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CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) The entire process of analyzing, recording, and reporting business transactions is based on the fundamental accounting equation.
   - ◎ true
   - ◎ false

2) When using the fundamental accounting equation, an accountant must make sure that total assets are always equal to total liabilities minus owner's equity.
   - ◎ true
   - ◎ false

3) Assets always equal debts of the business plus the financial interest of the owner.
   - ◎ true
   - ◎ false

4) If the owner takes cash out of the business for personal use, the withdrawal should be recorded as an expense of the business.
   - ◎ true
   - ◎ false

5) When services are provided on credit, the total amount of liabilities increases.
   - ◎ true
   - ◎ false

6) A company has assets of $60,320 and liabilities of $29,500. The owner's equity is $89,820.
   - ◎ true
   - ◎ false

7) A company has assets of $56,320 and liabilities of $29,500. The owner's equity is $85,820.
   - ◎ true
   - ◎ false

8) A double line drawn under the figures in a money column shows that the computation is complete.
   - ◎ true
   - ◎ false

9) The first step in the accounting process is the analysis of business transactions.
   - ◎ true
   - ◎ false

10) A withdrawal of funds by the owner for personal use decreases owner's equity.
   - ◎ true
   - ◎ false

11) The statement of owner's equity is prepared before the balance sheet so that the ending capital balance is available.
   - ◎ true
   - ◎ false

12) The amount of net income or net loss is needed to complete the statement of owner's equity.
   - ◎ true
   - ◎ false

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13) The owner's capital balance at the beginning of the period is required on the statement of owner's equity.
- ◎ true
- ◎ false

14) When assets equal liabilities + owner's equity, a company is said to break even.
- ◎ true
- ◎ false

15) The capital balance at the end of the period is reported on both the statement of owner's equity and the balance sheet.
- ◎ true
- ◎ false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

16) At the end of the first month of operations for Lightning Delivery Service, the business had the following accounts: Accounts Receivable, $11,350; Prepaid Insurance, $400; Equipment, $26,200 and Cash, $21,650. On the same date, Lightning owed the following creditors: Simpson Supply Company, $17,000; Allen Office Equipment, $14,500.
The total assets for the Lightning Delivery Service are:
- A) $21,650.
- B) $33,400.
- C) $33,000.
- D) $59,600.

17) At the end of the first month of operations for Lightning Delivery Service, the business had the following accounts: Accounts Receivable, $11,350; Prepaid Insurance, $400; Equipment, $26,200 and Cash, $21,650. On the same date, Lightning owed the following creditors: Simpson Supply Company, $17,000; Allen Office Equipment, $14,500.
The total amount of Liabilities is:
- A) $31,500.
- B) $17,000.
- C) $14,500.
- D) $28,100.

18) When cash is paid to a creditor, which of the following occurs?
- A) the firm's liabilities increase
- B) the firm's liabilities decrease
- C) the firm's owner's equity increases
- D) the firm's owner's equity decreases

19) Al Dunn Bakery bought a new oven for $1,380. Al paid $300 as a cash down payment and will pay the balance in 30 days. What was the impact on total assets?
- A) total assets increased by $300
- B) total assets increased by $1,080
- C) total assets increased by $1,380
- D) total assets increased by $1,680

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20) Which of the following is reported on the income statement?
A) assets
B) the owner's capital balance
C) liabilities
D) expenses

21) A profit exists when:
A) assets exceed liabilities
B) liabilities exceed assets
C) expenses exceed revenues
D) revenues exceed expenses

22) If assets are $8,000 and liabilities are $2,000, what is the total owner's equity?
A) $2,000
B) $6,000
C) $8,000
D) $10,000

23) The property that a business owns is referred to as its:
A) assets.
B) liabilities.
C) owner's equity.
D) capital.

24) The debts or obligations of a business are known as its:
A) assets.
B) liabilities.
C) owner's equity.
D) capital.

25) On the income statement, revenues minus expenses equals:
A) working capital for a period of time.
B) current assets for a period of time.
C) accounts receivable for a period of time.
D) net income or net loss for a period of time.

26) The financial interest of the owner in a business is called:
A) assets.
B) owner's equity.
C) liabilities.
D) accounts receivable.

27) The account used to record amounts that are owed for goods or services purchased on credit is known as:
A) merchandise inventory.
B) accounts receivable.
C) accounts payable.
D) withdrawals.

28) When a business sells services for cash, assets increase and revenue:
A) increases.
B) decreases.
C) is unchanged.
D) may either increase or decrease.

29) The account used to record amounts that will be collected from charge account customers in the future is referred to as:
A) accounts payable.
B) accounts receivable.
C) merchandise inventory.
D) withdrawals.

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30) The financial report that shows the assets, liabilities, and owner's equity of a business on a specific date is the:
A) statement of owner's equity.
B) profit and loss statement.
C) balance sheet.
D) income statement.

31) If assets are $17,000 and owner's equity is $10,000, liabilities are:
A) $7,000.
B) $10,000.
C) $17,000.
D) $27,000.

32) When a business pays cash for salaries, assets decrease and expenses:
A) decrease.
B) increase.
C) are unchanged.
D) may increase or decrease.

33) In a business transaction, when revenue increases, owner's equity will:
A) remain unchanged.
B) decrease.
C) either increase or decrease.
D) increase.

34) In a business transaction, when expenses increase, owner's equity will:
A) remain unchanged.
B) decrease.
C) either increase or decrease.
D) increase.

35) Funds taken from the business by the owner for personal use are called:
A) withdrawals.
B) assets.
C) liabilities.
D) expenses.

36) The changes that have occurred in the owner's financial interest during the reporting period are shown on the:
A) income statement.
B) statement of owner's equity.
C) profit and loss statement.
D) balance sheet.

37) When revenue is greater than expenses, the result is net:
A) receivable.
B) sales.
C) loss.
D) income.

38) When revenue and expenses are equal, the firm is said to:
A) break even.
B) be profitable.
C) experience a loss.
D) experience a gain.

39) The three-line heading of a financial statement shows who, what, and:
A) when.
B) where.
C) why.
D) how.

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

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

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

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

44) Which of the following is a liability account?
- A) accounts payable
- B) equipment
- C) fees income
- D) salary expense

45) Thomas Smith Ice Company receives money from a customer on account. Recording this transaction will:
- A) increase Accounts Receivable.
- B) decrease T. Smith, Capital.
- C) decrease Accounts Payable.
- D) increase Cash.

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

47) If the following are the only accounts of Jones Supply Company, what is the missing Supplies balance?
Cash: $9,600
Supplies: ?????
Accounts Payable: $4,000
Alan Jones, Capital: $10,040
- A) $3,560
- B) $4,440
- C) $14,040
- D) $23,640

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48) If the following are the only accounts of Jones Supply Company, what is the missing Supplies balance?
Cash: $8,000
Supplies: ?????
Accounts Payable: $4,000
Alan Jones, Capital: $9,000
A) $3,000
B) $5,000
C) $13,000
D) $21,000

49) When analyzing the effect of a business transaction, which of the following is not a step taken to describe the financial event?
A) identify the property
B) identify who owns the property
C) determine the location of the property
D) determine the amount of the increase or decrease

50) At the end of the first month of operations for Lightning Delivery Service, the business had the following accounts: Accounts Receivable, $11,400; Prepaid Insurance, $500; Equipment, $26,300 and Cash, $21,700. On the same date, Lightning owed the following creditors: Simpson Supply Company, $17,100; Allen Office Equipment, $14,600.
The total assets for the Lightning Delivery Service are:
A) $59,900.
B) $33,100.
C) $48,000.
D) $33,600.

51) At the end of the first month of operations for Lightning Delivery Service, the business had the following accounts: Accounts Receivable, $11,350; Prepaid Insurance, $400; Equipment, $26,200 and Cash, $21,650. On the same date, Lightning owed the following creditors: Simpson Supply Company, $17,000; Allen Office Equipment, $14,500.
The total assets for the Lightning Delivery Service are:
A) $21,650.
B) $33,400.
C) $33,000.
D) $59,600.

52) At the end of the first month of operations for Lightning Delivery Service, the business had the following accounts: Accounts Receivable, $11,650; Prepaid Insurance, $550; Equipment, $26,800 and Cash, $21,950. On the same date, Lightning owed the following creditors: Simpson Supply Company, $17,600; Allen Office Equipment, $15,100.
The total amount of Liabilities is:
A) $21,950.
B) $26,800.
C) $32,700.
D) $15,100.

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53) At the end of the first month of operations for Lightning Delivery Service, the business had the following accounts: Accounts Receivable, $11,350; Prepaid Insurance, $400; Equipment, $26,200 and Cash, $21,650. On the same date, Lightning owed the following creditors: Simpson Supply Company, $17,000; Allen Office Equipment, $14,500.
The total amount of Liabilities is:
A) $31,500.
B) $17,000.
C) $14,500.
D) $28,100.

54) If the beginning capital balance for Anderson's Consulting Service is $27,500, net income is $4,000, and the ending capital balance is $24,000, what were the withdrawals for the period?
A) $500
B) $3,500
C) $7,500
D) $24,000

55) If the beginning capital balance for Anderson's Consulting Service is $23,000, net income is $4,000, and the ending capital balance is $20,000, what were the withdrawals for the period?
A) $1,000
B) $3,000
C) $7,000
D) $20,000

56) If during the year total assets increase by $72,000 and total liabilities decrease by $14,500, by how much did owner's equity increase/decrease?
A) $86,500 increase
B) $57,500 decrease
C) $86,500 decrease
D) $72,000 increase

57) If during the year total assets increase by $75,000 and total liabilities decrease by $16,000, by how much did owner's equity increase/decrease?
A) $91,000 increase
B) $59,000 decrease
C) $91,000 decrease
D) $75,000 increase

58) Which financial statement is reported as of a specific date?
A) Balance Sheet
B) Statement of Owner's Equity
C) Income Statement
D) Profit and Loss Statement

59) The Daniel Insurance Agency reported revenues of $29,500 and expenses of $31,730 for the current period. What was the final figure reported on the company's income statement?
A) $2,230 net loss
B) $2,230 net income
C) $29,500 net income
D) $31,730 net loss

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60) The Daniel Insurance Agency reported revenues of $29,000 and expenses of $31,000 for the current period. What was the final figure reported on the company's income statement?
A) $2,000 net loss
B) $2,000 net income
C) $29,000 net income
D) $31,000 net loss

61) The three-line heading at the top of a financial statement displays what information on the second line?
A) name of the company
B) result of the financial statement
C) name of the financial statement
D) period of time covered by the financial statement

62) If the income statement covered a six-month period ending on November 30, 20X1, the third line of the income statement heading would read:
A) Month Ended November 30, 20X1.
B) November 30, 20X1.
C) Six-month Period Ended November 30, 20X1.
D) Month of November, 20X1.

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

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

65) When rent is prepaid, which of the following occurs?
A) liabilities increase
B) assets are unchanged
C) owner's equity decreases
D) assets increase

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

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

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68) When an electric bill is paid, which of the following increases?
A) assets
B) expenses
C) liabilities
D) owner's equity

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

70) Withdrawals are reported on which of the following financial statements?
A) balance sheet
B) income statement
C) profit and loss statement
D) statement of owner's equity

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

72) The rent paid for <u>future</u> months is a(n):
A) asset.
B) liability.
C) expense.
D) revenue.

73) Owner's equity is alternatively referred to as which of the following?
A) accounts payable
B) assets
C) net worth
D) withdrawals

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

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

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76) Which of the following statements regarding the fundamental accounting equation is accurate?
A) It is out of balance when a company has net income.
B) It is in balance after only certain transactions.
C) It is in balance after every transaction.
D) It is out of balance when a company has a net loss.

77) At the end of the first month of operations for Fieldstone's Catering Service, the business had the following accounts: Cash, $21,400; Prepaid Rent, $500; Equipment, $7,500 and Accounts Payable $4,000. By the end of the month, Fieldstone's had earned $41,000 of Revenues, and used $3,200 of Utilities Expenses, $7,000 of Rent Expense and $4,400 of Salaries Expenses. Calculate the net income to be reported by the company for this first month.
A) $41,000
B) $26,400
C) $30,800
D) $26,900

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

79) At the end of its first year of operations, Shapiro's Consulting Services reported net income of $30,600. They also had account balances of: Cash, $18,800; Office Supplies, $3,200, Equipment, $25,600 and Accounts Receivable, $8,000. The owner's total investment for this first year was $19,800 and the owner withdrew $2,560 for personal use. Calculate the **ending** balance to be reported on the Statement of Owner's Equity in the Owner's Capital account.
A) $69,200
B) $30,600
C) $49,800
D) $47,840

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

81) At the end of its first year of operations, Shapiro's Consulting Services reported net income of $27,000. They also had account balances of: Cash, $16,000; Office Supplies, $3,200; Equipment, $24,000 and Accounts Receivable, $8,000. The owner's total investment for this first year was $15,000 and the owner withdrew $2,000 for personal use. What are the total liabilities of Shapiro's Consulting Services at the end of the first year of operations?
A) $11,200
B) $27,000
C) $24,200
D) $42,000

82) Which of these accounts would appear on a firm's income statement?
A) assets and liabilities
B) revenues and expenses
C) assets and revenues
D) liabilities and expenses

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

84) Thyme Company reported revenues of $13,600, supplies expense of $3,000, and net income of $1,500 for the most recent period. If the company's only other expense was Rent Expense, what was its balance at the end of the period?
A) $9,100
B) $10,600
C) $15,100
D) $16,600

85) Thyme Company reported revenues of $12,000, supplies expense of $3,000, and net income of $2,000 for the most recent period. If the company's only other expense was Rent Expense, what was its balance at the end of the period?
A) $7,000
B) $9,000
C) $14,000
D) $15,000

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

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

88) What is the correct order in which to prepare the three financial statements?
- A) Balance Sheet; Income Statement; Statement of Owner's Equity
- B) Income Statement; Statement of Owner's Equity; Balance Sheet
- C) Income Statement; Balance Sheet; Statement of Owner's Equity
- D) Statement of Owner's Equity; Balance Sheet; Income Statement

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

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

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

91) The Pavement Company has the following balances at year-end: Cash: $12,000, Equipment: $27,000, Supplies: $2,000, Accounts Payable: $20,000. Complete the accounting equation for the company.

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92) During October, a firm had the following transactions involving revenue and expenses.
Paid $1,600 for rent for October
Provided services for $4,750 in cash
Paid $350 for the October telephone service
Provided services for $1,700 on credit
Paid salaries of $2,675 to employees
Paid $350 for the monthly office cleaning service
Calculate the net income or net loss for the period?

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93) The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.
Cash
Accounts Receivable
Equipment
Accounts Payable
K. Mitchell, Capital
Revenue
Expenses
Performed services on credit

94) The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.
Cash
Accounts Receivable
Equipment
Accounts Payable
K. Mitchell, Capital
Revenue
Expenses
Paid cash for property taxes

95) The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.
Cash
Accounts Receivable
Equipment
Accounts Payable
K. Mitchell, Capital
Revenue
Expenses
Sent a check to a creditor

96) The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.
Cash
Accounts Receivable
Equipment
Accounts Payable
K. Mitchell, Capital
Revenue
Expenses
Issued checks to pay salaries

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97) The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.
Cash
Accounts Receivable
Equipment
Accounts Payable
K. Mitchell, Capital
Revenue
Expenses
Purchased an equipment for cash

98) The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.
Cash
Accounts Receivable
Equipment
Accounts Payable
K. Mitchell, Capital
Revenue
Expenses
Received cash from credit customers

99) The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.
Cash
Accounts Receivable
Equipment
Accounts Payable
K. Mitchell, Capital
Revenue
Expenses
Performed services for cash

100) The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.
Cash
Accounts Receivable
Equipment
Accounts Payable
K. Mitchell, Capital
Revenue
Expenses
The owner made an additional investment of cash

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

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

Purchased a equipment on credit

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

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

Hired security for a large event; payment is due in 60 days

103) Rachel Rivers started the Rivers Charter Service at the beginning of August 20X1. On August 31, 20X1, the accounting records of the business showed the following information.

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

Prepare an income statement for the month.

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

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

Transactions

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

Based on the information shown in transaction #6 above, indicate the accounts affected and use plus and minus to show the changes caused by the transaction.

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

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

Transactions

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

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

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

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

Transactions

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

Based on the information above, complete the following accounting equation.

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

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

Transaction	Assets			= Liability	+ Owner's Equity	
	Cash	Accounts Receivable	Prepaid Rent	Office Supplies	= Accounts Payable	+ D. Banhil, Capital	Revenue	Expense
1								
2								
3								
4								
5								
6								
7								
8								
Balance								

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Transactions

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

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108) The table below shows the transactions for Thompson Appraisal Services during June. Roger Thompson opened this business on June 1 with a capital investment of $78,000 (Transaction 1).

Transaction	Assets					Liability	Owner's Equity	
	Cash	Accounts Receivable	Supplies	Equipment	Accounts Payable	R. Thompson, Capital	Revenue	Expense
1	+78,000					+78,000		
2	−8,200			+8,200				
3		+5,200				+5,200		
4							+3,680	+3,680
5	−3,500							−3,500
6	+670	−670						
7	−2,400							−2,400
8	−450			+450				
Balance	64,120	4,530		11,880	3,680	75,200	3,680	3,500

What was the net income or net loss for Thompson Appraisal Services for the month of June?

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109) The table below shows the transactions for Thompson Appraisal Services during June. Roger Thompson opened this business on June 1 with a capital investment of $78,000 (Transaction 1).

Transaction	Assets					Liability	Owner's Equity	
	Cash	Accounts Receivable	Supplies	Equipment	Accounts Payable	R. Thompson, Capital	Revenue	Expense
1	+78,000					+78,000		
2	−8,200			+8,200				
3		+5,200					+5,200	
4					+3,680	+3,680		
5	−3,500							−3,500
6	+670	−670						
7	−2,400							−2,400
8	−4,450				+4,450			
Balance	64,120	4,530	0	8,200	8,130	81,180	5,200	5,900

Prepare the statement of owner's equity for Thompson Appraisal Services for the month ended June 30, 20X1.

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110) The table below shows the transactions for Thompson Appraisal Services during June. Roger Thompson opened this business on June 1 with a capital investment of $78,000 (Transaction 1).

Transaction	Assets					=	Liability	+	Owner's Equity	
	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	R. Thompson, Capital	+	Revenue	−	Expense
1	+78,000										+78,000				
2	−8,200						+8,200								
3			+5,200										+5,200		
4									+3,680		+3,680				
5	−3,500														−3,500
6	+670		−670												
7	−2,400														−2,400
8	−4,450						+4,450								
Balance	64,120	+	4,530	+	0	+	12,650	=	3,680	+	75,600	+	5,200	−	5,900

Prepare the balance sheet for Thompson Appraisal Services as of June 30, 20X1.

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111) Cullen Beatty plans to start a consulting business—Cullen Consulting Services. In preparation to do this, on April 1, 20X1, he invested $56,000 in cash and $23,000 in equipment, and opened an account at Office Plus by purchasing $1,750 in office supplies which is due by the end of the month. He then signed a one-year lease agreement on an office building for $8,400, paying the full amount in advance.
Prepare a Balance Sheet for Cullen Consulting Services as of April 1, 20X1, before he conducts any services.

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112) Explain why the third line of the three-line heading above the financial statements displays a single date on the balance sheet, while referencing a date range on the income statement and the statement of owner's equity.

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Answer Key

Test name: Chapter 02

1) TRUE
2) FALSE
The fundamental accounting equation dictates that Assets = Liabilities + Owner's Equity

3) TRUE
4) FALSE
Withdrawals are not considered to be expenses, and therefore do not impact the calculation of Net Income/Net Loss.

5) FALSE
When services are provided on credit, assets (accounts receivable) increase and owner's equity (revenue) increases. Liabilities are unchanged as a result of this transaction.

6) FALSE
Using the fundamental accounting equation, owner's equity would be $30,820 ($60,320 = $29,500 + $30,820)

7) FALSE
Using the fundamental accounting equation, owner's equity would be $26,820 ($56,320 = $29,500 + $26,820)

8) TRUE
9) TRUE
10) TRUE
11) TRUE
12) TRUE
13) TRUE
14) FALSE
A company is said to break even when its revenues equal its expenses.

15) TRUE
16) D
Assets = Accounts Receivable, $11,350 + Prepaid Insurance, $400 + Equipment $26,200 + Cash, $21,650 = $59,600.

17) A
Liabilities = Simpson Supply Company, $17,000 + Allen Office Equipment, $14,500 = $31,500.

18) B
19) B
Equipment increases by $1,380 and Cash decreases by $300, therefore Total Assets increase by $1,080 ($1,380 − $300).

20) D
The Income Statement reports both revenues and expenses.

21) D
An excess of revenues over expenses represents a profit.

22) B
$8,000 Assets = $2,000 Liabilities + $6,000 Owner's Equity

23) A
24) B
25) D
26) B
27) C
28) A
29) B
30) C
31) A

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Assets = Liabilities + Owner's Equity; therefore, $17,000 = $7,000 + $10,000.

32) B
33) D
34) B
35) A
36) B
37) D
38) A
39) A
40) C
41) D
42) C
43) B
44) A
45) D
46) D
47) B
The fundamental accounting equation dictates that assets (cash & supplies) equal liabilities (accounts payable) plus owner's equity (Alan Jones, capital). Therefore $9,600 + $4,440 = $4,000 + $10,040.

48) B
The fundamental accounting equation dictates that assets (cash & supplies) equal liabilities (accounts payable) plus owner's equity (Alan Jones, capital). Therefore $8,000 + $5,000 = $4,000 + $9,000.

49) C
50) A
Assets = Accounts Receivable, $11,400 + Prepaid Insurance, $500 + Equipment $26,300 + Cash, $21,700 = $59,900.

51) D
Assets = Accounts Receivable, $11,350 + Prepaid Insurance, $400 + Equipment $26,200 + Cash, $21,650 = $59,600.

52) C
Liabilities = Simpson Supply Company, $17,600 + Allen Office Equipment, $15,100 = $32,700.

53) A
Liabilities = Simpson Supply Company, $17,000 + Allen Office Equipment, $14,500 = $31,500.

54) C
The statement of owner's equity illustrates that beginning capital ($27,500) plus net income ($4,000) minus withdrawals ($7,500) equals ending capital ($24,000).

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55) C
The statement of owner's equity illustrates that beginning capital ($23,000) plus net income ($4,000) minus withdrawals ($7,000) equals ending capital ($20,000).

56) A
$72,000 = ($14,500) + $86,500

57) A
$75,000 = ($16,000) + $91,000

58) A
59) A
Revenues ($29,500) minus expenses ($31,730) equals net loss (−$2,230). The calculation would have been categorized as net income if it was a positive amount.

60) A

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Revenues ($29,000) minus expenses ($31,000) equals net loss (−$2,000). The calculation would have been categorized as net income if it was a positive amount.

61) C
62) C
63) C
64) A
65) B
In this transaction cash (an asset) decreases and prepaid rent (an asset) increases. These asset changes offset each other, resulting in no change to the total asset balance.

66) C
Cash is increased by $5,000 but Accounts Receivable is reduced by $5,000 so there is no change in total assets. Total owner's equity is not impacted by this transaction.

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67) C
68) B
69) C
70) D
71) B
72) A
73) C
74) C
75) A
76) C
77) B
Revenues $41,000 − Utilities Expense $3,200 − Rent Expense $7,000 − Salaries Expense $4,400 = Net Income $26,400.

78) B
Revenues $32,000 − Utilities Expense $1,800 − Rent Expense $4,000 − Salaries Expense $3,600 = Net Income $22,600.

79) D
Investments $19,800 + Net Income $30,600 − Withdrawals $2,560 = $47,840. Note that the beginning capital balance would typically be added within the formula as well, but as this is the company's first year of operations, the beginning capital balance is zero.

80) D
Investments $15,000 + Net Income $27,000 − Withdrawals $2,000 = $40,000. Note that the beginning capital balance would typically be added within the formula as well, but as this is the company's first year of operations, the beginning capital balance is zero.

81) A
Investments $15,000 + Net Income $27,000 − Withdrawals $2,000 = $40,000 Equity.
Cash $16,000 + Office Supplies $3,200 + Equipment $24,000 + Accounts Receivable $8,000 = $51,200 Total Assets.
Therefore, Assets of $51,200 = 11,200 Liabilities + $40,000 Equity.

82) B
83) B
84) A
Revenues $13,600 − Supplies Expense $3,000 − Rent Expense $9,100 = Net Income $1,500

85) A

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Revenues $12,000 − Supplies Expense $3,000 − Rent Expense $7,000 = Net Income $2,000

86) A
87) B
88) B
89) C
90) B
91) Essay
Assets $41,000 = Liabilities $20,000 + Owner's Equity $21,000
Assets = Cash $12,000 + Equipment $27,000 + Supplies $2,000 = $41,000.
Liabilities = Accounts Payable $20,000.
Equity = $41,000 (Assets) − $20,000 (Liabilities) = $21,000

92) Essay
Net income: $1,475
$4,750 + $1,700 − $1,600 − $350 − $2,675 − $350 = $1,475 Net Income

93) Essay
plus Accounts Receivable; plus Revenue

94) Essay
plus Expenses; minus Cash

95) Essay
minus Accounts Payable; minus Cash

96) Essay
plus Expenses; minus Cash

97) Essay
plus Equipment; minus Cash

98) Essay
plus Cash; minus Accounts Receivable

99) Essay
plus Cash; plus Revenue

100) Essay
plus Cash; plus K. Mitchell, Capital

101) Essay
plus Equipment; plus Accounts Payable

102) Essay
plus Expenses; plus Accounts Payable

103) Essay

RIVERS CHARTER SERVICE
Income Statement
Month Ended August 31, 20X1

Revenue:		
Fees Income		$ 30,000
Expenses:		
Salaries Expense	$ 10,800	
Gasoline Expense	7,500	
Rent Expense	4,800	
Utilities Expense	1,900	
Total Expenses		25,000
Net Income		$ 5,000

104) Essay
plus Accounts Receivable; plus Revenue

105) Essay

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The balance of Accounts Receivable at September 30 is $2,050.
Beginning Accounts Receivable, $0 + sales on account, $3,400 − collections on account, $1,350 = Ending Accounts Receivable, $2,050.

106) Essay
Assets $58,900 = Liabilities $4,900 + Owner's Equity $ 54,000
Assets = Cash $37,375 + Accounts Receivable $2,050 + Office Equipment $375 + Canoe and Kayak Equipment $19,100 = $58,900.
Liabilities = Accounts Payable $4,900.
Equity = Investment $50,000 + Net Income $5,800 − Withdrawal $1,800 = $54,000.
Detail for Assets:
Cash = $50,000 − $14,200 − $2,200 + $4,600 − $375 + 1,350 − $1,800 = $37,375.
Accounts Receivable = $3,400 − $1,350 = $2,050.
Office Equipment = $375.
Canoe & Kayak Equipment = $14,200 + $4,900 = $19,100.
Detail for Liabilities:
Accounts Payable = $4,900.

107) Essay

Transaction	Assets				= Liability	Owner's Equity	
	Cash	Accounts Receivable	Prepaid Rent	Office Supplies	Accounts Payable	D. Banhil, Capital	Revenue	Expense
1	+21,000					+21,000		
2	−1,650							+1,650
3	−4,950		+4,950					
4				+550	+550			
5	+3,300						+3,300	

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6		+ 8 , 8 0 0				+ 8 , 8 0 0		
7	− 2 2 0			− 2 2 0				
8	+ 1 , 0 0 0	− 1 , 0 0 0						
Balance	1 8 , 4 8 0	- 7 , 8 0 0	- 4 , 9 0 5	- 5 0 0	= 3 3 0	- 2 1 , 0 0 0	- 1 2 , 1 0 0	- 1 , 6 5 0

THOMPSON APPRAISAL SERVICES
Statement of Owner's Equity
Month Ended June 30, 20X1

Roger Thompson, Capital, June 1, 20X1		$ 78,000
Net Income for June	$ 1,700	
Less Withdrawals for June	(2,400)	
Decrease in Capital		(700)
Roger Thompson, Capital, June 30, 20X1		$ 77,300

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108) Essay
Net income was $1,700.
Revenue, $5,200 − Expenses, $3,500 = Net Income, $1,700.

109) Essay

110) Essay

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THOMPSON APPRAISAL SERVICES
Balance Sheet
June 30, 20X1

Assets		Liabilities	
Cash	$ 64,120	Accounts Payable	$ 3,680
Accounts Receivable	4,530		
Supplies	450	Owner's Equity	
Equipment	11,880	Roger Thompson, Capital	77,300
Total Assets	$ 80,980	Total Liabilities and Owner's Equity	$ 80,980

CULLEN CONSULTING SERVICES
Balance Sheet
April 1, 20X1

Assets		Liabilities	
Cash	$ 47,600	Accounts Payable	$ 1,750
Supplies	1,750		
Prepaid Rent	8,400	Owner's Equity	
Equipment	23,000	Cullen Beatty, Capital	79,000
Total Assets	$ 80,750	Total Liabilities and Owner's Equity	$ 80,750

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Cash Balance = Cash invested $56,000 – Cash spent for Prepaid Rent $8,400 = $47,600

111) Essay

112) Essay

The balance sheet provides a snapshot of a firm's financial position on a single date. The income statement displays the results of business operations over a period of time. The statement of owner's equity reports the changes that occurred in the owner's financial interest over a period of time.

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