customer?

A)

Design Revenue	100	
Consulting Revenue	800	
Accounts Receivable		900

B)

Accounts Payable	800	
Design Revenue		100
Consulting Revenue		800

C)

Design Revenue	100	
Consulting Revenue	800	
Accounts Payable		900

D)

Unearned Revenue	900	
Consulting Revenue		800
Design Revenue		100

E)

Accounts Receivable	900	
Consulting Revenue		800
Design Revenue		100

Answer: E
Difficulty: 3 Hard
Topic: Analyzing Transactions; Journal Entries
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.
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Financial Accounting Fundamentals 7th edition Wild Test Bank

121) Silvia's Studio provided $150 of dance instruction and rented out its dance studio to the same client for another $100. The client paid cash immediately. Identify the general journal entry below that Silvia's Studio will make to record the transaction.

A)

Rental Revenue	100	
Instruction Revenue	150	
Cash		250

B)

Accounts Payable	250	
Rental Revenue		100
Instruction Revenue		150

C)

Cash	250	
Rental Revenue		100
Instruction Revenue		150

D)

Rental Revenue	100	
Instruction Revenue	150	
Accounts Receivable		250

E)

Unearned Revenue	250	
Rental Revenue		100
Instruction Revenue		150

Answer: C
Difficulty: 3 Hard
Topic: Analyzing Transactions; Journal Entries
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.
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Financial Accounting Fundamentals 7th edition Wild Test Bank

122) Geoff Parker, the sole stockholder of Parker Tax Services, started the business by investing $10,000 cash and a building worth $20,000. Identify the general journal entry below that Parker Tax Services will make to record the transaction.

A)

Cash	10,000	
Common Stock		30,000

B)

Common Stock	30,000	
Cash		10,000
Building		20,000

C)

Cash	10,000	
Building	20,000	
Common Stock		30,000

D)

Notes Payable	30,000	
Common Stock		30,000

E)

Dividends	30,000	
Common Stock		30,000

Answer: C
Difficulty: 3 Hard
Topic: Analyzing Transactions; Journal Entries
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.
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Financial Accounting Fundamentals 7th edition Wild Test Bank

123) A company provided $12,000 of consulting services on account. The customer promises payment in 30 days. Identify the journal entry below that properly records this transaction.

A)

Accounts Payable	12,000	
Cash		12,000

B)

Cash	12,000	
Consulting Services Revenue		12,000

C)

Consulting Services Revenue	12,000	
Cash		12,000

D)

Accounts Payable	12,000	
Consulting Services Revenue		12,000

E)

Accounts Receivable	12,000	
Consulting Services Revenue		12,000

Answer: E
Difficulty: 2 Medium
Topic: Analyzing Transactions; Journal Entries
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.
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Financial Accounting Fundamentals 7th edition Wild Test Bank

124) A company provided $12,000 of consulting services and was immediately paid in cash by the customer. Identify the journal entry below that properly records this transaction.

A)

Accounts Receivable	12,000	
Cash		12,000

B)

Cash	12,000	
Consulting Services Revenue		12,000

C)

Consulting Services Revenue	12,000	
Cash		12,000

D)

Accounts Payable	12,000	
Consulting Services Revenue		12,000

E)

Accounts Receivable	12,000	
Consulting Services Revenue		12,000

Answer: B
Difficulty: 2 Medium
Topic: Analyzing Transactions; Journal Entries
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.
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Financial Accounting Fundamentals 7th edition Wild Test Bank

125) Smart Consulting, paid cash dividends of $2,000 to its common stockholders. Identify the general journal entry below that Smart Consulting will make to record the transaction.

A)

Dividends	2,000	
Cash		2,000

B)

Common Stock	2,000	
Cash		2,000

C)

Dividends	2,000	
Common Stock		2,000

D)

Cash	2,000	
Common Stock		2,000

E)

Cash	2,000	
Dividends		2,000

Answer: A
Difficulty: 2 Medium
Topic: Analyzing Transactions; Journal Entries
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.
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Financial Accounting Fundamentals 7th edition Wild Test Bank

126) Matthew Martin, the sole stockholder of Innovation Consulting, started the business by investing $40,000 cash in exchange for common stock. Identify the general journal entry below that Innovation Consulting will make to record the transaction.

A)

Cash	40,000	
Common Stock		40,000

B)

Common Stock	40,000	
Cash		40,000

C)

Accounts Receivable	40,000	
Cash		40,000

D)

Investments	40,000	
Common Stock		40,000

E)

Cash	40,000	
Note Payable		40,000

Answer: A
Difficulty: 2 Medium
Topic: Analyzing Transactions; Journal Entries
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.
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Financial Accounting Fundamentals 7th edition Wild Test Bank

127) If cash is received from customers in payment for services that have not yet been performed, the business would record the cash receipt as:
A) A debit to an unearned revenue account.
B) A debit to a prepaid expense account.
C) A credit to an unearned revenue account.
D) A credit to a prepaid expense account.
E) A credit to accounts payable.

Answer: C
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Measurement

128) On May 31, the Cash account of Tesla had a normal balance of $5,000. During May, the account was debited for a total of $12,200 and credited for a total of $11,500. What was the balance in the Cash account at the beginning of May?
A) A $0 balance.
B) A $4,300 debit balance.
C) A $4,300 credit balance.
D) A $5,700 debit balance.
E) A $5,700 credit balance.

Answer: B
Explanation: Beginning Cash Balance + Debits − Credits = Ending Cash Balance
Beginning Cash Balance + $12,200 − $11,500 = $5,000
Beginning Cash Balance + $700 = $5,000; Beginning Balance = $4,300 debit balance

Cash	
4,300	
12,200	11,500
5,000	

Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Apply
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129) On April 30, Gomez Services had an Accounts Receivable balance of $18,000. During the month of May, total credits to Accounts Receivable were $52,000 from customer payments. The May 31 Accounts Receivable balance was $13,000. What was the amount of credit sales during May?
A) $5,000.
B) $47,000.
C) $52,000.
D) $57,000.
E) $32,000.

Answer: B
Explanation: Beginning Accounts Receivable Balance + Credit Sales (Debits) − Customer Payments (Credits) = Ending Accounts Receivable Balance
$18,000 + Credit Sales (Debits) − $52,000 = $13,000
Credit Sales (Debits) − $34,000 = $13,000
Credit Sales (Debits) = $47,000

Accounts Receivable	
18,000	
47,000	52,000
13,000	

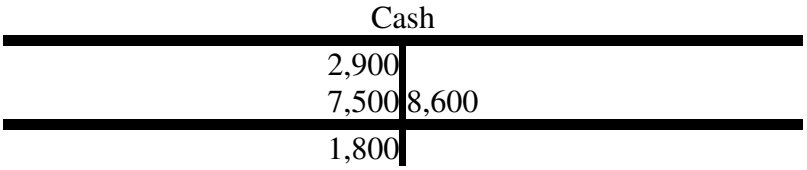
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
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Financial Accounting Fundamentals 7th edition Wild Test Bank

130) During the month of February, Rubio Services had cash receipts of $7,500 and cash disbursements of $8,600. The February 28 cash balance was $1,800. What was the February 1 beginning cash balance?
A) $700.
B) $1,100.
C) $2,900.
D) $0.
E) $4,300.

Answer: C
Explanation: Beginning Cash Balance + Cash Receipts − Cash Disbursements = Ending Cash Balance
Beginning Cash Balance + $7,500 − $8,600 = $1,800
Beginning Cash Balance − $1,100 = $1,800
Beginning Cash Balance = $2,900



Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
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Financial Accounting Fundamentals 7th edition Wild Test Bank

131) The following transactions occurred during July:

1. Received $900 cash for services provided to a customer during July.
2. Issued common stock for $2,200 cash.
3. Received $750 from a customer in partial payment of his account receivable which arose from sales in June.
4. Provided services to a customer on credit, $375.
5. Borrowed $6,000 from the bank by signing a promissory note.
6. Received $1,250 cash from a customer for services to be performed next year.

What was the amount of revenue for July?
A) $900.
B) $1,275.
C) $2,525.
D) $3,275.
E) $11,100.

Answer: B
Explanation: Revenues = $900 (from #1) + $375 (from #4) = $1,275
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Measurement

132) If Tyrol Willow, the sole stockholder of Willow Hardware, withdraws cash of the business to purchase a family car, the business should record this use of cash with an entry to:
A) Debit Accounts Payable and credit Cash.
B) Debit Cash and credit Salary Expense.
C) Debit Cash and credit Dividends.
D) Debit Dividends and credit Cash.
E) Debit Cash and credit Cash.

Answer: D
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
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Financial Accounting Fundamentals 7th edition Wild Test Bank

133) Marco Nelson opened a frame shop and completed these transactions:

1. Marco started the shop by investing $40,000 cash and equipment valued at $18,000 in exchange for common stock.
2. Purchased $70 of office supplies on credit.
3. Paid $1,200 cash for the receptionist's salary.
4. Sold a custom frame service and collected $1,500 cash on the sale.
5. Completed framing services and billed the client $200.

What was the balance of the cash account after these transactions were posted?
A) $300.
B) $41,500.
C) $40,300.
D) $38,500.
E) $38,700.

Answer: C
Explanation: Ending Cash Balance = $40,000 (#1) − $1,200 (#3) + $1,500 (#4) = $40,300
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
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Financial Accounting Fundamentals 7th edition Wild Test Bank

134) At the beginning of January of the current year, Sorrel Co.'s ledger reflected a normal balance of $52,000 for accounts receivable. During January, the company collected $14,800 from customers on account and provided additional services to customers on account totaling $12,500. Additionally, during January one customer paid Mikey $5,000 for services to be provided in the future. At the end of January, the balance in the accounts receivable account should be:
A) $54,700.
B) $49,700.
C) $2,300.
D) $54,300.
E) $49,300.

Answer: B
Explanation: Beginning Accounts Receivable Balance + Services on Account − Collections from Customers = Ending Accounts Receivable Balance
$52,000 + $12,500 − $14,800 = Ending Accounts Receivable Balance
Ending Accounts Receivable = $49,700

Accounts Receivable	
52,000	
12,500	14,800
49,700	

Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
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135) During the month of March, Harley's Computer Services made purchases on account totaling $43,500. Also during the month of March, Harley was paid $8,000 by a customer for services to be provided in the future and paid $36,900 of cash on its accounts payable balance. If the balance in the accounts payable account at the beginning of March was $77,300, what is the balance in accounts payable at the end of March?
A) $83,900.
B) $91,900.
C) $6,600.
D) $75,900.
E) $4,900.

Answer: A
Explanation: Beginning Accounts Payable Balance + Purchases on Account − Payments on Accounts = Ending Accounts Payable Balance
$77,300 + $43,500 − $36,900 = Ending Accounts Payable Balance
Ending Accounts Payable = $83,900

Accounts Payable	
	77,300
36,900	43,500
	83,900

Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
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Financial Accounting Fundamentals 7th edition Wild Test Bank

136) On January 1 of the current year, Jimmy's Sandwich Company reported total stockholders' equity of $122,500. During the current year, total revenues were $96,000 while total expenses were $85,500. Also, during the current year the company paid $20,000 in dividends. No other changes in equity occurred during the year. The ***change*** in total equity during the year was:
A) A decrease of $9,500.
B) An increase of $9,500.
C) An increase of $30,500.
D) A decrease of $30,500.
E) An increase of $73,500.

Answer: A
Explanation: Beg. Equity + Revenues − Expenses − Dividends = End. Equity
$122,500 + $96,000 − $85,500 − $20,000 = Ending Equity
Ending Equity = $113,000

Change in Equity = Beginning Equity − Ending Equity
Change in Equity = $122,500 − $113,000 = $9,500 Decrease
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
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Financial Accounting Fundamentals 7th edition Wild Test Bank

137) Andrea Apple opened Apple Photography on January 1 of the current year. During January, the following transactions occurred and were recorded in the company's books:

1. Andrea invested $13,500 cash in the business in exchange for common stock.
2. Andrea contributed $20,000 of photography equipment to the business.
3. The company paid $2,100 cash for an insurance policy covering the next 24 months.
4. The company received $5,700 cash for services provided during January.
5. The company purchased $6,200 of office equipment on credit.
6. The company provided $2,750 of services to customers on account.
7. The company paid cash of $1,500 for monthly rent.
8. The company paid $3,100 on the office equipment purchased in transaction #5 above.
9. Paid $275 cash for January utilities.

Based on this information, the balance in the cash account at the end of January would be:
A) $41,450.
B) $12,225.
C) $18,700.
D) $15,250.
E) $13,500.

Answer: B
Explanation: Ending Cash Balance = $13,500 (#1) − $2,100 (#3) + $5,700 (#4) − $1,500 (#7) − $3,100 (#8) − $275 (#9) = $12,225
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Apply
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Financial Accounting Fundamentals 7th edition Wild Test Bank

138) Andrea Apple opened Apple Photography on January 1 of the current year. During January, the following transactions occurred and were recorded in the company's books:

1. Andrea invested $13,500 cash in the business in exchange for common stock.
2. Andrea contributed $20,000 of photography equipment to the business.
3. The company paid $2,100 cash for an insurance policy covering the next 24 months.
4. The company received $5,700 cash for services provided during January.
5. The company purchased $6,200 of office equipment on credit.
6. The company provided $2,750 of services to customers on account.
7. The company paid cash of $1,500 for monthly rent.
8. The company paid $3,100 on the office equipment purchased in transaction #5 above.
9. Paid $275 cash for January utilities.

Based on this information, the amount reported as total stockholders' equity on the balance sheet at month-end would be:
A) $31,400.
B) $39,200.
C) $31,150.
D) $40,175.
E) $30,875.

Answer: D
Explanation: Ending Stockholders' Equity = $13,500 (#1) + $20,000 (#2) + $5,700 (#4) + $2,750 (#6) − $1,500 (#7) − $275 (#9) = $40,175
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Risk Analysis

139) The debt ratio is used:
A) To measure the ratio of equity to expenses.
B) To assess the risk associated with a company's use of liabilities.
C) To assess market expectations for future growth.
D) To determine how efficient the company is using its assets.
E) To determine the profitability of a company.

Answer: B
Difficulty: 2 Medium
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
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140) Identify the correct formula below used to calculate the debt ratio.
A) Total Equity/Total Liabilities.
B) Total Liabilities/Total Equity.
C) Total Liabilities/Total Assets.
D) Total Assets/Total Liabilities.
E) Total Equity/Total Assets.

Answer: C
Difficulty: 2 Medium
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Risk Analysis

141) Langley has a debt ratio of 0.3 and its competitor, Appleton, has a debt ratio equal to 0.7. Determine the statement below that is *correct*.
A) Appleton finances a smaller percentage of its assets with liabilities as compared to Langley.
B) Appleton's financial leverage is *less* than Langley's financial leverage.
C) Appleton's financial leverage is *greater* than Langley's financial leverage.
D) Langley has a higher risk from its financial leverage.
E) Higher financial leverage involves lower risk.

Answer: C
Difficulty: 2 Medium
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
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142) Identify the statement that is *incorrect*.
A) Higher financial leverage involves higher risk.
B) Risk is higher if a company has more liabilities.
C) Risk is higher if a company has more assets.
D) The debt ratio is one measure of financial risk.
E) Lower financial leverage involves lower risk.

Answer: C
Difficulty: 2 Medium
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Risk Analysis

143) The debt ratio of Company A is 0.31 and the debt ratio of Company B is 0.21. Based on this information, an investor can conclude:
A) Company B has more debt than Company A.
B) Company B has less financial leverage.
C) Company A has less financial leverage.
D) Company A has 10% more assets than Company B.
E) Both companies have too much debt.

Answer: B
Difficulty: 2 Medium
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
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144) The debt ratio of Braun is 0.9 and the debt ratio of Kemp is 1.0. Based on this information, an investor can conclude:
A) Kemp finances a relatively lower portion of its assets with liabilities than Braun.
B) Kemp has less financial leverage.
C) Braun has higher financial leverage.
D) Kemp has the exact same dollar amount of total liabilities and total assets.
E) Braun has less equity per dollar of assets than Kemp.

Answer: D
Difficulty: 2 Medium
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Risk Analysis

145) Jennings Co. has total assets of $425 million. Its total liabilities are $110.5 million. Its equity is $314.5 million. Calculate the debt ratio.
A) 38%.
B) 13%.
C) 34%.
D) 26%.
E) 14%.

Answer: D
Explanation: Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = $110.5 million/$425 million; Debt Ratio = 0.26 = 26%
Difficulty: 3 Hard
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Bloom's: Apply
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146) Sanders Co. has total assets of $385 million. Its total liabilities are $100.1 million and its equity is $284.9 million. Calculate its debt ratio.
A) 35%.
B) 26%.
C) 38%.
D) 28%.
E) 58%.

Answer: B
Explanation: Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = $100.1 million/$385 million; Debt Ratio = 0.26 = 26.0%
Difficulty: 3 Hard
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Risk Analysis

147) All of the following statements accurately describe the debt ratio *except*.
A) It is of use to both internal and external users of accounting information.
B) A relatively low ratio signifies lower risk.
C) The ratio is computed by dividing total liabilities by total assets.
D) Higher financial leverage means greater risk.
E) The ratio is computed by dividing total equity by total liabilities.

Answer: E
Difficulty: 3 Hard
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Bloom's: Apply
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148) At the end of the current year, James Co. reported total liabilities of $300,000 and total equity of $100,000. The company's debt ratio was:
A) 300%.
B) 33%.
C) 75%.
D) 67%.
E) $400,000.

Answer: C
Explanation: Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = $300,000/$400,000*; Debt Ratio = 0.75 = 75%

*Total Assets = Total Liabilities + Total Equity
Total Assets = $300,000 + $100,000; Total Assets = $400,000
Difficulty: 3 Hard
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
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149) At the beginning of the current year, Snell Co. total assets were $248,000 and its total liabilities were $174,200. During the year, the company reported total revenues of $93,000, total expenses of $76,000 and dividends of $5,000. There were no other changes in equity during the year and total assets at the end of the year were $260,000. The company's debt ratio at the end of the current year is:
A) 70%.
B) 67%.
C) 32%.
D) 48%.
E) 142%.

Answer: B
Explanation: Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = $174,200**/$260,000; Debt Ratio = 0.67 = 67%

*Beginning Total Assets = Beginning Total Liabilities + Beginning Total Equity
$248,000 = $174,200 + Beginning Total Equity; Beginning Total Equity = $73,800
**Ending Total Assets = Ending Total Liabilities + Ending Total Equity
$260,000 = Ending Total Liabilities + (Beginning Equity + Revenues − Expenses − Dividends)
$260,000 = Ending Total Liabilities + ($73,800 + $93,000 − $76,000 − $5,000)
$260,000 = Ending Total Liabilities + $85,800; Ending Total Liabilities = $174,200
Difficulty: 3 Hard
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

150) The process of transferring general journal entry information to the ledger is called:
A) Double-entry accounting.
B) Posting.
C) Balancing an account.
D) Journalizing.
E) Not required unless debits do not equal credits.

Answer: B
Difficulty: 1 Easy
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Remember
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151) A column in journals and ledger accounts that is used to cross reference journal and ledger entries is the:
A) Account balance column.
B) Debit column.
C) Posting reference column.
D) Credit column.
E) Description column.

Answer: C
Difficulty: 1 Easy
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

152) A complete record of each transaction in one place is called a(n):
A) Account balance.
B) Ledger.
C) Journal.
D) Trial balance.
E) Cash account.

Answer: C
Difficulty: 1 Easy
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Remember
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153) A general journal provides a place for recording all of the following ***except***:
A) The transaction date.
B) The names of the accounts involved.
C) The amount of each debit and credit.
D) An explanation of the transaction.
E) The balance in each account.

Answer: E
Difficulty: 1 Easy
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
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154) The balance column in a ledger account is:
A) An account entered on the balance sheet.
B) A column for showing the balance of the account after each entry is posted.
C) Another name for the dividends account.
D) An account used to record the transfers of assets from a business to its stockholders.
E) A simple form of account that is widely used in accounting to illustrate the debits and credits required in recording a transaction.

Answer: B
Difficulty: 1 Easy
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Remember
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155) Which of the following is *not* one of the four steps of processing transactions?
A) Record journal entry.
B) Analyze transactions using the accounting equation.
C) Identify transactions and source documents.
D) Ensure assets are equal to liabilities.
E) Post entry to ledger.

Answer: D
Difficulty: 1 Easy
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Measurement

156) A record in which the effects of transactions are first recorded and from which transaction amounts are posted to the ledger is a(n):
A) Account.
B) Trial balance.
C) Journal.
D) T-account.
E) Balance column account.

Answer: C
Difficulty: 1 Easy
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
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157) Centurion Co. had the following accounts and balances at December 31:

Account	Debit	Credit
Cash	$ 10,000	
Accounts Receivable	2,000	
Prepaid Insurance	2,400	
Supplies	1,000	
Accounts Payable		$ 5,000
Common Stock		4,900
Service Revenue		7,000
Salaries Expense	500	
Utilities Expense	1,000	
Totals	$ 16,900	$ 16,900

Using the information in the table, calculate the company's reported net income for the period.
A) $1,100.
B) $4,000.
C) $8,500
D) $10,400.
E) $5,500.

Answer: E
Explanation: Net Income = Total Revenues − Total Expenses.
(Service Revenue $7,000 − Salaries Expense $500 − Utilities Expense $1,000 = $5,500)
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Understand
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158) Jackson Services had the following accounts and balances at December 31:

Account	Debit	Credit
Cash	$ 20,000	
Accounts Receivable	6,000	
Prepaid Insurance	1,500	
Supplies	5,000	
Accounts Payable		$ 500
Common Stock		16,200
Dividends	1,000	
Service Revenue		20,000
Utilities Expense	2,000	
Salaries Expense	1,200	
Totals	$ 36,700	$ 36,700

Using the information in the table, calculate the company's reported net income for the period.
A) $16,800.
B) $15,800.
C) $15,300.
D) $10,300.
E) $23,200.

Answer: A
Explanation: Net Income = Total Revenues − Total Expenses.
Service Revenue $20,000 − Utilities Expense $2,000 − Salaries Expense $1,200 = $16,800
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Understand
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159) Cloud Solutions had the following accounts and balances as of December 31:

Account	Debit	Credit
Cash	$ 20,000	
Accounts Receivable	2,000	
Salaries Expense	500	
Accounts Payable		$ 4,000
Lodging Revenue		7,000
Utilities Expense	500	
Prepaid Insurance	1,400	
Supplies	1,500	
Common Stock		14,900
Totals	$ 25,900	$ 25,900

Using the information in the table, calculate the **total assets** reported on the balance sheet for the period.
A) $24,900.
B) $25,400.
C) $22,500.
D) $25,900.
E) $23,400.

Answer: A
Explanation: (Cash $20,000 + Accounts Receivable $2,000 + Prepaid Insurance $1,400 + Supplies $1,500 = $24,900)
Difficulty: 3 Hard
Topic: The Account and Its Analysis; Financial Statements
Learning Objective: 02-C2 Describe an account and its use in recording transactions.; 02-P3 Prepare financial statements from business transactions.
Bloom's: Apply
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160) At the end of its first month of operations, JMP Consulting reported net income of $25,000. They also had account balances of: Cash, $18,000; Office Supplies, $2,000; and Accounts Receivable, $10,000. Stockholders' total investments for this first month was $5,000. There were no dividends in the first month.

Calculate the amount of total stockholders' equity reported on the balance sheet at month-end.
A) $30,000
B) $25,000
C) $20,000
D) $5,000
E) $7,000

Answer: A
Explanation: Investments $5,000 + Net Income $25,000 = $30,000
Difficulty: 3 Hard
Topic: Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Reporting

161) Identify the accounts that would normally have balances in the *debit* column of a business's trial balance.
A) Assets and expenses.
B) Assets and revenues.
C) Revenues and expenses.
D) Liabilities and expenses.
E) Liabilities and dividends.

Answer: A
Difficulty: 2 Medium
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
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162) Identify the accounts that would normally have balances in the *credit* column of a business's trial balance
A) Liabilities and expenses.
B) Assets and revenues.
C) Revenues and expenses.
D) Revenues and liabilities.
E) Dividends and liabilities.

Answer: D
Difficulty: 2 Medium
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Measurement

163) Which of the following is *not* a step in the accounting process?
A) Analyze each transaction and event using the accounting equation.
B) Identify each transaction and event from source documents.
C) Record relevant transactions and events in a journal.
D) Post journal information to ledger accounts.
E) Ensure all cash is distributed to stockholders at the end of each period.

Answer: E
Difficulty: 1 Easy
Topic: Analyzing and Recording Process
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
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164) A bookkeeper has debited an asset account for $3,500 and credited a liability account for $2,000. Which of the following would be an ***incorrect*** way to complete the recording of this transaction:
A) Credit another asset account for $1,500.
B) Credit another liability account for $1,500.
C) Credit a revenue account for $1,500.
D) Credit the common stock account for $1,500.
E) Debit another asset account for $1,500.

Answer: E
Difficulty: 3 Hard
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Measurement

165) A list of all ledger accounts and their balances at a point in time is called a(n):
A) Account balance.
B) Trial balance.
C) Ledger.
D) Chart of accounts.
E) General Journal.

Answer: B
Difficulty: 1 Easy
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Measurement

166) Identify the statement below that is *true*.
A) A trial balance can replace the need for financial statements.
B) The trial balance presents net income for a period of time.
C) Another name for the trial balance is the chart of accounts.
D) The trial balance is a list of all accounts from the ledger with their balances at a point in time.
E) The trial balance is another name for the balance sheet as long as debits balance with credits.

Answer: D
Difficulty: 1 Easy
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
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167) While in the process of posting from the journal to the ledger, a company failed to post a $500 debit to the Equipment account. The effect of this error will be that:
A) The Equipment account balance will be overstated.
B) The trial balance will not balance.
C) The error will overstate the debits listed in the journal.
D) The total debits in the trial balance will be larger than the total credits.
E) The error will overstate the credits listed in the journal.

Answer: B
Difficulty: 2 Medium
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Measurement

168) A $15 credit to Sales was posted as a $150 credit. By what amount is the Sales account in error?
A) $150 understated.
B) $135 overstated.
C) $150 overstated.
D) $15 understated.
E) $135 understated.

Answer: B
Explanation: $150 − 15 = $135
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Understand
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169) At year-end, a trial balance showed total credits exceeding total debits by $4,950. This difference could have been caused by:
A) An error in the general journal where a $4,950 increase in Accounts Receivable was recorded as an increase in Cash.
B) A net income of $4,950.
C) The balance of $49,500 in Accounts Payable being entered in the trial balance as $4,950.
D) The balance of $5,500 in the Office Equipment account being entered on the trial balance as a debit of $550.
E) An error in the general journal where a $4,950 increase in Accounts Payable was recorded as a decrease in Accounts Payable.

Answer: D
Difficulty: 2 Medium
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Measurement

170) Identify the item below that would cause the trial balance to *not* balance?
A) A $1,000 collection of an account receivable was erroneously posted as a debit to Accounts Receivable and a credit to Cash.
B) The purchase of office supplies on account for $3,250 was erroneously recorded in the journal as $2,350 debit to Office Supplies and $2,350 credit to Accounts Payable.
C) A $50 cash receipt for the performance of a service was not recorded at all.
D) The purchase of office equipment for $1,200 was posted as a debit to Office Supplies and a credit to Cash for $1,200.
E) The cash payment of a $750 account payable was posted as a debit to Accounts Payable and a debit to Cash for $750.

Answer: E
Difficulty: 2 Medium
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
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171) The credit purchase of a new oven for $4,700 was posted to Kitchen Equipment as a $4,700 debit and to Accounts Payable as a $4,700 debit. What effect would this error have on the trial balance?
A) The total of the Debit column of the trial balance will exceed the total of the Credit column by $4,700.
B) The total of the Credit column of the trial balance will exceed the total of the Debit column by $4,700.
C) The total of the Debit column of the trial balance will exceed the total of the Credit column by $9,400.
D) The total of the Credit column of the trial balance will exceed the total of the Debit column by $9,400.
E) The total of the Debit column of the trial balance will equal the total of the Credit column.

Answer: C
Difficulty: 2 Medium
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Measurement

172) On a trial balance, if the Debit and Credit column totals are equal, then:
A) All transactions have been recorded correctly.
B) All entries from the journal have been posted to the ledger correctly.
C) All ledger account balances are correct.
D) Equal debits and credits have been recorded for transactions.
E) The balance sheet would be correct.

Answer: D
Difficulty: 2 Medium
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
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173) Identify which error will cause the trial balance to be out of balance.
A) A $200 cash salary payment posted as a $200 debit to Cash and a $200 credit to Salaries Expense.
B) A $100 cash receipt from a customer in payment of her account posted as a $100 debit to Cash and a $10 credit to Accounts Receivable.
C) A $75 cash receipt from a customer in payment of her account posted as a $75 debit to Cash and a $75 credit to Cash.
D) A $50 cash purchase of office supplies posted as a $50 debit to Office Equipment and a $50 credit to Cash.
E) An $800 prepayment from a customer for services to be rendered in the future was posted as an $800 debit to Unearned Revenue and an $800 credit to Cash.

Answer: B
Difficulty: 2 Medium
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
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174) A $130 credit to Supplies was credited to Fees Earned by mistake. By what amounts are the accounts under- or overstated as a result of this error?
A) Supplies, understated $130; Fees Earned, overstated $130.
B) Supplies, understated $260; Fees Earned, overstated $130.
C) Supplies, overstated $130; Fees Earned, overstated $130.
D) Supplies, overstated $130; Fees Earned, understated $130.
E) Supplies, overstated $260; Fees Earned, understated $130.

Answer: C
Difficulty: 3 Hard
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Reporting

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175) All of the following are asset accounts *except*:
A) Accounts Receivable.
B) Buildings.
C) Supplies expense.
D) Equipment.
E) Prepaid insurance.

Answer: C
Difficulty: 1 Easy
Topic: Ledger and Chart of Accounts
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Measurement

176) Compare the list of accounts below and choose the list that contains only accounts that would be classified as asset accounts on the Chart of Accounts.
A) Accounts Payable; Cash; Supplies.
B) Unearned Revenue; Accounts Payable; Dividends.
C) Building; Prepaid Insurance; Supplies Expense.
D) Cash; Prepaid Insurance; Equipment.
E) Notes Payable; Cash; Dividends.

Answer: D
Difficulty: 2 Medium
Topic: Ledger and Chart of Accounts
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Measurement

177) Which financial statement reports an organization's financial position at a single point in time?
A) Income statement.
B) Balance sheet.
C) Statement of retained earnings.
D) Cash flow statement.
E) Trial balance.

Answer: B
Difficulty: 2 Medium
Topic: Using a Trial Balance to Prepare Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Understand
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178) Jeff Jackson opened Jackson's Repairs on March 1 of the current year. During March, the following transactions occurred:

1. Jackson invested $25,000 cash in the business in exchange for common stock.
2. Jackson contributed $100,000 of equipment to the business.
3. The company paid $2,000 cash to rent office space for the month of March.
4. The company received $16,000 cash for repair services provided during March.
5. The company paid $6,200 for salaries for the month of March.
6. The company provided $3,000 of services to customers on account.
7. The company paid cash of $500 for utilities for the month of March.
8. The company received $3,100 cash in advance from a customer for repair services to be provided in April.
9. The company paid $5,000 in cash dividends.

Based on this information, net income for March would be:
A) $10,300.
B) $13,400.
C) $5,300.
D) $8,400.
E) $13,500.

Answer: A
Explanation: Net Income = Revenues − Expenses
Net Income = $16,000 (#4) − $2,000 (#3) − $6,200 (#5) + $3,000 (#6) − $500 (#7) = $10,300
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Measurement

179) Web Consulting received $3,000 from a customer for services provided. The general journal entry to record this transaction will be:
A) Debit Services Revenue, credit Accounts Receivable.
B) Debit Cash, credit Accounts Payable.
C) Debit Cash, credit Accounts Receivable.
D) Debit Cash, credit Services Revenue.
E) Debit Accounts Payable, credit Services Revenue.

Answer: D
Difficulty: 2 Medium
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
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180) Wiley Hill opened Hill's Repairs on March 1 of the current year. During March, the following transactions occurred:

1. Wiley invested $25,000 cash in the business in exchange for common stock.
2. Wiley contributed $100,000 of equipment to the business in exchange for common stock.
3. The company paid $2,000 cash to rent office space for the month of March.
4. The company received $16,000 cash for repair services provided during March.
5. The company paid $6,200 for salaries for the month of March.
6. The company provided $3,000 of services to customers on account.
7. The company paid cash of $500 for utilities for the month of March.
8. The company received $3,100 cash in advance from a customer for repair services to be provided in April.
9. The company paid $5,000 in cash dividends.

Based on this information, the total amount of stockholders' equity reported on the balance sheet at the end of March would be:
A) $133,400.
B) $130,300.
C) $125,300.
D) $8,400.
E) $13,500.

Answer: B
Explanation: Ending Equity = $25,000 (#1) + $100,000 (#2) + $16,000 (#4) + $3,000 (#6) − $2,000 (#3) − $6,200 (#5) − $500 (#7) − $5,000 (#9) = $130,300
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
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181) Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

____ 1. Source documents
____ 2. Debit
____ 3. Posting
____ 4. Double-entry accounting
____ 5. Ledger
____ 6. Journal
____ 7. Account
____ 8. Credit
____ 9. T-account
____ 10. Trial balance

A. Decrease in an asset, dividend and expense account, and increase in a liability, common stock and revenue account; recorded on the right side of a T-account.
B. A record containing all the accounts of a company and their balances.
C. An accounting system where each transaction affects and is recorded in at least two accounts; the sum of the debits for each entry must equal the sum of its credits.
D. A company's record of each transaction in one place that shows debits and credits for each transaction.
E. An increase in an asset, dividend, and expense account, and decrease in a liability, common stock,
and revenue account; recorded on the left side of a T-account.
F. A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense item.
G. A representation of a ledger account used to understand the effects of transactions.
H. A list of accounts and their balances at a point in time.
I. The process of transferring journal entry information to the ledger accounts.
J. Identify and describe transactions and events entering the accounting system.

Answer: 1. J; 2. E; 3. I; 4. C; 5. B; 6. D; 7. F; 8. A; 9. G; 10. H
Difficulty: 1 Easy
Topic: Analyzing and Recording Process; The Account and Its Analysis; Ledger and Chart of Accounts; Debits and Credits; Trial Balance
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.; : 02-C2 Describe an account and its use in recording transactions.; 02-C3 Describe a ledger and a chart of accounts.; 02-C4 Define debits and credits and explain double-entry accounting.; 02-P2 Prepare and explain the use of a trial balance.
Bloom's: Remember
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182) Provided below is a list of definitions and terms. Match them by placing the letter that identifies the best definition in the blank space next to each term.

____ 1. Debit
____ 2. Note payable
____ 3. Ledger
____ 4. Journal
____ 5. Debt ratio
____ 6. Chart of accounts
____ 7. Trial balance
____ 8. Credit
____ 9. Account balance
____ 10. Balance column account

A.	An increase in an asset, dividend, and expense account, and a decrease in a liability, common stock, and revenue account; recorded on the left side of a T-account.
B.	A decrease in an asset, dividend, and expense account, and an increase in a liability, common stock and revenue account; recorded on the right side of a T-account.
C.	A written promise to pay a definite sum of money on a specified future date.
D.	The difference between total debits and total credits for an account including the beginning balance.
E.	A list of accounts and their balances at a point in time; the total debit balances should equal the total credit balances.
F.	A list of all accounts used by a company and the identification number assigned to each account.
G.	The ratio of total liabilities to total assets; used to reflect the risk associated with the company's debts.
H.	An account with debit and credit columns for recording entries and another column for showing the balance of the account after each entry.
I.	A record of each transaction in one place that shows debits and credits for each transaction.
J.	A record containing all accounts of a company and their balances.

Answer: 1. A; 2. C; 3. J; 4. I; 5. G; 6. F; 7. E; 8. B; 9. D; 10. H
Difficulty: 1 Easy
Topic: Debt Ratio; Analyzing and Recording Process; The Account and Its Analysis; Ledger and Chart of Accounts; Debits and Credits
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.; 02-C1 Explain the steps in processing transactions and the role of source documents.; : 02-C2 Describe an account and its use in recording transactions.; 02-C3 Describe a ledger and a chart of accounts.; 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Remember
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183) Provided below is a list of definitions and terms. Match them by placing the letter that identifies the best definition in the blank space next to each term.

___ 1. General journal
_____ 2. Chart of accounts
_____ 3. Note receivable
_____ 4. T-account
_____ 5. Unearned revenues
_____ 6. Compound journal entry
_____ 7. Posting reference column
_____ 8. Posting
_____ 9. Account
_____ 10. Trial Balance

A. Represents a ledger account and is used to show the effects of transactions.
B. The most flexible type of journal, it can be used to record any kind of transaction.
C. A journal entry that affects at least three accounts.
D. A written promise from a customer to pay a definite sum of money on a specified future date.
E. A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense item.
F. A list of all accounts used by a company and the identification number assigned to each account.
G. The process of transferring journal entry information to the ledger.
H. A list of accounts and their balances; the total debit balances should equal the total credit balances.
I. A column in journals where individual account numbers are entered when entries are posted to ledger accounts.
J. Liabilities created when customers pay in advance for services not yet performed.

Answer: 1. B; 2. F; 3. D; 4. A; 5. J; 6. C; 7. I; 8. G; 9. E; 10. H
Difficulty: 1 Easy
Topic: Analyzing and Recording Process; The Account and Its Analysis; Ledger and Chart of Accounts; Debits and Credits
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.; : 02-C2 Describe an account and its use in recording transactions.; 02-C3 Describe a ledger and a chart of accounts.; 02-C4 Define debits and credits and explain double-entry accounting.
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184) Identify each of the following accounts as a revenue (R), expense (E), asset (A), liability (L), or equity (SE) by placing initials (R, E, A, L or SE) in the blanks.

____ 1. Salary Expense
____ 2. Cash
____ 3. Equipment
____ 4. Common Stock
____ 5. Fees Revenue
____ 6. Accounts Receivable
____ 7. Accounts Payable
____ 8. Dividends
____ 9. Supplies
____ 10. Unearned Revenue
____ 11. Prepaid Insurance
____ 12. Office Furniture

Answer: 1. E; 2. A; 3. A; 4. SE; 5. R; 6. A; 7. L; 8. SE; 9. A; 10. L; 11. A; 12. A
Difficulty: 2 Medium
Topic: Ledger and Chart of Accounts
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
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185) Review the transactions below and identify with an "X" those that would be posted as a credit in the ledger (The first one has been done for you):

__X_1. Salary Payable was increased.
____ 2. Cash was decreased
____ 3. Equipment was increased
____ 4. Common Stock was increased
____ 5. Salaries Expense was increased
____ 6. Accounts Receivable was decreased
____ 7. Unearned Revenue was increased
____ 8. Dividends was increased
____ 9. Supplies was increased
____ 10. Building was increased
____ 11. Utilities Expense was increased
____ 12. Service Revenue was increased

Answer: __
X_ 1. Salary Payable was increased.
__X_2. Cash was decreased
____ 3. Equipment was increased
__X_4. Common Stock was increased
____ 5. Salaries Expense was increased
__X_6. Accounts Receivable was decreased
__X_7. Unearned Revenue was increased
____ 8. Dividends was increased
____ 9. Supplies was increased
____ 10. Building was increased
____ 11. Utilities Expense was increased
__X_12. Service Revenue was increased
Difficulty: 2 Medium
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
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186) The following accounts appear on either the Income Statement (IS) or Balance Sheet (BS). In the space to the left of each account, write IS or BS to identify the statement on which the account appears.

____ 1. Office Equipment
____ 2. Rent Expense
____ 3. Unearned Revenue
____ 4. Rent Expense
____ 5. Accounts Payable
____ 6. Common Stock
____ 7. Fees Revenue
____ 8. Cash
____ 9. Notes Receivable
____ 10. Wages Payable

Answer: 1. BS; 2. IS; 3. BS; 4. IS; 5. BS; 6. BS; 7. IS; 8. BS; 9. BS; 10. BS
Difficulty: 2 Medium
Topic: Using a Trial Balance to Prepare Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Understand
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187) Miley Block is a building consultant. Shown below are (a) several accounts in her ledger with each account preceded by an identification number, and (b) several transactions completed by Block. Indicate the accounts debited and credited when recording each transaction by placing the proper account identification numbers to the right of each transaction.

1.	Accounts Payable	7.	Telephone Expense
2.	Accounts Receivable	8.	Unearned Revenue
3.	Cash	9.	Common Stock
4.	Consulting Fees Earned	10.	Dividends
5.	Office Supplies	11.	Insurance Expense
6.	Office Supplies Expense	12.	Prepaid Insurance

		Debit	Credit
	Example:	2	4
	Completed consulting work for a client who will pay at a later date.		
A.	Received cash in advance from a customer for designing a building		
B.	Purchased office supplies on credit.		
C.	Paid for the supplies purchased in B.		
D.	Received the telephone bill of the business and immediately paid it.		
E.	Paid for a 3-year insurance policy		

Answer:

	Debit	Credit
A	3	8
B	5	1
C	1	3
D	7	3
E	12	3

Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Apply
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188) Drew Castle is an insurance appraiser. Shown below are (a) several accounts in his ledger with each account preceded by an identification number, and (b) several transactions completed by Castle. Indicate the accounts debited and credited when recording each transaction by placing the proper account identification numbers to the right of each transaction.

1. Accounts Payable	8. Office Supplies Expense
2. Accounts Receivable	9. Prepaid Insurance
3. Appraisal Fees Earned	10. Salaries Expense
4. Cash	11. Telephone Expense
5. Insurance Expense	12. Unearned Appraisal Fees
6. Office Equipment	13. Common Stock
7. Office Supplies	14. Dividends

	Debit	Credit
Example:		
Completed an appraisal for a client who promised to pay at a later date.	2	3
A. Received cash in advance for appraising a hail damage claim……..		
B. Purchased office supplies on credit……..		
C. The company paid cash dividends		
D. Received the phone bill of the business and immediately paid it……...		
E. Paid the salary of the office assistant….		
F. Paid for the supplies purchased in transaction B		
G. Completed an appraisal for a client and immediately collected cash for the work performed		

Answer:

	Debit	Credit
A	4	12
B	7	1
C	14	4
D	11	4
E	10	4
F	1	4
G	4	3

Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Apply
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189) List the steps in processing transactions.

Answer: Business transactions and events are the starting point. Source documents are analyzed for the effects of the transactions and events on the accounting records. The information is recorded into the journal. The information is then posted to the accounts and a trial balance is prepared from the ledger balances. The final step is the preparation of financial statements for decision makers.
Difficulty: 2 Medium
Topic: Analyzing and Recording Process
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

190) Describe what source documents are and the purpose they serve in a business.

Answer: Source documents are the proof that transactions and events have occurred and should be recorded in the accounting records. They provide objective and reliable evidence about transactions and their amounts. Examples of source documents include checks, invoices, sales receipts, credit card statements, and bank statements. They can be in hard copy or electronic form.
Difficulty: 1 Easy
Topic: Analyzing and Recording Process
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

191) What are the three groups of accounts shown on an unclassified balance sheet and define each group?

Answer: Accounts are classified into three general groups: assets, liabilities and equity accounts. Assets are resources owned or controlled by a company. Liabilities are obligations to transfer assets or provide products or services to others. Equity is the stockholders' claim on a company's assets.
Difficulty: 2 Medium
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Understand
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192) Explain the difference between a general ledger and a chart of accounts.

Answer: A ledger is a record containing all of the accounts of a business and their balances. The chart of accounts is a list of all of the accounts a company uses and includes an identification number assigned to each account. A chart of accounts does not include account balances.
Difficulty: 1 Easy
Topic: Ledger and Chart of Accounts
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

193) Explain debits and credits and their role in the accounting system of a business.

Answer: Debit refers to the left side of an account and credit refers to the right side of an account. Debits and credits are part of the double-entry accounting system. This system is based on the concept that all transactions and events affect at least two accounts. The double entry system is organized around the accounting equation which states that assets = liabilities + equity. Assets, expenses, and the dividends account all have normal debit balances. Liabilities, revenues, and the common stock account all have normal credit balances.
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Measurement

194) Explain the debt ratio and its use in analyzing a company's financial condition.

Answer: The debt ratio is calculated by dividing total liabilities by total assets. It reveals the percentage of the company's assets that are financed by creditors. The higher the ratio, the more risk a company has in trying to repay the debt and interest.
Difficulty: 2 Medium
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Risk Analysis

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195) Explain the recording and posting processes.

Answer: Information from business transactions and events is recorded in the journal in the form of journal entries. The journal entries include the date, the account titles, and debit and credit amounts. Journal entries may also include a further description of the transaction. During the posting process, the debit and credit amounts recorded in the journal are transferred to the individual accounts in the ledger.
Difficulty: 2 Medium
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

196) What is a trial balance? What is its purpose?

Answer: The trial balance is a list of all of the accounts in the ledger with balances at a point in time presented in debit and credit columns according to their balance. The purpose of the trial balance is to summarize the account totals and to verify the accuracy of the total debits and credits. If the total debits and credits are not equal, it indicates an error in the accounting records. However, even if debits do equal credits, it does not guarantee that no errors were made in recording and posting transactions.
Difficulty: 1 Easy
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

197) Describe the link between a business's income statement, the statement of \]retained earnings, and the balance sheet.

Answer: The income statement shows the amount of net income the company has earned. That income is carried to the statement of retained earnings. The net income is added to the beginning retained earnings balance, and dividends are subtracted to determine the ending retained earnings balance. The ending retained earnings balance is then reported on the balance sheet.
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Understand
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198) Identify by marking an X in the appropriate column, whether each of the following items would likely serve as a source document. The first one is done as an example

		Yes	No
Ex.	Credit card		X
a.	Credit card receipt		
b.	Purchase order		
c.	Invoice		
d.	Balance sheet		
e.	Bank statement		
f.	Journal entry		
g.	Telephone bill		
h.	Employee earnings record		

Answer:

		Yes	No
Ex.	Credit card		X
a.	Credit card receipt	X	
b.	Purchase order	X	
c.	Invoice	X	
d.	Balance sheet		X
e.	Bank statement	X	
f.	Journal entry		X
g.	Telephone bill	X	
h.	Employee earnings record	X	

Difficulty: 2 Medium
Topic: Analyzing and Recording Process
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Bloom's: Understand
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199) Indicate whether a debit or credit entry would be required to record the following changes in each account.
a. To decrease Cash
b. To increase Common Stock
c. To decrease Accounts Payable.
d. To increase Salaries Expense.
e. To decrease Supplies.
f. To increase Revenue.
g. To decrease Accounts Receivable.
h. To increase Dividends.

Answer: a. Credit, b. Credit, c. Debit, d. Debit, e. Credit, f. Credit, g. Credit, h. Debit
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

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200) Using the following list of accounts and identification letters A through J, enter the type of account and its normal balance into the table below. The first item is filled in as an example:

	Type of Account			Normal Balance	
	Asset	Liability	Equity	Debit	Credit
Common Stock			X		X
Interest Payable					
Land					
Dividends					
Fees Earned					
Prepaid Rent					
Advertising Expense					
Unearned Rent Revenue					
Commissions Earned					
Notes Receivable					

Answer:

	Type of Account			Normal Balance	
	Asset	Liability	Equity	Debit	Credit
Common Stock			X		X
Interest Payable		X			X
Land	X			X	
Dividends			X	X	
Fees Earned			X		X
Prepaid Rent	X			X	
Advertising Expense			X	X	
Unearned Rent Revenue		X			X
Commissions Earned			X		X
Notes Receivable	X			X	

Difficulty: 2 Medium
Topic: Accounts; Ledger and Chart of Accounts; Debits and Credits
Learning Objective: 02-C2 Describe an account and its use in recording transactions.; 02-C3 Describe a ledger and a chart of accounts.; 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

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201) Rowdy Bolton began Bolton Office Services in October and during that month completed these transactions:
a. Invested $10,000 cash and $15,000 of computer equipment in the business in exchange for common stock.
b. Paid $500 cash for an insurance premium covering the next 12 months.
c. Completed office services for a customer and collected $1,000 cash.
d. Paid $200 cash for office supplies.
e. Paid $2,000 for October's rent.
Prepare journal entries to record the above transactions. Explanations are unnecessary.

Answer:

a.	Cash	10,000	
	Computer Equipment	15,000	
	Common Stock		25,000
b.	Prepaid Insurance	500	
	Cash		500
c.	Cash	1,000	
	Revenue		1,000
d.	Office Supplies	200	
	Cash		200
e.	Rent Expense	2,000	
	Cash		2,000

Difficulty: 3 Hard
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
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202) JBL Company sends a $2,500 bill to a customer for services it provided during the month. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.





Answer:

Accounts Receivable	
2,500	

	Revenue
	2,500

Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Measurement

203) NBC made a $2,500 payment on account, to satisfy a previously recorded account payable. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.





Answer:

Accounts Payable	
2,500	

	Cash
	2,500

Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Understand
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204) A company paid $100 in cash dividends. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.





Answer:

Dividends	
100	

Cash	
	100

Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Measurement

205) On December 3, the XFL Company paid $1,400 cash in salaries to employees. Prepare the general journal entry to record this transaction.

Answer:

12/3	Salaries Expense	1,400	
	Cash		1,400

Difficulty: 2 Medium
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
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206) On February 5, Kirkland Co. purchased equipment that cost $35,000. The firm paid $5,000 cash and signed a long-term note payable for $30,000. Show the general journal entry to record this transaction.

Answer:

2/5	Equipment	35,000	
	Cash		5,000
	Note Payable		30,000

Difficulty: 3 Hard
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
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207) Jarrod Automotive, owned and operated by Jarrod Johnson, began business in September of the current year. Jarrod, a mechanic, had no experience with recording business transactions. As a result, Jarrod entered all of September's transactions directly into the ledger accounts. When he tried to locate a particular entry he found it confusing and time consuming. He has hired you to improve his accounting procedures. The accounts in his General Ledger follow:

Cash			
9/1	(a) 4,200	9/4 (b)	550
9/11	(d) 150		
9/15	(e) 190		

Equipment	
9/1	((a) 800
9/4	((b) 2,550

Common Stock	
	9/1 (a) 5,000

Notes Payable	
	9/4 ((b) 2,000

Accounts Receivable			
9/9	((c) 275	9/15	(e) 190

Revenue	
9/9	(c) 275
9/11	(d) 150

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Answer:

a.	Sept. 1 Cash	4,200	
	Equipment	800	
	Common Stock		5,000
	To record initial investment.		
b.	4 Equipment	2,550	
	Cash		550
	Notes Payable		2,000
	To record purchase of equipment, paying $550 in cash and paying a $2,000 note payable for the balance due .		
c.	9 Accounts Receivable	275	
	Revenue		275
	To record credit sale of services.		
d.	11 Cash	150	
	Revenue		150
	To record cash sale of services.		
e.	15 Cash	190	
	Accounts Receivable		190
	To record collection from customer.		

Difficulty: 3 Hard
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
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208) Sarah's Paralegal Services completed these transactions in February:
a. Purchased office supplies on account, $300.
b. Completed work for a client on credit, $500.
c. Paid cash for the office supplies purchased in (a).
d. Completed work for a client and received $800 cash.
e. Received $500 cash for the work described in (b).
f. Received $1,000 in advance from a client for services to be performed in March.

Prepare journal entries to record the above transactions. Explanations are not necessary.

Answer:

a.	Office Supplies	300	
	Accounts Payable		300
b.	Accounts Receivable	500	
	Services Revenue		500
c.	Accounts Payable	300	
	Cash		300
d.	Cash	800	
	Services Revenue		800
e.	Cash	500	
	Accounts Receivable		500
f.	Cash	1,000	
	Unearned Revenue		1,000

Difficulty: 3 Hard
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
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209) Larry Matt completed these transactions during December of the current year:

Dec. 1	Began a financial services practice by investing $15,000 cash and office equipment with a $5,000 value in exchange for common stock.
2	Purchased $1,200 of office equipment on credit.
3	Purchased $300 of office supplies on credit.
4	Completed work for a client and immediately received payment of $900 cash.
8	Completed work for Precept Paper Co. on credit, $1,700.
10	Paid for the supplies purchased on credit on December 3.
14	Paid for the annual $960 premium on an insurance policy.
18	Received payment in full from Precept Paper Co. for the work completed on December 8.
27	Paid $650 in cash dividends.
30	Paid $175 cash for the December utility bills.
30	Received $2,000 in advance from a client for services to be performed next year.

Prepare general journal entries to record these transactions.

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Answer:

Dec. 1	Cash	15,000	
	Office Equipment	5,000	
	Common Stock		20,000
	Stockholder invested in business.		
2	Office Equipment	1,200	
	Accounts Payable		1,200
	Purchased office equipment and supplies on credit.		
3	Office Supplies	300	
	Accounts Payable		300
4	Cash	900	
	Fees Earned		900
	Rendered services for cash.		
8	Accounts Receivable	1,700	
	Fees Earned		1,700
	Rendered services on account.		
10	Accounts Payable	300	
	Cash		300
	Paid amount owed for supplies		
14	Prepaid Insurance	960	
	Cash		960
	Paid insurance premium for one year.		
18	Cash	1,700	
	Accounts Receivable		1,700
	Received payment on account.		
27	Dividends	650	
	Cash		650
	Paid cash dividends.		
30	Utility Expense	175	
	Cash		175
	Paid utility bills.		
30	Cash	2,000	
	Unearned Fees		2,000

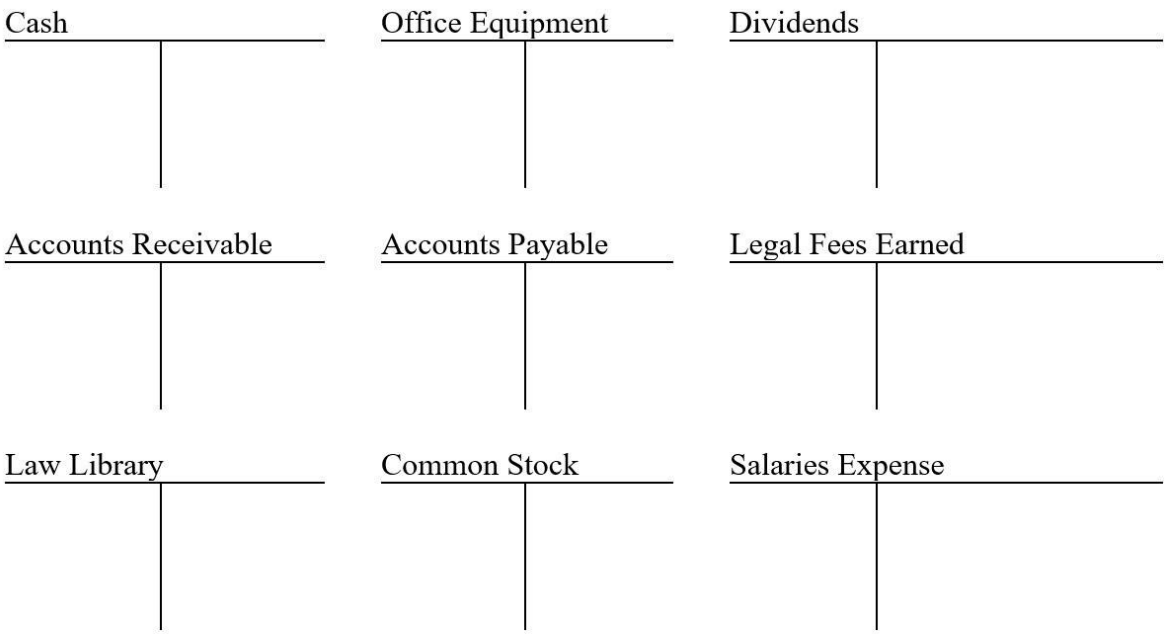
Received cash for services to be provided next year

Difficulty: 3 Hard
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
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210) Mary Sunny, the sole stockholder, began business as Sunny Law Firm on November 1. Record the following November transactions by making entries directly to the T-accounts provided. Next, prepare a trial balance as of November 30.
a) Mary invested $15,000 cash and a law library valued at $6,000 in exchange for common stock.
b) Purchased $7,500 of office equipment from John Bronx on credit.
c) Completed legal work for a client and received $1,500 cash in full payment.
d) Paid John Bronx $3,500 cash in partial payment of the amount owed.
e) Completed $4,000 of legal work for a client on credit.
f) Paid $2,000 in cash dividends.
g) Received $2,500 cash as partial payment for the legal work completed for the client in (e).
h) Paid $2,500 cash for the secretary's salary.



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Answer:

Cash	
(a) 15,000	d) 3,500
(c) 1,500	f) 2,000
(g) 2,500	h) 2,500

Office Equipment	
(b) 7,500	

Dividends	
f) 2,000	

Accounts Receivable	
e) 4,000	g) 2,500

Accounts Payable	
(d) 3,500	(b) 7,500

Legal Fees Earned	
	(c) 1,500
	(e) 4,000

Law Library	
(a) 6,000	

Common Stock	
	(a) 21,000

Salary Expense	
(h) 2,500	

Sunny Law Firm
Trial Balance
November 30

Account	**Debit**	**Credit**
Cash	$11,000	
Accounts Receivable	1,500	
Law Library	6,000	
Office Equipment	7,500	
Accounts Payable		$ 4,000
Common Stock		21,000
Dividends	2,000	
Legal Fees Earned		5,500
Salaries Expense	2,500	
Totals	$30,500	$30,500

Difficulty: 3 Hard
Topic: Analyzing Transactions; Journalizing and Posting Transactions; Preparing a Trial Balance
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P1 Record transactions in a journal and post entries to a ledger.; 02-P2 Prepare and explain the use of a trial balance.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
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211) Jerry's Shop had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	$114,000	$68,000
End of the year	135,000	73,000

If there were no stockholder investments or dividends paid during the year, what was the amount of net income earned by Jerry's Shop?

Answer: Beginning equity = $114,000 — $68,000 = $46,000
Ending equity = $135,000 — $73,000 = $62,000
Increase in equity = $62,000 — $46,000 = $16,000
Because there were no stockholder investments or dividends during the year, net income is $16,000.
Difficulty: 3 Hard
Topic: Analyzing Transactions; Using a Trial Balance to Prepare Financial Statements
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P3 Prepare financial statements from business transactions.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Measurement

212) Victor Services had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	$114,000	$68,000
End of the year	135,000	73,000

If $12,000 of common stock was issued during the year, but no dividends were paid during the year, what was the amount of net income earned by Victor Services?

Answer: Beginning equity = $114,000 — $68,000 = $46,000
Ending equity = $135,000 — $73,000 = $62,000
Increase in equity including stock issuance = $62,000 — $46,000 = $16,000
Net income = $16,000 — $12,000 = $4,000
Difficulty: 3 Hard
Topic: Analyzing Transactions; Financial Statements
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P3 Prepare financial statements from business transactions.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
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213) Archer Co. had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	$114,000	$68,000
End of the year	135,000	73,000

If $12,000 of common stock was issued during the year, and the business paid $5,000 in dividends during the year, what was the amount of net income earned by Archer Co.?

Answer: Beginning equity = $114,000 — $68,000 = $46,000
Ending equity = $135,000 — $73,000 = $62,000
Increase in equity = $62,000 — $46,000 = $16,000
Net income = $16,000 — $12,000 + $5,000 = $9,000
Difficulty: 3 Hard
Topic: Analyzing Transactions; Financial Statements
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P3 Prepare financial statements from business transactions.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Measurement

214) A company had total assets of $350,000, total liabilities of $101,500, and total equity of $248,500. Calculate the company's debt ratio.

Answer: Debt Ratio = Total Liabilities/ Total Assets = $101,500/$350,000 = 29%
Difficulty: 3 Hard
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making; FN Risk Analysis

215) Jackson Advertising Co. had assets of $475,000; liabilities of $275,500; and equity of $199,500. Calculate its debt ratio.

Answer: Debt Ratio = Total Liabilities/Total Assets = $275,500/$475,000 = 58%
Difficulty: 3 Hard
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making; FN Risk Analysis

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216) List the four steps in recording transactions.

Answer:
1. Identify transactions and source documents.
2. Analyze transactions using the accounting equation.
3. Record journal entry.
4. Post entry to ledger.
Difficulty: 1 Easy
Topic: Analyzing and Recording Process
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

217) Given each of the following errors, indicate on the table below the amount by which the trial balance will be out of balance and which trial balance column (debit or credit) will have the larger total as a result of the error.
a. $100 debit to Cash was debited to the Cash account twice.
b. $1,900 credit to Sales was posted as a $190 credit.
c. $5,000 debit to Office Equipment was debited to Office Supplies.
d. $625 debit to Prepaid Insurance was posted as a $62.50 debit.
e. $520 credit to Accounts Payable was not posted.

Error	Amount Out of Balance	Column Having Larger Total
a.		
b.		
c.		
d.		
e.		

Answer:

Error	Amount Out of Balance	Column With Larger Total
a.	$100	Debit
b.	$1,710	Debit
c.		
d.	$562.50	Credit
e.	$520	Debit

Difficulty: 3 Hard
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
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218) After preparing an (unadjusted) trial balance at year-end, R. Chang of Chang Window Company discovered the following errors:
1. Cash payment of the $225 telephone bill for December was recorded twice.
2. Cash payment of a note payable was recorded as a debit to Cash and a debit to Notes Payable for $1,000.
3. A $900 cash dividend was recorded to the correct accounts as $90.
4. An additional investment of $5,000 cash by a stockholder was recorded as a debit to Common Stock and a credit to Cash.
5. A credit purchase of office equipment for $1,800 was recorded as a debit to the Office Equipment account with no offsetting credit entry.

Using the form below, indicate whether the error would cause the trial balance to be out of balance by placing an X in either the yes or no column.

Error	Yes	No
1.		
2.		
3.		
4.		
5.		

Answer:

Error	Yes	No
1		X
2	X	
3		X
4		X
5	X	

Difficulty: 3 Hard
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

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219) The balances for the accounts of Milo's Management Co. for the year ended December 31 are shown below. Each account shown had a normal balance.

Accounts Payable…..	$ 6,500	Wages Expense……	36,000
Accounts Receivable...	7,000	Rent Expense……...	6,000
Cash……	?	Retained Earnings……...	68,700
Office Supplies.	1,200		
Building…….	125,000		
Supplies Expense……	21,500	Land…….	50,000
Common Stock……..	50,000	Unearned Management Fees	4,000
Management Revenue.	175,000	Dividends	48,000

Calculate the correct balance for Cash and prepare a trial balance.

Answer:

MILOS MANAGEMENT CO.
Trial Balance
December 31

Cash**	$ 9,500	
Accounts Receivable	7,000	
Office Supplies	1,200	
Land	50,000	
Building	125,000	
Accounts Payable		$ 6,500
Unearned Management Fees		4,000
Common Stock		50,000
Retained Earnings		68,700
Dividends	48,000	
Management Revenue		175,000
Wages Expense	36,000	
Rent Expense	6,000	
Supplies Expense	21,500	
Totals	$304,200	$304,200
**Total credits	$304,200	
Total debits (excluding cash)	294,700	
Cash	$ 9,500	

Difficulty: 3 Hard
Topic: Preparing a Trial Balance
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Measurement

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220) At year-end, Henry Laundry Service noted the following errors in its trial balance:

1. It understated the total debits to the Cash account by $500 when computing the account balance.
2. A credit sale for $311 was recorded as a credit to the revenue account, but the offsetting debit was not posted.
3. A cash payment to a creditor for $2,600 was never recorded.
4. The $680 balance of the Prepaid Insurance account was listed in the credit column of the trial balance.
5. A $24,900 van purchase was recorded as a $24,090 debit to Equipment and a $24,090 credit to Notes Payable.
6. A purchase of office supplies for $150 was recorded as a debit to Office Equipment. The offsetting credit entry was correct.
7. An additional investment of $4,000 by stockholders was recorded as a debit to Common Stock and as a credit to Cash.
8. The cash payment of the $510 utility bill for December was recorded (but not paid) twice.
9. The revenue account balance of $79,817 was listed on the trial balance as $97,817.
10. A $1,000 cash dividend was recorded as a $100 debit to Dividends and $100 credit to cash.

Using the form below, indicate whether each error would cause the trial balance to be out of balance, the amount of any imbalance, and whether a correcting journal entry is required.

	Would the error cause the trial balance to be out of balance?		Amount of Imbalance	Correcting Journal Entry Required	
Error	Yes	No		Yes	No
1.					
2.					
3.					
4.					
5.					
6.					
7.					
8.					
9.					
10.					

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Answer:

Error	Would the error cause the trial balance to be out of balance? Yes	No	Amount of Imbalance	Correcting Journal Entry Required Yes	No
1.	X		$500		X
2.	X		311		X
3.		X	0	X	
4.	X		1,360		X
5.		X	0	X	
6.		X	0	X	
7.		X	0	X	
8.		X	0	X	
9.	X		18,000		X
10.		X	0	X	

Difficulty: 3 Hard
Topic: Journalizing and Posting Transactions; Preparing a Trial Balance
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.; 02-P2 Prepare and explain the use of a trial balance.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Measurement

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Financial Accounting Fundamentals 7th edition Wild Test Bank

221) The following trial balance is prepared from the general ledger of HG's Auto Maintenance.

HG'S AUTO MAINTENANCE
Trial Balance
October 31

	Debit	Credit
Cash	$ 1,975	
Accounts receivable	2,800	
Supplies	500	
Shop equipment	13,000	
Office equipment	6,600	
Accounts payable		$ 4,510
Common Stock		22,000
Dividends	4,200	
Repair fees earned		11,875
Supplies expense	8,600	
Totals	$37,675	$38,385

Because the trial balance did not balance, you decided to examine the accounting records. You found that the following errors had been made:
1. A purchase of supplies on account for $245 was posted as a debit to Supplies and as a debit to Accounts Payable.
2. An investment of $500 cash by a stockholder was debited to Common Stock and credited to Cash.
3. In computing the balance of the Accounts Receivable account, a debit of $600 was omitted from the computation.
4. One debit of $300 to the Dividends account was posted as a credit.
5. Office equipment purchased for $800 was posted to the Shop Equipment account.
6. One entire entry was not posted to the general ledger. The transaction involved the receipt of $125 cash for repair services performed for cash.

Prepare a corrected trial balance for the HG's Auto Maintenance as of October 31.

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Financial Accounting Fundamentals 7th edition Wild Test Bank

Answer:

HG'S AUTO MAINTENANCE
Trial Balance
October 31

	Debit	Credit
Cash[a]	$ 3,100	
Accounts receivable[b]	3,400	
Supplies	500	
Shop equipment[c]	12,200	
Office equipment[d]	7,400	
Accounts payable[e]		$ 5,000
Common Stock[f]		23,000
Dividends[g]	4,800	
Repair fees earned[h]		12,000
Supplies expense	8,600	
Totals	$40,000	$40,000

[a]Cash: Balance $1,975 + $1,000 (2) + 125 (#6) = $3,100
[b]Accounts Receivable: Bal. $2,800 + 600 (#3) = $3,400
[c]Shop Equipment: Bal. $13,000 — 800 (#5) = $12,200
[d]Office Equipment: Bal. $6,600 + 800 (#5) = $7,400
[e]Accounts Payable: Bal $4,510 + 490 (#1) = $5,000
[f]Common Stock: Bal. $22,000 + 1,000 (#2) = $23,000
[g]Dividends: Bal. $4,200 + 600 (#4) = $4,800
[h]Repair fees earned: Bal $11,875 + 125 (#6) = $12,000
Difficulty: 3 Hard
Topic: Analyzing Transactions; Preparing a Trial Balance
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.; 02-P2 Prepare and explain the use of a trial balance.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Measurement

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222) Figgaro Company's accounts and their balances, as of the end of August, are included below. All accounts have normal balances:

Accounts receivable…..	$36,000	Cash…….	$27,000
Equipment……..	59,000	Advertising expense…	5,000
Service revenues earned.	75,000	Accounts payable……	31,000
Rent expense……..	3,600	Dividends..	24,000
Office supplies……	1,500	Salaries expense……..	30,000
Notes payable……	22,000	Common Stock……..	58,100

a. Calculate net income.
b. Determine the amount of retained earnings to be shown on the August 31 balance sheet.

Answer:

A. $75,000	Service revenues earned
(3,600)	Rent expense
(5,000)	Advertising expense
(30,000)	Salaries expense
$36,400	Net income
B. $ 0	Retained Earnings (beginning)
36,400	Net income
(24,000)	Dividends
$ 12,400	Retained Earnings (ending)

Difficulty: 3 Hard
Topic: Using a Trial Balance to Prepare Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Apply
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223) Sally's Salon began operations on January 1 of the current year with an investment by Sally of $21,155 in exchange for common stock. Based on the following trial balance prepare an income statement, statement of retained earnings, and a balance sheet. There were no additional common stock issuances during the year.

	Sally's Salon Trial Balance December 31	
Cash	$ 6,500	
Accounts receivable	475	
Beauty supplies	2,500	
Beauty shop equipment	17,000	
Accounts payable		$ 745
Common Stock		21,155
Dividends	36,000	
Revenue earned		72,000
Beauty supplies expense	3,425	
Rent expense	6,000	
Wages expense	22,000	
Totals	$93,900	$93,900

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Answer:

Sally's Salon
Income Statement
For Year Ended December 31

Revenue earned……..		$72,000
Expenses:		
Beauty supplies expense….	$ 3,425	
Rent expense…….	6,000	
Wages expense…….	22,000	
Total expenses……..		31,425
Net Income……..		$40,575

Sally's Salon
Statement of Retained Earnings
For Year Ended December 31

Retained Earnings, January 1…….	$0
Plus: Net income……..	40,575
	40,575
Less: Dividends……..	(36,000)
Retained Earnings, December 31…….	$4,575

Sally's Salon
Balance Sheet
At December 31

Assets		Liabilities	
Cash……..	$ 6,500	Accounts payable……	$ 745
Accounts receivable……..	475		
Beauty supplies…….	2,500	Equity	
Beauty shop equipment….	17,000	Common Stock……	21,155
		Retained Earnings……	4,575
		Total stockholders' equity	25,730
Total assets……	$26,475	Total liabilities and equity.	$26,475

Difficulty: 3 Hard
Topic: Using a Trial Balance to Prepare Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
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224) George Butler, the sole stockholder, opened a business that provides day tugboat tours to tourists along the Mississippi River. Prepare journal entries to record the following transactions.

May 1 Butler invested $20,000 cash and a tugboat valued at $90,000 in exchange for common stock.
May 2 Butler paid $3,000 cash for office equipment.
May 3 Butler bought boating supplies costing $2,500 on credit.
May 4 Butler paid $500 cash for the first month's dock rental.
May 5 Butler paid $1,800 cash for a six-month insurance policy.
May 10 Butler gave a client a tour and immediately received $2,000 cash.
May 12 Butler provided a $3,500 tour on credit, the customer agreed to pay within 10 days
May 19 Butler paid for the boating supplies originally purchased on May 3.
May 22 Butler receives payment on the account from the client entry on May 12.
May 25 Butler received $2,750 cash for tours that he completed that day.
May 31 Butler paid his crew member a salary of $1,000.
May 31 The company paid $2,000 in cash dividends.

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Answer:

May 1			
	Cash…….	20,000	
	Tugboat…….……	90,000	
	Common Stock…….		110,000
	Stockholder invested in business.		
2	Office Equipment……3,000		
	Cash……...		3,000
	Purchased office equipment.		
3	Boating Supplies……2,500		
	Accounts Payable…….…….		2,500
	Purchased supplies on account.		
4	Rent Expense……..500		
	Cash……..……..		500
	Paid for dock rent.		
5	Prepaid Insurance…….1,800		
	Cash……..…….		1,800
	Paid for six month insurance policy.		
10	Cash……...2,000		
	Tugboat Tour Revenue…….…..….....		2,000
	Recorded tour revenue.		
12	Accounts Receivable…….3,500		
	Tugboat Tour Revenue ……...…...…		3,500
	Recorded tour revenue provided on account.		
19	Accounts Payable……..2,500		
	Cash……..…….……..		2,500
	Paid on account.		
22	Cash……...3,500		
	Accounts Receivable……..		3,500
	Record collection on account.		
25	Cash……...2,750		
	Tugboat Tour Revenue …..……..		2,750
	Recorded tour revenue.		
31	Salary Expense……..1,000		
	Cash…….……..		1,000
	Paid assistant's salary.		
31	Dividends ……...	2,000	
	Cash…….		2,000
	Record cash dividends.		

Difficulty: 3 Hard
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
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225) Based on the following trial balance for Barry's Automotive Shop, prepare an income statement, statement of retained earnings, and a balance sheet. There were no additional stock issuances during the year.

Barry's Automotive Shop
Trial Balance
December 31

Cash	$ 12,500	
Accounts receivable	1,500	
Supplies	500	
Repair shop equipment	27,000	
Service truck	33,000	
Accounts payable		$2,600
Common Stock		30,000
Retained Earnings		8,525
Dividends	36,000	
Service revenue		125,000
Supplies expense	3,425	
Rent expense	18,000	
Utilities expense	5,000	
Gas expense	7,200	
Wages expense	22,000	
Totals	$166,125	$166,125

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Answer:

Barry's Automotive Shop
Income Statement
For Year Ended December 31

Service revenue …….		$125,000
Expenses:		
Supplies expense……	$ 3,425	
Rent expense……..	18,000	
Utilities expense……..	5,000	
Gas expense…….....	7,200	
Wages expense……	22,000	
Total expenses…….		55,625
Net Income……...		$ 69,375

Barry's Automotive Shop
Statement of Retained Earnings
For Year Ended December 31

Retained Earnings, January 1	$8,525
Plus: Net income	69,375
	77,900
Less: Dividends	(36,000)
Retained Earnings, December 31	$41,900

Barry's Automotive Shop
Balance Sheet
December 31

Assets		Liabilities	
Cash	$ 12,500	Accounts payable	$ 2,600
Accounts receivable	1,500		
Supplies	500	Equity	
Repair shop equipment	27,000		
Service truck	33,000	Common Stock	30,000
		Retained earnings	41,900
		Total stockholders' equity	71,900
Total assets	$74,500	Total liabilities and equity	$74,500

Difficulty: 3 Hard
Topic: Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Measurement

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226) For each of the accounts in the following table (1) identify the type of account as an asset, liability, equity, revenue, or expense, and (2) identify the normal balance of the account.

	Account Type	Normal Balance
a. Wages Expense		
b. Accounts Receivable		
c. Commissions Earned		
d. Salaries Payable		
e. Common Stock		
f. Unearned Advertising Revenue		
g. Salaries Expense		
h. Subscription Revenue		
i. Dividends		
j. Prepaid Insurance		

Answer:

	Account Type	Normal Balance
a. Wages Expense	expense	debit
b. Accounts Receivable	asset	debit
c. Commissions Earned	revenue	credit
d. Salaries Payable	liability	credit
e. Common Stock	equity	credit
f. Unearned Advertising Revenue	liability	credit
g. Salaries Expense	expense	debit
h. Subscription Revenue	revenue	credit
i. Dividends	equity	debit
j. Prepaid Insurance	asset	debit

Difficulty: 2 Medium
Topic: Ledger and Chart of Accounts; Debits and Credits
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.; 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
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227) For each of the following accounts, identify whether a debit or credit yields the indicated change

a. To increase Fees Earned
b. To decrease Cash
c. To decrease Unearned Revenue
d. To increase Accounts Receivable
e. To increase Common Stock
f. To decrease Notes Payable
g. To increase Prepaid Rent
h. To increase Salaries Expense
i. To increase Accounts Payable
j. To decrease Prepaid Insurance

Answer:

a. To increase Fees Earned	credit
b. To decrease Cash	credit
c. To decrease Unearned Revenue	debit
d. To increase Accounts Receivable	debit
e. To increase Common Stock	credit
f. To decrease Notes Payable	debit
g. To increase Prepaid Rent	debit
h. To increase Salaries Expense	debit
i. To increase Accounts Payable	credit
j. To decrease Prepaid Insurance	credit

Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
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228) Indicate on which financial statement each of the following items appears. Use I for income statement, E for statement of retained earnings and B for balance sheet.

a. Fees Earned
b. Cash
c. Unearned Revenue
d. Rent expense
e. Accounts Receivable
f. Notes Payable
g. Prepaid Rent
h. Salaries Expense
i. Notes Payable
j. Dividends

Answer:

a. Fees Earned	I
b. Cash	B
c. Unearned Revenue	B
d. Rent expense	I
e. Accounts Receivable	B
f. Notes Payable	B
g. Prepaid Rent	B
h. Salaries Expense	I
i. Notes Payable	B
j. Dividends	E

Difficulty: 2 Medium
Topic: Using a Trial Balance to Prepare Financial Statements
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Bloom's: Understand
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229) Jason Hope opened a hotel. Prepare journal entries to record the following transactions. Hope uses the accounts Room Rental Revenue and Event Revenue. All expenses for special events are recorded as Event Expense. (Omit explanations.)

June 1	Hope invested $400,000 cash into the business in exchange for common stock.
June 2	Hope purchased a hotel building for $800,000 and land for $100,000. Hope paid $250,000 in cash and signed note payable for $650,000.
June 3	Paid $6,000 for a six month insurance policy on the hotel.
June 5	Purchased supplies costing $4,000 on account.
June 10	Received advance payments of $12,000 from customers that will be staying at the hotel in July. Payments will be refunded if the customer cancels within 7 days of their scheduled arrival time.
June 14	Received cash payments of $13,000 from current customers staying at the hotel in June.
June 15	Paid $2,000 cash for staff salaries.
June 16	Paid $500 for maintenance expense.
June 17	Received $10,000 payment for a wedding reception hosted that day.
June 18	Paid $2,500 for catering expenses.
June 18	Paid event expenses of $1,000 for table and chair rentals.
June 19	Paid event expenses of $2,000 for flowers.
June 24	Paid for the supplies purchased on June 5.
June 25	Recorded an additional $5,000 cash received from current hotel customers for June.
June 30	Paid $2,000 cash for staff salaries.
June 30	The company paid $4,000 in cash dividends.

Answer:

June 1	Cash	400,000	
	Common Stock		400,000
June 2	Land	100,000	
	Building	800,000	
	Cash		250,000
	Note Payable		650,000
June 3	Prepaid Insurance	6,000	
	Cash		6,000
June 5	Supplies	4,000	
	Accounts Payable		4,000
June 10	Cash	12,000	
	Unearned Rental Revenue		12,000

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June 14	Cash	13,000	
	Room Rental Revenue		13,000
June 15	Salaries Expense	2,000	
	Cash		2,000
June 16	Maintenance Expense	500	
	Cash		500
June 17	Cash	10,000	
	Event Revenue		10,000
June 18	Catering Expense	2,500	
	Cash		2,500
June 18	Event Expense	1,000	
	Cash		1,000
June 19	Event Expense	2,000	
	Cash		2,000
June 24	Accounts Payable	4,000	
	Cash		4,000
June 25	Cash	5,000	
	Room Rental Revenue		5,000
June 30	Salaries Expense	2,000	
	Cash		2,000
June 30	Dividends	4,000	
	Cash		4,000

Difficulty: 3 Hard
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
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230) For each of the following accounts, (1) identify the account as an asset, liability, equity, revenue, or expense, and (2) indicate the normal balance of the account.

Account Title	Account Type	Normal Balance (Debit or Credit)
a. Prepaid Insurance		
b. Accounts Payable		
c. Common Stock		
d. Utilities Expense		
e. Land		
f. Services Revenue		
g. Notes Receivable		
h. Advertising Expense		
i. Unearned Revenue		
j. Service Revenue		

Answer:

Account Title	Account Type	Normal Balance
a. Prepaid Insurance	asset	debit
b. Accounts Payable	liability	credit
c. Common Stock	equity	credit
d. Utilities Expense	expense	debit
e. Land	asset	debit
f. Services Revenue	revenue	credit
g. Notes Receivable	asset	debit
h. Advertising Expense	expense	debit
i. Unearned Revenue	liability	credit
j. Service Revenue	revenue	credit

Difficulty: 2 Medium
Topic: Ledger and Chart of Accounts; Debits and Credits
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.; 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
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231) The steps in the accounting process focus on analyzing and recording financial transactions and events within a company. Those steps are shown below. Using the number system of 1 as the first step and 4 as the last step in the process, number the steps in the correct order in which they would occur (1 thru 4).

_____ Analyze transactions using the accounting equation.
_____ Record journal entry.
_____ Post entry to ledger.
_____ Identify transactions and source documents.

Answer: ___2__ Analyze transactions using the accounting equation.
___3__ Record journal entry.
___4__ Post entry to ledger.
___1__ Identify transactions and source documents.
Difficulty: 1 Easy
Topic: Analyzing and Recording Process
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Bloom's: Remember
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Reporting

232) _____ and _____ are the starting points for the analyzing and recording process.

Answer: Business transactions; Events
Explanation: answers can appear in either order
Difficulty: 2 Medium
Topic: Analyzing and Recording Process
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

233) The third step in the analyzing and recording process is to record each transaction chronologically in a_____.

Answer: journal
Difficulty: 2 Medium
Topic: Analyzing and Recording Process
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Bloom's: Understand
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234) The fourth step in the analyzing and recording process is to transfer (or post) entries from the journal to the _____.

Answer: ledger
Difficulty: 2 Medium
Topic: Analyzing and Recording Process
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
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235) _____ documents identify and describe transactions and events entering the accounting system.

Answer: Source
Difficulty: 2 Medium
Topic: Analyzing and Recording Process
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

236) Revenues and expenses are two categories of _____ accounts.

Answer: equity
Difficulty: 2 Medium
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Understand
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

237) The _____ is a collection of all accounts and their balances.

Answer: general ledger (or ledger)
Explanation: either answer is acceptable
Difficulty: 1 Easy
Topic: Ledger and Chart of Accounts
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Bloom's: Remember
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238) In a seller's accounting records, _____ are promises of payment waiting to be received from customers.

Answer: Accounts receivable
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

239) Unearned revenue is classified as a(an) _____ on a business's balance sheet.

Answer: liability
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

240) The four categories of equity accounts are _____, _____, _____, and _____.

Answer: common stock; dividends; revenues; expenses
Explanation: answers can appear in any order
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
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241) A _____ is a list of all the accounts used by a company and their identification codes but does not contain the balances.

Answer: chart of accounts
Difficulty: 1 Easy
Topic: Ledger and Chart of Accounts
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Bloom's: Remember
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242) A record containing all the separate accounts for a company as well as all of their balances is called the_____

Answer: ledger
Difficulty: 1 Easy
Topic: Ledger and Chart of Accounts
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

243) _____ requires that each transaction affect, and be recorded in, at least two accounts. It also means that total amounts debited must equal total amounts credited for each transaction.

Answer: double-entry accounting
Difficulty: 1 Easy
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
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244) The _____ is found by determining the difference between total debits and total credits for an account, including any beginning balance.

Answer: account balance
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

245) Assets would be increased with a _____ entry and liabilities would be increased with a_____ entry.

Answer: debit; credit

Explanation: answers need to appear in the order shown above
Difficulty: 1 Easy
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
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246) Funky Music purchased $25,000 of equipment for cash. The asset account, Equipment, is _____ for $25,000 and the Cash account is _____ for $25,000.

Answer: debited; credited
Explanation: answers need to appear in the order as shown above
Difficulty: 2 Medium
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Understand
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

247) Jackson Brown Footwear had total liabilities of $127.5 million and total assets of $375 million. Its debt ratio was _____.

Answer: 34%
Explanation: Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = $127.5 million/$375 million = 34%
Difficulty: 3 Hard
Topic: Debt Ratio
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Bloom's: Apply
AACSB/Accessibility: Analytical Thinking/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

248) _____ is the process of transferring journal entry information from the journal to the ledger.

Answer: Posting
Difficulty: 1 Easy
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

249) A _____ gives a complete chronological record of each transaction in one place, and shows debits and credits for each transaction.

Answer: journal
Difficulty: 1 Easy
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
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250) A more structured format that is similar to a T-account in that it has columns for debits and credits, but that is different in that it has columns for transaction date, explanation, and the account balance is the _____.

Answer: balance column account
Difficulty: 1 Easy
Topic: The Account and Its Analysis
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

251) The posting process is the link between the _____ and the _____.

Answer: journal; ledger
Explanation: answers can be recorded in either order
Difficulty: 1 Easy
Topic: Journalizing and Posting Transactions
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

252) You increase the Service Revenue account on the _____ side of its account.

Answer: right or credit
Difficulty: 1 Easy
Topic: Debits and Credits
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Bloom's: Remember
AACSB/Accessibility: Communication/Keyboard Navigation
AICPA: BB Industry; FN Decision Making

253) You decrease the Accounts Payable account on the _____ side of its account.

Answer: left or debit
Difficulty: 2 Medium
Topic: Debits and Credits
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