Financial Accounting for Undergraduates 4th edition Wallace Test Bank

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Chapter 2

Processing Accounting Information

Learning Objectives – Coverage by question

	True / False	Multiple Choice	Exercises	Problems
LO1 – Identify the five major steps in the accounting cycle.	1-6	1-4	1, 2	
LO2 – Analyze and record transactions using the accounting equation.	7-11, 24	5-14, 56-127	3, 4	
LO3 – Explain the nature, format, and purpose of an account.	12, 20, 21, 32	15, 35, 48, 128-157	4	1
LO4 – Describe the system of debits and credits and its use in recording transactions.	13-19	16-22	5	1
LO5 – Explain the process of journalizing and posting transactions.	22, 23, 25-31, 33-36	23-34, 36-47, 49, 50	5-7	1-3
LO6 – Describe the trial balance.	37-39	51-55, 158-165		4

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Chapter 2: Processing Accounting Information

True / False

Topic: Accounting Cycle
LO: 1
1. The first step in the accounting cycle is to record transactions in a journal.

Answer: False
Rationale: The first step in the accounting cycle is to analyze transactions from source documents.

Topic: Accounting Cycle
LO: 1
2. The first step in the accounting cycle is to analyze transactions from source documents.

Answer: True
Rationale: There are five major steps in the accounting cycle. In order, they are: 1) *Analyze* - analyze transactions for source documents, 2) *Record* - journalize transactions and prepare unadjusted trail balance, 3) *Adjust* – journalize adjusting entries and prepare adjusted trial balance, 4) *Report* – prepare financial statements, and 5) *Close* – journalize closing entries and prepare post-closing trial balance.

Topic: Accounting Cycle
LO: 1
3. The first five steps in the accounting cycle occur with equal frequency.

Answer: False
Rationale: The five steps in the accounting cycle do not occur with equal frequency.

Topic: Accounting Cycle
LO: 1
4. The accounting cycle step that occurs most frequently is to adjust the general ledger accounts.

Answer: False
Rationale: A business analyzes and records financial transactions daily during the accounting period, but adjusts general ledger accounts less frequently.

Topic: Fiscal Year
LO: 1
5. A company's fiscal year cannot coincide with the calendar year.

Answer: False
Rationale: A company's fiscal year often coincides with the calendar year, but it need not.

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Topic: Fiscal Year
LO: 1
6. All companies have a fiscal year ending on December 31.

Answer: False
Rationale: Only about 60% of companies have fiscal year ends that correspond to the calendar year end.

Topic: Transaction Analysis
LO: 2
7. If Nathan, Inc. purchased equipment on credit from John Company, then the transaction recorded by Nathan would include an increase in a liability and an increase in asset.

Answer: True
Rationale: The transaction recorded by Nathan would include an increase to an asset (equipment) and an increase to a liability (accounts payable).

Topic: Deferred Revenue
LO: 2
8. Deferred revenue and unearned revenue both refer to cash that has been received but not yet earned.

Answer: True
Rationale: Both unearned revenue and deferred revenue refer to fees received before services are performed to earn those fees.

Topic: The Double-Entry Accounting System
LO: 2
9. Under the double-entry accounting system, no more than two accounts can be affected by each transaction.

Answer: False
Rationale: Each transaction recorded under the double-entry accounting system must affect at least two accounts. It can affect more than two.

Topic: Analyzing Transactions
LO: 2
10. When a firm purchases equipment for cash, both assets and stockholders' equity increase.

Answer: False
Rationale: The asset equipment will increase, and the asset cash will decrease, with no effect on stockholders' equity.

Topic: Transaction Analysis
LO: 2
11. When money is borrowed, both an asset account and a revenue account are increased.

Answer: False
Rationale: Both an asset account and a liability account are increased when money is borrowed.

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Topic: Accounts
LO: 3
12. An account is an individual record of increases and decreases in a specific asset, liability, or stockholders' equity item.

Answer: True
Rationale: The account is the basic component of an accounting system. An account is created for each individual, asset, liability, and stockholders' equity item on a company's financial statements.

Topic: Debits and Credits
LO: 4
13. Regardless of the business activity recorded, the left side of an account is the debit side and the right side is the credit side.

Answer: True
Rationale: The terms debit and credit are used to refer to the left side and the right side, respectively.

Topic: Normal Balances
LO: 4
14. All accounts have normal balances on the debit side.

Answer: False
Rationale: Asset, dividend, and expense accounts normally have debit balances, while liabilities, common stock, and revenue accounts normally have credit balances.

Topic: Normal Balances
LO: 4
15. The normal balance in a revenue account is a credit balance.

Answer: True
Rationale: The normal balance of an account is the side on which increases are recorded. This is because increases in an account are usually greater than, or equal to, the decreases to an account. Assets, dividend, and expense accounts normally have debit balances, whereas liabilities, common stock, and revenue accounts normally have credit balances.

Topic: Debits and Credits
LO: 4
16. Asset accounts are increased with debit entries.

Answer: True
Rationale: The normal balance of an account is the side on which increases are recorded. Assets, dividend, and expense accounts normally have debit balances, whereas liabilities, common stock, and revenue accounts normally have credit balances.

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Topic: Debits and Credits
LO: 4
17. Expense accounts are increased with credit entries.

Answer: False
Rationale: Expense accounts are increased with debit entries and decreased with credit entries.

Topic: Normal Balances
LO: 4
18. The normal balance for an account is the side in which increases are recorded.

Answer: True
Rationale: The normal balance of an account is the side on which increases are recorded. This is because increases in an account are usually greater than, or equal to, the decreases to an account. Assets, dividend, and expense accounts normally have debit balances, whereas liabilities, common stock, and revenue accounts normally have credit balances.

Topic: T-Account
LO: 4
19. The typical form of a T-account shows debits on the right and credits on the left.

Answer: False
Rationale: A T-account tracks debits on the left and credits on the right.

Topic: Chart of Accounts
LO: 3
20. The chart of accounts is a tabular record in which business activities are analyzed in terms of debits and credits and recorded in chronological order.

Answer: False
Rationale: The chart of accounts lists the titles and numbers of all accounts found in the general ledger.

Topic: Chart of Accounts
LO: 3
21. The chart of accounts is also known as the book of original entry.

Answer: False
Rationale: The general journal is also known as the book of original entry.

Topic: Posting
LO: 5
22. The process of transferring debit and credit entries from the journal to their related general ledger accounts is called “posting.”

Answer: True
Rationale: Posting results when debits and credits are entered into the general ledger from the journal.

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Topic: Debit and Credit System and Compound Entry
LO: 5
23. A compound entry does not necessarily have to maintain total debits equal to total credits.

Answer: False
Rationale: A compound entry must adhere to the rule: total debits equal total credits.

Topic: Transaction Analysis
LO: 2
24. The analysis of each transaction must result in equal amounts being recorded as debits and as credits.

Answer: True
Rationale: Data entries are recorded following a simple set of rules, (convention). The accounting equation (assets = liabilities + stockholders' equity) must always remain in balance and at least two elements of the equation are always affected. Total debits must equal total credits.

Topic: General Ledger
LO: 5
25. A general ledger is a grouping of a firm's permanent accounts.

Answer: False
Rationale: A general ledger is a listing of each account of a company, including permanent and temporary accounts, and the amounts making up each account.

Topic: Journalizing and Posting
LO: 5
26. Transactions are first recorded in a journal and then posted to the general ledger.

Answer: True
Rationale: After an accounting transaction is journalized in the general journal, the debits and credits of each journal entry are immediately transferred (posted) to the general ledger**.**

Topic: Journalizing and Posting
LO: 5
27. Transactions are first recorded in the general ledger and then posted to a journal.

Answer: False
Rationale: Transactions are first recorded in a journal and then posted to the general ledger.

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Topic: Source Documents
LO: 5
28. The most important source documents used in analyzing transactions are a firm's general journal and general ledger.

Answer: False
Rationale: The general journal and general ledger are not source documents. Source documents are printed forms or computer records that are generated when a firm engages in a business transaction. The source document usually specifies the dollar amount involved, the date of the transaction, and possibly the party dealing with the firm. The source document serves as the basis of analysis for an underlying business event.

Topic: Source Documents
LO: 5
29. Two examples of source documents are a seller's invoice and a bank deposit slip.

Answer: True
Rationale: Source documents are printed forms or computer records that are generated when a firm engages in a business transaction. The source document usually specifies the dollar amount involved, the date of the transaction, and possibly the party dealing with the firm. The source document serves as the basis of analysis for an underlying business event. A seller's invoice and a bank deposit slip are source documents.

Topic: Debits and Credits
LO: 5
30. Each transaction entered in a general journal must have equal dollar amounts of debits and credits.

Answer: True
Rationale: Data entries are recorded following a simple set of rules, (convention). The accounting equation (assets = liabilities + stockholders' equity) must always remain in balance and at least two elements of the equation are always affected. Total debits must equal total credits.

Topic: General Journal
LO: 5
31. A general journal has three amount columns: a debit column, a credit column, and a balance column.

Answer: False
Rationale: A general journal just has two amount columns: a debit column and a credit column.

Topic: Chart of Accounts
LO: 3
32. A chart of accounts is a list of the title and numerical code of all accounts in the general ledger.

Answer: True
Rationale: A chart of accounts is a list of the titles of all the accounts in a business's accounting system. Account titles are grouped by, and in order of, assets, liabilities, stockholders' equity, revenue, and expenses.

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Topic: Journal
LO: 5
33. A journal is a record of original entry which presents chronologically, and in one place, the total effect of a business transaction.

Answer: True
Rationale: A journal, or book of original entry, is a tabular record in which a business's activities are reflected in terms of debits and credits and recorded in chronological order. A journal organizes information by date.

Topic: Compound Journal Entry
LO: 5
34. A compound journal entry involves at least three accounts.

Answer: True
Rationale: A journal entry that involves more than two accounts is called a compound journal entry.

Topic: Posting
LO: 5
35. Posting is the process of transferring the debits and credits of each journal entry to the appropriate general ledger accounts.

Answer: True
Rationale: After an accounting transaction is journalized in the general journal, the debits and credits of each journal entry are immediately transferred (posted) to the general ledger.

Topic: Posting
LO: 5
36. Posting is the process of formally recording a business transaction in the appropriate journal.

Answer: False
Rationale: Posting is the process of transferring the debits and credits of each journal entry to the appropriate general ledger accounts.

Topic: Trial Balance
LO: 6
37. A trial balance is a list of the account titles in the general ledger with their respective debit and credit balances.

Answer: True
Rationale: The trial balance is a listing of all accounts from, the general ledger with their respective debit or credit balance. A trial balance is prepared at the end of an accounting period after all transactions have been recorded. The trial balance shows all general ledger account balances in one location, which facilitates the preparation of financial statements. The trial balance, however, is *not* a financial statement.

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Topic: Trial Balance
LO: 6

38. One reason for taking a trial balance is to determine if the debits and credits in the general ledger are equal.

Answer: True
Rationale: The trial balance serves as an interim check on whether the sum of the debit balances and the sum of the credit balances from the general ledger accounts are equal. If the totals are not equal, it would indicate the presence of some type of recording error.

Topic: Trial Balance
LO: 6

39. One reason for preparing a trial balance is to make sure that all of the period's transactions have been recorded.

Answer: False
Rationale: A trial balance cannot assure you that all the period's transactions have been recorded.

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Multiple Choice

Topic: Accounting Cycle
LO: 1
Level of Difficulty: EASY

1. Which of the following is the correct order of the steps in the accounting cycle?
A) Adjust, report, analyze, record, and close
B) Record, report, analyze, adjust, and close
C) Report, analyze, close, record, and adjust
D) Analyze, record, adjust, report, and close

Answer: D
Rationale: The steps in the cycle are to first analyze the transaction, the record it, then make any necessary adjustments, report the results, and finally to close the temporary accounts to ready them for the next period's activity.

Topic: Fiscal Year
LO: 1
Level of Difficulty: EASY

2. A company's fiscal year may:
A) Be any portion of a year including a month or quarter
B) Be for a period either greater or less than 12 months
C) Be the same as the calendar year
D) All of the above are true of a company's fiscal year

Answer: C
Rationale: A company's fiscal year must be a complete year, may not be for a period greater or less than 12 months, and may be the same as the calendar year.

Topic: Accounting Cycle
LO: 1
Level of Difficulty: EASY

3. The first two steps of the accounting cycle, in proper sequence, are:
A) Record transactions in a journal and prepare a trial balance.
B) Analyze transactions from source documents and post journal entries to general ledger accounts.
C) Analyze transactions from source documents and record transactions in a journal.
D) Record transactions in a journal and post journal entries to general ledger accounts.

Answer: C
Rationale: There are five major steps in the accounting cycle. In order, they are: 1) *Analyze* - analyze transactions for source documents, 2) *Record* - journalize transactions and prepare unadjusted trail balance, 3) *Adjust* – journalize adjusting entries and prepare adjusted trial balance, 4) *Report* – prepare financial statements, and 5) *Close* – journalize closing entries and prepare post-closing trial balance.

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Topic: Accounting Cycle
LO: 1
Level of Difficulty: EASY

4. Which of the following is not among the five major steps in the accounting cycle?
A) Record transactions in a journal
B) Prepare a chart of accounts
C) Adjust the general ledger accounts and prepare an adjusted trial balance
D) Analyze transactions from source documents

Answer: B
Rationale: There are five major steps in the accounting cycle. In order, they are: 1) *Analyze*—analyze transactions for source documents, 2) *Record* - journalize transactions and prepare unadjusted trail balance, 3) *Adjust*—journalize adjusting entries and prepare adjusted trial balance, 4) *Report*—prepare financial statements, and 5) *Close*—journalize closing entries and prepare post-closing trial balance. Preparing a chart of accounts is not one of the major steps.

Topic: Collection of a Receivable
LO: 2
Level of Difficulty: EASY

5. Cash collected on accounts receivable would produce what effect on the balance sheet?
A) Increase liabilities and decrease equity
B) Decrease liabilities and increase equity
C) Increase assets and decrease assets
D) Decrease assets and decrease liabilities

Answer: C
Rationale: Cash collected on accounts receivable produces an increase in cash and a decrease in accounts receivable, both asset accounts. There is no impact on profit and on equity.

Topic: Accounting Equation
LO: 2
Level of Difficulty: EASY

6. Which of the following is one effect of a purchase of $600 of supplies on credit?
A) It would decrease liabilities by $600
B) It would decrease cash assets by $600
C) It would increase liabilities by $600
D) It would decrease retained earnings $600

Answer: C
Rationale: The purchase on credit creates an account payable. It would increase liabilities by $600. In addition, the supplies account in the asset section of the balance sheet would also increase.

Topic: Analyzing and Recording Transactions
LO: 2
Level of Difficulty: MEDIUM

7. Which of the following will properly record the payment of a two-year insurance policy?
A) Increase assets and increase retained earnings
B) Increase liabilities and decrease retained earnings
C) Increase and decrease assets
D) Decrease assets and decrease liabilities

Answer: C
Rationale: Prepaid insurance in increased and cash is decreased, both of which are assets.

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Topic: Accounting Transaction
LO: 2
Level of Difficulty: EASY

8. An economic event that requires accounting recognition defines:
A) An income statement
B) An accounting transaction
C) The cost principle
D) An asset

Answer: B
Rationale: An accounting transaction is an economic event that must be recorded in the company's accounting records.

Topic: Stockholders' Equity
LO: 2
Level of Difficulty: MEDIUM

9. Which of the following does not affect stockholders' equity?
A) Paying wages to employees
B) Receiving an investment of cash from an owner
C) Selling goods to customers with payment due in 30 days
D) Purchasing equipment with payment due in 30 days

Answer: D
Rationale: The purchase of equipment (asset) with a payment due in 30 days (liability) does not affect stockholders' equity. All of the other transactions do.

Topic: Stockholders' Equity
LO: 2
Level of Difficulty: MEDIUM

10. Which of the following increases stockholders' equity?
A) Providing services to clients with payment received immediately
B) Purchasing supplies for cash
C) Receiving payment in advance from a client for service to be performed in the future
D) Collecting an amount owed by a client on account

Answer: A
Rationale: Providing services to clients (service revenue) increases stockholders' equity. All of the other transactions do not.

Topic: Stockholders' Equity
LO: 2
Level of Difficulty: MEDIUM

11. Which of the following decreases stockholders' equity?
A) Purchasing equipment for cash
B) Paying monthly rent in cash
C) Issuing shares of stock
D) Paying cash to settle an account payable

Answer: B
Rationale: Paying monthly rent (rent expense) decreases stockholders' equity. All of the other transactions do not.

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Topic: Stockholders Equity
LO: 2
Level of Difficulty: MEDIUM

12. Which of the following has no effect on stockholders' equity?
A) Issuing shares of stock
B) Expenses and revenues
C) Paying dividends
D) None of the above

Answer: D
Rationale: All of the transactions impact stockholders' equity.

Topic: Dividends
LO: 2
Level of Difficulty: EASY

13. The declaration and payment of a dividend by a corporation causes:
A) A decrease in assets and a decrease in liabilities.
B) A decrease in assets and a decrease in retained earnings
C) A decrease in assets and a decrease in common stock
D) A decrease in assets and an increase in retained earnings

Answer: B
Rationale: Declaring dividends decreases retained earnings and payment of dividends decreases assets (cash).

Topic: Double-Entry Accounting
LO: 2
Level of Difficulty: EASY

14. The double-entry system of debits and credits means that:
A) Two pieces of information must be recorded for each transaction--the date and the dollar amount.
B) Debits will be recorded twice as often as credits.
C) At least two entries, a debit and a credit, must be made for each transaction.
D) Each debit and credit will be recorded two times, once in the general ledger and once in the trial balance.

Answer: C
Rationale: The accounting equation always remains in balance and at least two elements of the equation are always affected.

Topic: Accounts
LO: 3
Level of Difficulty: EASY

15. An individual record of increases and decreases in specific assets, liabilities, and stockholders' equity is called:
A) An account
B) A normal balance
C) A general ledger
D) A trial balance

Answer: A
Rationale: The account is the basic component of an accounting system. An account is created for each individual, asset, liability, and stockholders' equity item on a company's financial statements.

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Topic: Debits and Credits
LO: 4
Level of Difficulty: EASY
16. The term debit refers to:
A) The left side of an account
B) The right side of an account
C) The side of an account on which increases are recorded
D) Both A and C

Answer: A
Rationale: The terms debit and credit are used to refer to the left side and the right side, respectively, of an account.

Topic: Debits and Credits
LO: 4
Level of Difficulty: EASY
17. The term credit refers to:
A) The left side of an account
B) The right side of an account
C) The side of an account on which decreases are recorded
D) Both B and C

Answer: B
Rationale: The terms debit and credit are used to refer to the left side and the right side, respectively, of an account.

Topic: Normal Balance
LO: 4
Level of Difficulty: EASY
18. The normal balance of an account is:
A) The debit side
B) The credit side
C) The side on which increases are recorded
D) The side on which decreases are recorded

Answer: C
Rationale: The normal balance of an account is the side on which increases are recorded. This is because increases in an account are usually greater than, or equal to, the decreases to an account.

Topic: Normal Balance
LO: 4
Level of Difficulty: EASY
19. Which of the following accounts normally has a credit balance?
A) Accounts Receivable
B) Dividends
C) Notes Payable
D) Rent Expense

Answer: C
Rationale: Assets, dividend, and expense accounts normally have debit balances, whereas liabilities, common stock, and revenue accounts normally have credit balances. Notes payable is a liability account, so the normal balance would be a credit balance.

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Topic: Normal Balance
LO: 4
Level of Difficulty: EASY

20. Which of the following accounts normally has a debit balance?
A) Accounts Payable
B) Common Stock
C) Dividends
D) Service Fees Earned

Answer: C
Rationale: Assets, dividend, and expense accounts normally have debit balances, whereas liabilities, common stock, and revenue accounts normally have credit balances. So, dividends would have a normal debit balance.

Topic: Debits and Credits
LO: 4
Level of Difficulty: EASY

21. Debits to which accounts result in an increased balance?
A) Assets and common stock
B) Revenues and assets
C) Common stock and expenses
D) Assets and expenses

Answer: D
Rationale: The normal balance of an account is the side on which increases are recorded. Assets, dividend, and expense accounts normally have debit balances.

Topic: Debits and Credits
LO: 4
Level of Difficulty: MEDIUM

22. In a double-entry accounting system:
A) All accounts have normal debit balances
B) A debit entry is recorded on the left side of an account
C) Liabilities, common stock, and expense accounts all have normal credit balances
D) A credit entry records a decrease in an account

Answer: B
Rationale: The terms debit and credit are used to refer to the left side and the right side, respectively, of an account.

Topic: Journalizing and Posting Transactions
LO: 5
Level of Difficulty: MEDIUM

23. The Cash T-account of Rainbow, Inc. has a beginning balance of $52,000. During the year, $244,000 was debited and $241,000 was credited to the account. What is the ending balance of cash?
A) $55,000
B) $37,000
C) ($ 5,000)
D) Cannot be determined from the information given

Answer: A
Rationale: Beginning cash + Cash receipts – Cash payments = Ending Cash
($52,000 + $244,000 - $241,000) = $55,000

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Topic: Journalizing and Posting Transactions
LO: 5
Level of Difficulty: MEDIUM

24. The Cash T-account of Firefly, Inc. has a beginning balance of $156,000. During the year, $732,000 was debited and $723,000 was credited to the account. What is the ending balance of cash?
A) $111,000
B) ($15,000)
C) $165,000
D) Cannot be determined from the information given

Answer: C
Rationale: Beginning cash + Cash receipts – Cash payments = Ending Cash
($156,000 + $732,000 - $723,000) = $165,000

Topic: Analyzing an Account
LO: 5
Level of Difficulty: MEDIUM

25. If the beginning Cash account balance of Crossbow, Inc. was $36,800, the ending balance was $20,400, and total cash received during the period was $88,000, what amount of cash was paid out during the period?
A) $ 3,600
B) $ 84,800
C) $104,400
D) $ 71,600

Answer: C
Rationale: Beginning cash + Cash receipts – Cash payments = Ending Cash
($36,800 + $88,000 - X = $20,400)
(X = $ 36,800 + $88,000 – $20,400) = $104,400

Topic: Analyzing an Account
LO: 5
Level of Difficulty: MEDIUM

26. If the beginning Cash account balance of Firefly, Inc. was $110,400, the ending balance was $61,200, and total cash received during the period was $264,000, what amount of cash was paid out during the period?
A) $ 313,200
B) $ 214,800
C) $ 25,800
D) $ 254,850

Answer: A
Rationale: Beginning cash + Cash receipts – Cash payments = Ending Cash
($110,400 + $264,000 - X = $61,200)
(X = $110,400 + $264,000 – $61,200) = $313,200

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Topic: Analyzing an Account
LO: 5
Level of Difficulty: MEDIUM

27. If the beginning Cash account balance of Crossbow, Inc. was $20,000, the ending balance was $33,600, and the total cash paid out during the period was $64,000, what amount of cash was received during the period?

A) $ 74,400
B) $ 77,600
C) $ 9,600
D) $ 93,600

Answer: B
Rationale: Beginning cash + Cash receipts – Cash payments = Ending Cash
($20,000 + X - $64,000 = $33,600)
(X = $33,600 + $64,000 – $20,000) = $77,600

Topic: Analyzing an Account
LO: 5
Level of Difficulty: MEDIUM

28. If the beginning Cash account balance of Firefly, Inc. was $60,000, the ending balance was $100,800, and the total cash paid out during the period was $192,000, what amount of cash was received during the period?

A) $280,800
B) $223,200
C) $232,800
D) $ 28,800

Answer: C
Rationale: Beginning cash + Cash receipts – Cash payments = Ending Cash
($60,000 + X - $192,000 = $100,800)
(X = $100,800 + $192,000 – $60,000) = $232,800

Topic: Analyzing an Account
LO: 5
Level of Difficulty: MEDIUM

29. Beginning and ending Cash account balances of Crossbow, Inc. were $19,000 and $8,000, respectively. If total cash received during the period was $37,000, what amount of cash was paid out during the period?

A) $ 48,000
B) $ 30,000
C) $ 46,000
D) $ 53,000

Answer: A
Rationale: Beginning cash + Cash receipts – Cash payments = Ending Cash
($19,000 + $37,000 - X = $8,000)
(X = $19,000 + $37,000 – $8,000) = $48,000

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Topic: Analyzing an Account
LO: 5
Level of Difficulty: MEDIUM

30. Beginning and ending Cash account balances of Firefly, Inc. were $57,000 and 24,000, respectively. If total cash received during the period was $111,000, what amount of cash was paid out during the period?

A) $159,000
B) $144,000
C) $ 90,000
D) $138,000

Answer: B
Rationale: Beginning cash + Cash receipts – Cash payments = Ending Cash
($57,000 + $111,000 - X = 24,000)
(X = 57,000 + $111,000 – $24,000) = $144,000

Topic: Analyzing an Account
LO: 5
Level of Difficulty: MEDIUM

31. Beginning and ending Cash account balances of Crossbow, Inc. were $14,000 and $32,000 respectively. If total cash paid out during the period was $30,000, what amount of cash was received during the period?

A) $ 24,000
B) $ 48,000
C) $ 40,000
D) $ 36,000

Answer: B
Rationale: Beginning cash + Cash receipts – Cash payments = Ending Cash
($14,000 + X - $30,000 = $32,000)
(X = $32,000 + $30,000 – $14,000) = $48,000

Topic: Analyzing an Account
LO: 5
Level of Difficulty: MEDIUM

32. Beginning and ending Cash account balances of Firefly, Inc. were $42,000 and $96,000 respectively. If total cash paid out during the period was $90,000, what amount of cash was received during the period?

A) $ 108,000
B) $ 72,000
C) $ 144,000
D) $ 120,000

Answer: C
Rationale: Beginning cash + Cash receipts – Cash payments = Ending Cash
($42,000 + X - $90,000 = $96,000)
(X = $96,000 + $90,000 – $42,000) = $144,000

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Topic: Recording Transactions
LO: 5
Level of Difficulty: EASY

33. Which of the following journal entries will record the payment of a $2,550 accounts payable originally incurred for Office Supplies?
A) Debit Cash; credit Accounts Payable
B) Debit Accounts Payable; credit Cash
C) Debit Office Supplies; credit Cash
D) Debit Office Supplies; credit Accounts Payable

Answer: B
Rationale: The original entry was:

Office supplies	2,550	
Accounts payable		2,550

The entry to record the payment of cash reduces the liability and reduces cash.

Accounts payable	2,550	
Cash		2,550

Topic: Recording Transactions
LO: 5
Level of Difficulty: EASY

34. A company bills customers for services rendered on account. Which of the following is one part of recording this transaction?
A) Debit Service Revenue
B) Credit Cash
C) Debit Accounts Receivable
D) Credit Unearned Revenue

Answer: C
Rationale: The journal entry includes a debit to Accounts Receivable and a credit to Service Revenue.

Topic: Chart of Accounts
LO: 3
Level of Difficulty: EASY

35. Account titles are commonly grouped into what five categories in the chart of accounts?
A) Current assets, Current liabilities, Noncurrent assets, Noncurrent liabilities, Stockholders' equity
B) Assets, Liabilities, Equity, Revenue, Expenses
C) Common stock, Additional paid-in capital, Treasury stock, Retained earnings, Accumulated other comprehensive income or loss
D) Cash, Marketable securities, Accounts payable, Long-term debt, Common stock

Answer: B
Rationale: In the chart of accounts, account titles are commonly grouped into the five categories of: Assets, Liabilities, Equity, Revenues, and Expenses.

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Topic: Recording Transactions
LO: 5
Level of Difficulty: MEDIUM

36. Maxwell Industries recorded and paid $1,400 advertising for the current month. Which occurred?
A) Current assets increase
B) Current liabilities decrease
C) Net income decreases
D) Retained earnings increases

Answer: C
Rationale: Assets (cash) decrease and Advertising Expense (an operating expense) increases, causing operating income to decrease.

Topic: Recording Transactions
LO: 5
Level of Difficulty: EASY

37. When invoices are sent to customers billing them for services that have been performed, the correct transaction analysis is:
A) Debit Accounts Receivable and credit Service Fees Earned
B) Debit Accounts Payable and credit Service Fees Earned
C) Debit Service Fees Earned and credit Accounts Receivable
D) Debit Cash and credit Service Fees Earned

Answer: A
Rationale: Service Fees Earned is credited because the work (services) has been performed and the revenue is earned. Accounts Receivable is debited because the customer has not paid for the services performed yet, but will pay sometime in the future.

Topic: Recording Transactions
LO: 5
Level of Difficulty: EASY

38. Recording the collection of accounts receivable from customers involves:
A) Debiting Accounts Receivable and crediting Cash
B) Debiting Cash and crediting Service Fees Earned
C) Debiting Cash and crediting Accounts Payable
D) Debiting Cash and crediting Accounts Receivable

Answer: D
Rationale: Cash is debited because a cash payment has been received. Accounts Receivable is credited to reflect a reduction (settlement) of the amount owed by customers for services (work) already provided (performed) to (for) them.

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Topic: Recording Transactions
LO: 5
Level of Difficulty: EASY
39. Recording a stock issuance in exchange for cash involves:
A) Debiting Cash and crediting Notes Payable
B) Debiting Cash and crediting Dividends
C) Debiting Cash and crediting Common Stock
D) Debiting Common Stock and crediting Cash

Answer: C
Rationale: Cash is debited because a cash payment has been received. Common stock is credited to reflect an increase in the amount of common stock outstanding, due to the issuance of common stock.

Topic: Recording Transactions
LO: 5
Level of Difficulty: EASY
40. Recording the borrowing of money for which a note is signed involves:
A) Debiting Cash and crediting Notes Receivable
B) Debiting Cash and crediting Accounts Payable
C) Debiting Cash and crediting Service Fees Earned
D) Debiting Cash and crediting Notes Payable

Answer: D
Rationale: Cash is debited because cash payment has been received as a result of borrowing money. Notes Payable is credited to reflect an increase in liabilities, due to the borrowing of money.

Topic: Recording Transactions
LO: 5
Level of Difficulty: EASY
41. Paying a previously recorded invoice from a supplier (of supplies) involves:
A) Debiting Supplies and crediting Cash
B) Debiting Accounts Payable and crediting Cash
C) Debiting Supplies and crediting Accounts Payable
D) Debiting Cash and crediting Supplies

Answer: B
Rationale: Accounts Payable is debited because an outstanding liability for the purchase of supplies on account has been reduced. Cash is credited to reflect a decrease in cash, due to the payment of money to settle the payable.

Topic: Recording Transactions
LO: 5
Level of Difficulty: EASY
42. Recording the payment of dividends to shareholders involves:
A) Debiting Dividends and crediting Cash
B) Debiting Cash and Common Stock
C) Debiting Withdrawal Expense and crediting Cash
D) Debiting Notes Payable and crediting Cash

Answer: A
Rationale: Dividends are debited to reflect the cost of paying dividends. Cash is credited to reflect a decrease in cash, due to the payment of dividends.

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Topic: General Ledger
LO: 5
Level of Difficulty: EASY
43. The general ledger can be described as:
A) A list of account titles and balances at a certain date
B) A grouping of the accounts used by an organization to prepare its basic financial statements
C) A record on which are recorded the increases and decreases of a particular financial statement component, such as cash
D) One of the basic financial statements of an organization

Answer: B
Rationale: The general ledger can be described as a grouping of the accounts used by an organization to prepare its basic financial statements. The general ledger is a listing of each account of a company and the amounts making up each account.

Topic: Source Documents
LO: 5
Level of Difficulty: EASY
44. Which of the following is a source document?
A) Posting reference
B) General ledger
C) Chart of accounts and a compound journal entry
D) Invoice received from seller

Answer: D
Rationale: Source documents are printed forms or computer records that are generated when a firm engages in a business transaction. The source document usually specifies the dollar amount involved, the date of the transaction, and possibly the party dealing with the firm. The source document serves as the basis of analysis for an underlying business event. A posting reference, general ledger, chart of accounts, and a journal entry all related to the recording of the business event.

Topic: Source Documents
LO: 5
Level of Difficulty: EASY
45. A printed or written form that is generated when a firm engages in a business transaction defines a:
A) Special journal
B) Posting reference
C) General journal
D) Source document

Answer: D
Rationale: Source documents are printed forms or computer records that are generated when a firm engages in a business transaction. The source document usually specifies the dollar amount involved, the date of the transaction, and possibly the party dealing with the firm. The source document serves as the basis of analysis for an underlying business event.

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Topic: Source Documents
LO: 5
Level of Difficulty: EASY

46. Which of the following is not a source document?

A) Bank check
B) Account in general ledger
C) Lease contract
D) Invoice sent to customer

Answer: B
Rationale: Source documents are printed forms or computer records that are generated when a firm engages in a business transaction. The source document usually specifies the dollar amount involved, the date of the transaction, and possibly the party dealing with the firm. The source document serves as the basis of analysis for an underlying business event. A bank check, a lease contract, and an invoice sent to a customer, are all examples of source documents. An account in the general ledger is related to the recording of the business event.

Topic: General Journal
LO: 5
Level of Difficulty: MEDIUM

47. Which of the following is not true of the general journal?

A) It is a record of original entry
B) It reflects the entire effect of a transaction in one place
C) It receives postings of dollar amounts from the general ledger
D) It shows transactions recorded in chronological order

Answer: C
Rationale: After an accounting transaction is journalized in the general journal, the debits and credits of each journal entry are immediately transferred (posted) to the general ledger, not vice versa.

Topic: Chart of Accounts
LO: 3
Level of Difficulty: MEDIUM

48. Which of the following is true of a chart of accounts?

A) It is the same thing as a trial balance
B) It shows the account title and numerical code of all general ledger accounts
C) It lists accounts in alphabetical order
D) The first accounts listed are the revenue accounts

Answer: B
Rationale: A chart of accounts is a list of the titles of all the accounts in a business's accounting system. Account titles are grouped by, and in order of, assets, liabilities, stockholders' equity, revenue, and expenses.

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Topic: Compound Journal Entries
LO: 5
Level of Difficulty: MEDIUM

49. Which of the following transactions should be recorded using a compound journal entry?

A) Common stock is issued for cash.
B) The company receives payment on account from a customer.
C) The company pays a two-year insurance premium.
D) The company purchases a desk, paying 10% in cash with the balance due in 60 days.

Answer: D
Rationale: A journal entry that involves more than two accounts is called a compound journal entry. The entry to record the purchase of a desk, paying 10% in cash with the balance due in 60 days is:

Desk		XXX	
	Cash		XXX
	Accounts Payable		XXX

Issuing common stock for cash, receiving payment from a customer, and paying a two-year insurance premium all involve only two accounts.

Topic: General Journal
LO: 5
Level of Difficulty: MEDIUM

50. Which of the following is a correct statement?

A) Any type of business transaction may be recorded in the general journal.
B) Only compound journal entries are recorded in the general journal.
C) The word "journalize" means to transfer information from the general journal to the general ledger.
D) The use of a general journal eliminates the need for a general ledger.

Answer: A
Rationale: The general journal is a record with enough flexibility that any type of business transaction can be recorded in it.

Topic: Trial Balance
LO: 6
Level of Difficulty: EASY

51. A trial balance that balances is useful because it indicates with certainty that:

A) All entries into accounts during the period were made correctly.
B) All accounts have normal balances.
C) Total debits in the general ledger equal total credits.
D) All of the above

Answer: C
Rationale: The trial balance serves as an interim check on whether the sum of the debit balances and the sum of the credit balances from the general ledger accounts are equal. If the totals are not equal, it would indicate the presence of some type of recording error. The trial balance also shows all general ledger account balances in one location, which facilitates the preparation of financial statements. The trial balance, however, is *not* a financial statement.

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Topic: Trial Balance
LO: 6
Level of Difficulty: EASY

52. A trial balance can be described as:

A) A list of general ledger account titles and balances at a certain date
B) A grouping of the accounts used by an organization to prepare its basic financial statements
C) A record on which are recorded the increases and decreases of a particular financial statement component, such as cash
D) One of the basic financial statements of an organization

Answer: A
Rationale: The trial balance is a listing of all accounts from, the general ledger with their respective debit or credit balance. A trial balance is prepared at the end of an accounting period after all transactions have been recorded.

Topic: Trial Balance
LO: 6
Level of Difficulty: MEDIUM

53. A trial balance:

A) Must balance when it is first prepared
B) Will balance only if there are no errors in the general ledger accounts
C) Will balance only if the total debits and total credits in the general ledger are equal
D) Both B) and C)

Answer: C
Rationale: The trial balance serves as an interim check on whether the sum of the debit balances and the sum of the credit balances from the general ledger accounts are equal. If the totals are not equal, it would indicate the presence of some type of recording error. However, it is possible for errors to exist in a trial balance where total debits equal total credits.

Topic: Trial Balance
LO: 6
Level of Difficulty: MEDIUM

54. Which of the following errors may escape detection when a trial balance is taken?

A) Failing to record or enter a particular transaction
B) Entering a transaction more than once or entering one or more amounts in the wrong accounts
C) Making an error that exactly offsets the effect of another error
D) All of the above

Answer: D
Rationale: If any of these errors occurred, the debits and credits of the trial balance would still be equal; therefore the errors may go undetected.

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Topic: Trial Balance
LO: 6
Level of Difficulty: EASY

55. Which of the following shows all the general ledger account balances in one place?
A) Chart of accounts
B) Special journal
C) Trial balance
D) General journal

Answer: C
Rationale: The trial balance shows all general ledger account balances in one location, which facilitates the preparation of financial statements. The trial balance, however, is *not* a financial

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: EASY

56. If a company paid off $200,000 of its accounts payable, the effect of this transaction as reflected in the accounting equation are:
A) Total assets and total liabilities decrease
B) Total assets and total liabilities increase
C) Total assets, total liabilities and stockholders' equity are all unchanged
D) Total assets decrease and total liabilities increase

Answer: A
Rationale:

Accounts Payable	200,000	
Cash		200,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: EASY

57. Lumos Consulting performed consulting services during June on account, and collections for these services were not received until August.

What effect did performing these services have on the accounting equation during June?
A) Increase in assets and decrease in stockholder's equity
B) Increase in assets and increase in stockholder's equity
C) Decrease in assets and decrease in stockholder's equity
D) Decrease in assets and increase in stockholder's equity

Answer: B
Rationale:

Consulting services revenue	XXX	
Accounts Payable		XXX

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
58. A company incurred $60,000 (to be paid next year) for the current year's advertising activities.

What would the effect of this transaction on the current year's accounting equation?
A) No effect on Assets; $60,000 decrease in Liabilities; $60,000 increase in Stockholders' Equity
B) $60,000 increase in Assets; $60,000 increase in Liabilities; No effect on Stockholders' Equity
C) $60,000 increase in Assets; No effect on Liabilities; $60,000 increase in Stockholders' Equity
D) No effect on Assets; $60,000 increase in Liabilities; $60,000 decrease in Stockholders' Equity

Answer: D
Rationale:

Advertising expense	60,000	
Advertising expense payable		60,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
59. A company incurred $180,000 (to be paid next year) for the current year's advertising activities.

What would the effect of this transaction on the current year's accounting equation?
A) No effect on Assets; $180,000 decrease in Liabilities; $180,000 increase in Stockholders' Equity
B) $180,000 increase in Assets; $180,000 increase in Liabilities; No effect on Stockholders' Equity
C) $180,000 increase in Assets; No effect on Liabilities; $180,000 increase in Stockholders' Equity
D) No effect on Assets; $180,000 increase in Liabilities; $180,000 decrease in Stockholders' Equity

Answer: D
Rationale:

Advertising expense	180,000	
Advertising expense payable		180,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
60. A company incurred $40,000 (to be paid next year) for the current year's insurance coverage.

What would the effect of this transaction on the current year's accounting equation?
A) No effect on Assets; $40,000 decrease in Liabilities; $40,000 increase in Stockholders' Equity
B) $40,000 increase in Assets; $40,000 increase in Liabilities; No effect on Stockholders' Equity
C) $40,000 increase in Assets; No effect on Liabilities; $40,000 increase in Stockholders' Equity
D) No effect on Assets; $40,000 increase in Liabilities; $40,000 decrease in Stockholders' Equity

Answer: D
Rationale:

Insurance expense	40,000	
Insurance expense payable		40,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
61. A company incurred $120,000 (to be paid next year) for the current year's insurance coverage.

What would the effect of this transaction on the current year's accounting equation?
A) No effect on Assets; $120,000 decrease in Liabilities; $120,000 increase in Stockholders' Equity
B) $120,000 increase in Assets; $120,000 increase in Liabilities; No effect on Stockholders' Equity
C) $120,000 increase in Assets; No effect on Liabilities; $120,000 increase in Stockholders' Equity
D) No effect on Assets; $120,000 increase in Liabilities; $120,000 decrease in Stockholders' Equity

Answer: D
Rationale:

Insurance expense	120,000	
Insurance expense payable		120,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
62. To take advantage of a zero percent rent increase for the coming year, a company paid, at year-end, $150,000 rent for the first three months of the next year.

What would the effect of this transaction on the company's year-end accounting equation?
A) No effect on Assets; $150,000 decrease in Liabilities; $150,000 increase in Stockholders' Equity
B) $150,000 increase in Assets; $150,000 increase in Liabilities; No effect on Stockholders' Equity
C) $150,000 increase in Assets; No effect on Liabilities; $150,000 increase in Stockholders' Equity
D) No effect on Assets; No effect on Liabilities; No effect on Stockholders' Equity

Answer: D
Rationale:

Prepaid rent	150,000	
Cash		150,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
63. To take advantage of a zero percent rent increase for the coming year, a company paid, at year-end, $450,000 rent for the first three months of the next year.

What would the effect of this transaction on the company's year-end accounting equation?
A) No effect on Assets; $450,000 decrease in Liabilities; $450,000 increase in Stockholders' Equity
B) $450,000 increase in Assets; $450,000 increase in Liabilities; No effect on Stockholders' Equity
C) $450,000 increase in Assets; No effect on Liabilities; $450,000 increase in Stockholders' Equity
D) No effect on Assets; No effect on Liabilities; No effect on Stockholders' Equity

Answer: D
Rationale:

Prepaid rent	450,000	
Cash		450,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
64. A company received a $24,000 payment for services to be performed over the next few months.

What would the effect of this transaction on the current year's accounting equation?
A) No effect on Assets; $24,000 decrease in Liabilities; $24,000 increase in Stockholders' Equity
B) $24,000 increase in Assets; $24,000 increase in Liabilities; No effect on Stockholders' Equity
C) $24,000 increase in Assets; No effect on Liabilities; $24,000 increase in Stockholders' Equity
D) No effect on Assets; $24,000 increase in Liabilities; $24,000 decrease in Stockholders' Equity

Answer: B
Rationale:

Cash		24,000	
	Unearned revenue		24,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
65. A company received a $72,000 payment for services to be performed over the next few months.

What would the effect of this transaction on the current year's accounting equation?
A) No effect on Assets; $72,000 decrease in Liabilities; 72,000 increase in Stockholders' Equity
B) $72,000 increase in Assets; $72,000 increase in Liabilities; No effect on Stockholders' Equity
C) $72,000 increase in Assets; No effect on Liabilities; $72,000 increase in Stockholders' Equity
D) No effect on Assets; $72,000 increase in Liabilities; $72,000 decrease in Stockholders' Equity

Answer: B
Rationale:

Cash		72,000	
	Unearned revenue		72,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
66. A company received $11,000 cash in exchange for 200 shares of the company's common stock.

What would the effect of this transaction on the current year's accounting equation?
A) No effect on Assets; $11,000 decrease in Liabilities; $11,000 increase in Stockholders' Equity
B) $11,000 increase in Assets; $11,000 increase in Liabilities; No effect on Stockholders' Equity
C) $11,000 increase in Assets; No effect on Liabilities; $11,000 increase in Stockholders' Equity
D) No effect on Assets; $11,000 increase in Liabilities; $11,000 decrease in Stockholders' Equity

Answer: C
Rationale:

Cash		11,000	
	Common stock		11,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
67. A company received $33,000 cash in exchange for 200 shares of the company's common stock.

What would the effect of this transaction on the current year's accounting equation?
A) No effect on Assets; $33,000 decrease in Liabilities; $33,000 increase in Stockholders' Equity
B) $33,000 increase in Assets; $33,000 increase in Liabilities; No effect on Stockholders' Equity
C) $33,000 increase in Assets; No effect on Liabilities; $33,000 increase in Stockholders' Equity
D) No effect on Assets; $33,000 increase in Liabilities; $33,000 decrease in Stockholders' Equity

Answer: C
Rationale:

Cash		33,000	
	Common stock		33,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
68. To meet its cash flow needs, a company obtained a 6 month bank loan in the amount of $10,000. Annual interest on the loan (note payable) is 10%, payable when the note is due.

What would the effect of this transaction on the company's current month accounting equation?
A) No effect on Assets; $10,000 decrease in Liabilities; $10,000 increase in Stockholders' Equity
B) $10,000 increase in Assets; $10,000 increase in Liabilities; No effect on Stockholders' Equity
C) $10,000 increase in Assets; No effect on Liabilities; $10,000 increase in Stockholders' Equity
D) No effect on Assets; $10,000 increase in Liabilities; $10,000 decrease in Stockholders' Equity

Answer: B
Rationale:

Cash		10,000	
	Notes payable		10,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
69. To meet its cash flow needs, a company obtained a 6 month bank loan in the amount of $30,000. Annual interest on the loan (note payable) is 10%, payable when the note is due.

What would the effect of this transaction on the company's current month accounting equation?
A) No effect on Assets; $30,000 decrease in Liabilities; $30,000 increase in Stockholders' Equity
B) $30,000 increase in Assets; $30,000 increase in Liabilities; No effect on Stockholders' Equity
C) $30,000 increase in Assets; No effect on Liabilities; $30,000 increase in Stockholders' Equity
D) No effect on Assets; 30,000 increase in Liabilities; $30,000 decrease in Stockholders' Equity

Answer: B
Rationale:

Cash		30,000	
	Notes payable		30,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT

70. At the beginning of the month, a company purchased a new truck for $45,000, paying $21,000 cash and agreeing to pay the balance over 12 months through a no-interest financing offer provided by the car dealer. The entry to record the purchase of the truck is recorded at month-end.

What would the effect of this transaction on the company's current month-end accounting equation? (Hint: First financing payment was made before current month-end.)

A) No effect on Assets; $45,000 decrease in Liabilities; $45,000 increase in Stockholders' Equity
B) $22,000 increase in Assets; $22,000 increase in Liabilities; No effect on Stockholders' Equity
C) $45,000 increase in Assets; No effect on Liabilities; $45,000 increase in Stockholders' Equity
D) No effect on Assets; $24,000 increase in Liabilities; $24,000 decrease in Stockholders' Equity

Answer: B
Rationale:

Truck	45,000	
Cash		23,000*
Accounts payable		22,000**

Cost of Truck	$45,000
Less cash paid	(21,000)
Balance financed by car dealer	$24,000 / 12 months = $2,000 per month

*Total cash paid, at the end of month 1:

Initial payment	$21,000
1st month's financing payment	2,000
Total	$23,000*

**Total accounts payable, at the end of month 1:

Initial payable amount	$24,000
Less: 1st month's financing payment	(2,000)
Total	$22,000**

Total change in assets = $45,000 + ($23,000) = $22,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT

71. At the beginning of the month, a company purchased a new truck for $135,000, paying $63,000 cash and agreeing to pay the balance over 12 months through a no-interest financing offer provided by the car dealer. The entry to record the purchase of the truck is recorded at month-end.

What would the effect of this transaction on the company's current month-end accounting equation? (Hint: First financing payment was made before current month-end.)

A) No effect on Assets; $135,000 decrease in Liabilities; $135,000 increase in Stockholders' Equity
B) $66,000 increase in Assets; $66,000 increase in Liabilities; No effect on Stockholders' Equity
C) $135,000 increase in Assets; No effect on Liabilities; $135,000 increase in Stockholders' Equity
D) No effect on Assets; $72,000 increase in Liabilities; $72,000 decrease in Stockholders' Equity

Answer: B
Rationale:

Truck	135,000	
Cash		69,000*
Accounts payable		66,000**

Cost of Truck	$135,000
Less cash paid	(63,000)
Balance financed by car dealer	$72,000 / 12 months = $6,000 per month

*Total cash paid, at the end of month 1:

Initial payment	$63,000
1st month's financing payment	6,000
Total	$69,000*

**Total accounts payable, at the end of month 1:

Initial payable amount	$72,000
Less: 1st month's financing payment	(6,000)
Total	$66,000**

Total change in assets = $135,000 + ($69,000) = $66,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT

72. A company performed $8,635 of services and received $3,000 in cash with the remaining amount to be paid in 60 days with no interest.

What would the effect of this transaction on the company's current month-end accounting equation?

A) $3,000 increase in Assets; $5,635 decrease in Liabilities; $8,635 increase in Stockholders' Equity
B) $8,635 increase in Assets; $8,635 increase in Liabilities; No effect on Stockholders' Equity
C) $5,635 increase in Assets; No effect on Liabilities; $5,635 increase in Stockholders' Equity
D) $8,635 increase in Assets; No effect on Liabilities; $8,635 increase in Stockholders' Equity

Answer: D
Rationale:

Cash	3,000	
Accounts Receivable	5,635	
Fee Revenue		8,635

Total change in assets = $3,000 + $5,635 = $8,635

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT
73. A company performed $25,905 of services and received $9,000 in cash with the remaining amount to be paid in 60 days with no interest.

What would the effect of this transaction on the company's current month-end accounting equation?
A) $9,000 increase in Assets; $16,905 decrease in Liabilities; $25,905 increase in Stockholders' Equity
B) $25,905 increase in Assets; $25,905 increase in Liabilities; No effect on Stockholders' Equity
C) $16,905 increase in Assets; No effect on Liabilities; $16,905 increase in Stockholders' Equity
D) $25,905 increase in Assets; No effect on Liabilities; $25,905 increase in Stockholders' Equity

Answer: D
Rationale:

Cash	9,000	
Accounts receivable	16,905	
Fee revenue		25,905

Total change in assets = $9,000 + $16,905 = $25,905

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT
74. A company paid employee wages of $24,000 for the month.

What would the effect of this transaction on the current month's accounting equation?
A) No effect on Assets; $24,000 decrease in Liabilities; $24,000 increase in Stockholders' Equity
B) $24,000 increase in Assets; $24,000 increase in Liabilities; No effect on Stockholders' Equity
C) $24,000 decrease in Assets; No effect on Liabilities; $24,000 decrease in Stockholders' Equity
D) $24,000 decrease in Assets; $24,000 decrease in Liabilities; No effect on Stockholders' Equity

Answer: C
Rationale:

Wage expense	24,000	
Cash		24,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT
75. A company paid employee wages of $72,000 for the month.

What would the effect of this transaction on the current month's accounting equation?
A) No effect on Assets; $72,000 decrease in Liabilities; $72,000 increase in Stockholders' Equity
B) $72,000 increase in Assets; $72,000 increase in Liabilities; No effect on Stockholders' Equity
C) $72,000 decrease in Assets; No effect on Liabilities; $72,000 decrease in Stockholders' Equity
D) $72,000 decrease in Assets; $72,000 decrease in Liabilities; No effect on Stockholders' Equity

Answer: C
Rationale:

Wage expense	72,000	
Cash		72,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM

76. A company received payment of $10,000 from a customer that had previously received services performed on account.

What would the effect of this transaction on the company's current month accounting equation?
A) No effect on Assets; No effect on Liabilities; No effect on Stockholders' Equity
B) $10,000 increase in Assets; $10,000 increase in Liabilities; No effect on Stockholders' Equity
C) $10,000 increase in Assets; No effect on Liabilities; $10,000 increase in Stockholders' Equity
D) No effect on Assets; $10,000 increase in Liabilities; $10,000 decrease in Stockholders' Equity

Answer: A
Rationale:

Cash		10,000	
	Accounts receivable		10,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM

77. A company received payment of $30,000 from a customer that had previously received services performed on account.

What would the effect of this transaction on the company's current month accounting equation?
A) No effect on Assets; No effect on Liabilities; No effect on Stockholders' Equity
B) $30,000 increase in Assets; $30,000 increase in Liabilities; No effect on Stockholders' Equity
C) $30,000 increase in Assets; No effect on Liabilities; $30,000 increase in Stockholders' Equity
D) No effect on Assets; $30,000 increase in Liabilities; $30,000 decrease in Stockholders' Equity

Answer: A
Rationale:

Cash		30,000	
	Accounts receivable		30,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT

78. A company paid a cash dividend of $24,000 to stockholders.

What would the effect of this transaction on the current month's accounting equation?
A) No effect on Assets; $24,000 decrease in Liabilities; $24,000 increase in Stockholders' Equity
B) $24,000 increase in Assets; $24,000 increase in Liabilities; No effect on Stockholders' Equity
C) $24,000 decrease in Assets; No effect on Liabilities; $24,000 decrease in Stockholders' Equity
D) $24,000 decrease in Assets; $24,000 decrease in Liabilities; No effect on Stockholders' Equity

Answer: C
Rationale:

Dividends		24,000	
	Cash		24,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT
79. A company paid a cash dividend of $72,000 to stockholders.

What would the effect of this transaction on the current month's accounting equation?
A) No effect on Assets; $72,000 decrease in Liabilities; $72,000 increase in Stockholders' Equity
B) $72,000 increase in Assets; $72,000 increase in Liabilities; No effect on Stockholders' Equity
C) $72,000 decrease in Assets; No effect on Liabilities; $72,000 decrease in Stockholders' Equity
D) $72,000 decrease in Assets; $72,000 decrease in Liabilities; No effect on Stockholders' Equity

Answer: C
Rationale:

Dividends		72,000	
	Cash		72,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
80. Anisha Company had a transaction that caused a $30,000 increase in both assets and liabilities. This transaction could have been a(n):
A) Purchase of office equipment for $44,000, paying $14,000 cash and issuing a note payable for the balance
B) Investment of $30,000 cash in the business by the stockholders
C) Purchase of office equipment for $30,000 cash
D) Repayment of a $30,000 bank loan

Answer: A
Rationale: The purchase of office equipment for $44,000 paying $14,000 cash and issuing a note payable for the balance is the only transaction that increases both assets and liabilities by $30,000.

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
81. Li Company had a transaction that caused a $90,000 increase in both assets and liabilities. This transaction could have been a(n):
A) Purchase of office equipment for $132,000, paying $42,000 cash and issuing a note payable for the balance
B) Investment of $90,000 cash in the business by the stockholders
C) Purchase of office equipment for $90,000 cash
D) Repayment of a $90,000 bank loan

Answer: A
Rationale: The purchase of office equipment for $132,000 paying $42,000 cash and issuing a note payable for the balance is the only transaction that increases both assets and liabilities by $90,000.

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM

82. Didwania Company had a transaction that caused a $40,000 decrease in both assets and liabilities. This transaction could have been a(n):

A) Purchase of office equipment for $54,000, paying $14,000 cash and issuing a note payable for the balance
B) Investment of $40,000 cash in the business by the stockholders
C) Purchase of office equipment for $40,000 cash
D) Repayment of a $40,000 bank loan

Answer: D
Rationale: The repayment of a $40,000 bank loan is the only transaction that decreases both assets and liabilities by $40,000.

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM

83. Aashish Company had a transaction that caused a $120,000 decrease in both assets and liabilities. This transaction could have been a(n):

A) Purchase of office equipment for $162,000, paying $42,000 cash and issuing a note payable for the balance
B) Investment of $120,000 cash in the business by the stockholders
C) Purchase of office equipment for $120,000 cash
D) Repayment of a $120,000 bank loan

Answer: D
Rationale: The repayment of a $120,000 bank loan is the only transaction that decreases both assets and liabilities by $120,000.

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM

84. Sayali Company had a transaction that caused a $50,000 increase in both assets and stockholders' equity. This transaction could have been a(n):

A) Purchase of office equipment for $64,000, paying $14,000 cash and issuing a note payable for the balance
B) Investment of $50,000 cash in the business by the stockholders
C) Purchase of office equipment for $50,000 cash
D) Repayment of a $50,000 bank loan

Answer: B
Rationale: The investment of $50,000 cash in the business by stockholders is the only transaction that increases both assets and stockholders' equity by $50,000.

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM

85. Xia Company had a transaction that caused a $150,000 increase in both assets and stockholders' equity. This transaction could have been a(n):
A) Purchase of office equipment for $192,000, paying $42,000 cash and issuing a note payable for the balance
B) Investment of $150,000 cash in the business by the stockholders
C) Purchase of office equipment for $150,000 cash
D) Repayment of a $150,000 bank loan

Answer: B
Rationale: The investment of $150,000 cash in the business by stockholders is the only transaction that increases both assets and stockholders' equity by $150,000.

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM

86. Howie Company had a transaction that had no effect on assets, liabilities, or on stockholders' equity. This transaction could have been a(n):
A) Purchase of office equipment for $74,000, paying $14,000 cash and issuing a note payable for the balance
B) Investment of $60,000 cash in the business by the stockholders
C) Purchase of office equipment for $60,000 cash
D) Repayment of a $60,000 bank loan

Answer: C
Rationale: The purchase of office equipment for $60,000 cash, is the only transaction that has no effect on assets, liabilities, or on stockholders' equity.

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM

87. Fernando Company had a transaction that had no effect on assets, liabilities, or on stockholders' equity. This transaction could have been a(n):
A) Purchase of office equipment for $222,000, paying $42,000 cash and issuing a note payable for the balance
B) Investment of $180,000 cash in the business by the stockholders
C) Purchase of office equipment for $180,000 cash
D) Repayment of a $180,000 bank loan

Answer: C
Rationale: The purchase of office equipment for $180,000 cash, is the only transaction that has no effect on assets, liabilities, or on stockholders' equity.

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM

88. A transaction caused a $200,000 increase in both assets and total liabilities. This transaction could have been:

A) Purchase for office equipment for $200,000 cash
B) Repayment of a $200,000 bank loan
C) Investment of $200,000 cash in the business by the owner
D) Purchase of office equipment for $240,000, paying $40,000 cash and issuing a note payable for the balance

Answer: D
Rationale: The purchase of office equipment for $240,000, paying $40,000 cash and issuing a note payable for the balance, is the only transaction that increases both assets and liabilities by $200,000.

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM

89. A transaction caused a $600,000 increase in both assets and total liabilities. This transaction could have been:

A) Purchase for office equipment for $600,000 cash
B) Repayment of a $600,000 bank loan
C) Investment of $600,000 cash in the business by the owner
D) Purchase of office equipment for $720,000, paying $120,000 cash and issuing a note payable for the balance

Answer: D
Rationale: The purchase of office equipment for $720,000, paying $120,000 cash and issuing a note payable for the balance is the only transaction that increases both assets and liabilities by $600,000.

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT

90. Suzanne Mi, starting her own business, made an investment of a building to the company. The building is valued at $400,000 with a $360,000 outstanding mortgage payable.

The effect of this transaction on the accounting equation of the business would be to:

A) Increase assets by $40,000
B) Increase assets by $360,000
C) Increase stockholders' equity by $40,000
D) Increase stockholders' equity by $400,000

Answer: C
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Investment of building	$400,000	=	$360,000	+	$40,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT

91. Bob Smith, starting his own business, made an investment of a building to the company. The building is valued at $1,200,000 with a $1,080,000 outstanding mortgage payable.

The effect of this transaction on the accounting equation of the business would be to:
A) Increase assets by $120,000
B) Increase assets by $1,080,000
C) Increase stockholders' equity by $120,000
D) Increase stockholders' equity by $1,200,000

Answer: C
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Investment of building	$1,200,000	=	$1,080,000	+	$120,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM

92. The accounting equation for Kangaroo Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$240,000	=	$120,000	+	$120,000

If the company now purchases office equipment on account for $20,000, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$260,000	=	$132,000	+	$128,000
B)	$260,000	=	$140,000	+	$120,000
C)	$240,000	=	$120,000	+	$120,000
D)	$260,000	=	$120,000	+	$140,000

Answer: B
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$240,000	=	$120,000	+	$120,000
Purchase Equipment	$20,000	=	$20,000	+	_____
Total	$260,000	=	$140,000	+	$120,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
93. The accounting equation for Goel Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$720,000	=	$360,000	+	$360,000

If the company now purchases office equipment on account for $60,000, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$780,000	=	$396,000	+	$384,000
B)	$780,000	=	$420,000	+	$360,000
C)	$720,000	=	$360,000	+	$360,000
D)	$780,000	=	$360,000	+	$420,000

Answer: B
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$720,000	=	$360,000	+	$360,000
Purchase Equipment	$60,000	=	$60,000	+	_____
Total	$780,000	=	$420,000	+	$360,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
94. The accounting equation for Mickey Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$360,000	=	$180,000	+	$180,000

If the company now purchases a truck on account for $30,000, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$390,000	=	$180,000	+	$210,000
B)	$390,000	=	$198,000	+	$192,000
C)	$390,000	=	$210,000	+	$180,000
D)	$360,000	=	$180,000	+	$180,000

Answer: C
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$360,000	=	$180,000	+	$180,000
Purchase Truck	$30,000	=	$30,000	+	_____
Total	$390,000	=	$210,000	+	$180,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
95. The accounting equation for Minnie Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$1,080,000	=	$540,000	+	$540,000

If the company now purchases a truck on account for $90,000, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$1,170,000	=	$540,000	+	$630,000
B)	$1,170,000	=	$594,000	+	$576,000
C)	$1,170,000	=	$630,000	+	$540,000
D)	$1,080,000	=	$540,000	+	$540,000

Answer: C
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$1,080,000	=	$540,000	+	$540,000
Purchase Truck	$90,000	=	$90,000	+	_____
Total	$1,170,000	=	$630,000	+	$540,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
96. The accounting equation for Goofy Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$240,000	=	$120,000	+	$120,000

If the company now issues stock for $30,000, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$240,000	=	$ 90,000	+	$150,000
B)	$270,000	=	$150,000	+	$120,000
C)	$240,000	=	$150,000	+	$ 90,000
D)	$270,000	=	$120,000	+	$150,000

Answer: D
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$240,000	=	$120,000	+	$120,000
Issue Stock	$ 30,000	=	_____	+	$ 30,000
Total	$270,000	=	$120,000	+	$150,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
97. The accounting equation for Pinto Company is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$720,000	=	$360,000	+	$360,000

If the company now issues stock for $90,000, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$720,000	=	$270,000	+	$450,000
B)	$810,000	=	$450,000	+	$360,000
C)	$720,000	=	$450,000	+	$270,000
D)	$810,000	=	$360,000	+	$450,000

Answer: D
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$720,000	=	$360,000	+	$360,000
Issue Stock	$90,000	=	_____	+	$ 90,000
Total	$810,000	=	$360,000	+	$450,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
98. The accounting equation for Snake Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$240,000	=	$120,000	+	$120,000

If the company now prepays rent of $18,000 for the next six months, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$240,000	=	$138,000	+	$102,000
B)	$276,000	=	$138,000	+	$138,000
C)	$240,000	=	$120,000	+	$120,000
D)	$258,000	=	$138,000	+	$120,000

Answer: C
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$240,000	=	$120,000	+	$120,000
Prepaid rent	$18,000	=		+	
Cash	($18,000)		_____		_____
Total	$240,000	=	$120,000	+	$120,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
99. The accounting equation for Henry Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$720,000	=	$360,000	+	$360,000

If the company now prepays rent of $54,000 for the next six months, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$720,000	=	$414,000	+	$306,000
B)	$828,000	=	$414,000	+	$414,000
C)	$720,000	=	$360,000	+	$360,000
D)	$774,000	=	$414,000	+	$360,000

Answer: C
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$720,000	=	$360,000	+	$360,000
Prepaid rent	$54,000	=		+	
Cash	($54,000)		_____		_____
Total	$720,000	=	$360,000	+	$360,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
100. The accounting equation for Wolf Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$240,000	=	$120,000	+	$120,000

If the company now signs a bank note payable in exchange for $30,000, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$240,000	=	$ 90,000	+	$150,000
B)	$270,000	=	$150,000	+	$120,000
C)	$240,000	=	$150,000	+	$ 90,000
D)	$270,000	=	$120,000	+	$150,000

Answer: B
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$240,000	=	$120,000	+	$120,000
Obtain Cash for Note payable	$30,000	=	$30,000	+	0
Total	$270,000	=	$150,000	+	$120,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
101. The accounting equation for Nibbles Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$720,000	=	$360,000	+	$360,000

If the company now signs a bank note payable in exchange for $90,000, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$720,000	=	$270,000	+	$450,000
B)	$810,000	=	$450,000	+	$360,000
C)	$720,000	=	$450,000	+	$270,000
D)	$810,000	=	$360,000	+	$450,000

Answer: B
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$720,000	=	$360,000	+	$360,000
Obtain Cash for Note payable	$90,000	=	$90,000	+	0
Total	$810,000	=	$450,000	+	$360,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
102. The accounting equation for Lion Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$240,000	=	$120,000	+	$120,000

If the company now purchases office supplies for $10,000 cash, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$240,000	=	$110,000	+	$130,000
B)	$250,000	=	$130,000	+	$120,000
C)	$240,000	=	$120,000	+	$120,000
D)	$250,000	=	$120,000	+	$130,000

Answer: C
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$240,000	=	$120,000	+	$120,000
Office Supplies	$10,000	=		+	
Cash	($10,000)				
Total	$240,000	=	$120,000	+	$120,000

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Topic: Analyzing Transactions 7
LO: 2
Level of Difficulty: MEDIUM
103. The accounting equation for Woodstock Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$720,000	=	$360,000	+	$360,000

If the company now purchases office supplies for $20,000 cash, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$720,000	=	$330,000	+	$390,000
B)	$750,000	=	$390,000	+	$360,000
C)	$720,000	=	$360,000	+	$360,000
D)	$750,000	=	$360,000	+	$390,000

Answer: C
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$720,000	=	$360,000	+	$360,000
Office Supplies	$30,000	=		+	
Cash	($30,000)				
Total	$720,000	=	$360,000	+	$360,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
104. The accounting equation for Elephant Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$240,000	=	$120,000	+	$120,000

If the company now receives a prepayment in the amount of $30,000, for services to be performed over the next few months, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$240,000	=	$ 90,000	+	$150,000
B)	$270,000	=	$120,000	+	$150,000
C)	$240,000	=	$150,000	+	$ 90,000
D)	$270,000	=	$150,000	+	$120,000

Answer: D
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$240,000	=	$120,000	+	$120,000
Prepayment	$30,000	=	$30,000	+	0
Total	$270,000	=	$150,000	+	$120,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
105. The accounting equation for Striped Zebra Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$720,000	=	$360,000	+	$360,000

If the company now receives a prepayment in the amount of $90,000, for services to be performed over the next few months, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$720,000	=	$ 270,000	+	$450,000
B)	$810,000	=	$360,000	+	$450,000
C)	$720,000	=	$450,000	+	$270,000
D)	$810,000	=	$450,000	+	$360,000

Answer: D
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$720,000	=	$360,000	+	$360,000
Prepayment	$90,000	=	$90,000	+	0
Total	$810,000	=	$450,000	+	$360,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
106. The accounting equation for Meow Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$240,000	=	$120,000	+	$120,000

If the company now receives a payment in the amount of $30,000 cash, for services performed for several customers, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$270,000	=	$120,000	+	$150,000
B)	$270,000	=	$ 90,000	+	$180,000
C)	$240,000	=	$150,000	+	$ 90,000
D)	$270,000	=	$150,000	+	$120,000

Answer: A
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$240,000	=	$120,000	+	$120,000
Payment for services performed	$30,000	=	0	+	$30,000
Total	$270,000	=	$120,000	+	$150,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
107. The accounting equation for Mip Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$720,000	=	$360,000	+	$360,000

If the company now receives a payment in the amount of $90,000 cash, for services performed for several customers, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$810,000	=	$360,000	+	$450,000
B)	$810,000	=	$270,000	+	$540,000
C)	$720,000	=	$450,000	+	$270,000
D)	$810,000	=	$450,000	+	$360,000

Answer: A
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$720,000	=	$360,000	+	$360,000
Payment for services performed	$90,000	=	0	+	$90,000
Total	$810,000	=	$360,000	+	$450,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
108. The accounting equation for Lupin Dog Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$240,000	=	$120,000	+	$120,000

If the company now performed $30,000 of services and received a payment in the amount of $20,000 cash with the remaining $10,000 to be paid by customers within 60 days, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$240,000	=	$ 90,000	+	$150,000
B)	$270,000	=	$120,000	+	$150,000
C)	$240,000	=	$150,000	+	$ 90,000
D)	$270,000	=	$150,000	+	$120,000

Answer: B
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$240,000	=	$120,000	+	$120,000
Payment for services performed	$20,000	=		+	$30,000
Accounts Receivable	$10,000	=	0	+	
Total	$270,000	=	$120,000	+	$150,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
109. The accounting equation for Luna Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$720,000	=	$360,000	+	$360,000

If the company now performed $90,000 of services and received a payment in the amount of $60,000 cash with the remaining $30,000 to be paid by customers within 60 days, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$720,000	=	$270,000	+	$450,000
B)	$810,000	=	$360,000	+	$450,000
C)	$720,000	=	$450,000	+	$270,000
D)	$810,000	=	$450,000	+	$360,000

Answer: B
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$720,000	=	$360,000	+	$360,000
Payment for services performed	$60,000	=		+	$90,000
Accounts Receivable	$30,000	=	0	+	
Total	$810,000	=	$360,000	+	$450,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
110. The accounting equation for Eagle Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$360,000	=	$180,000	+	$180,000

If the company now pays employee wages for $30,000, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$330,000	=	$180,000	+	$150,000
B)	$330,000	=	$150,000	+	$180,000
C)	$390,000	=	$210,000	+	$180,000
D)	$360,000	=	$180,000	+	$180,000

Answer: A
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$360,000	=	$180,000	+	$180,000
Payment of Wages	($30,000)	=	0	+	($30,000)
Total	$330,000	=	$180,000	+	$150,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
111. The accounting equation for Landscape Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$1,080,000	=	$540,000	+	$540,000

If the company now pays employee wages for $90,000, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$ 990,000	=	$540,000	+	$450,000
B)	$ 990,000	=	$450,000	+	$540,000
C)	$1,170,000	=	$630,000	+	$540,000
D)	$1,170,000	=	$540,000	+	$630,000

Answer: A
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$1,080,000	=	$540,000	+	$540,000
Payment of Wages	($90,000)	=	0	+	($90,000)
Total	$990,000	=	$540,000	+	$450,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM
112. The accounting equation for Chance Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$360,000	=	$180,000	+	$180,000

If the company now receives a payment of $30,000 on account from a customer, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$390,000	=	$180,000	+	$210,000
B)	$390,000	=	$210,000	+	$180,000
C)	$390,000	=	$150,000	+	$240,000
D)	$360,000	=	$180,000	+	$180,000

Answer: D
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$360,000	=	$180,000	+	$180,000
Receipt of customer payment on account	$ 30,000	=		+	
	($30,000)				
Total	$360,000	=	$180,000	+	$180,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM

113. The accounting equation for Giraffe Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$1,080,000	=	$540,000	+	$540,000

If the company now receives a payment of $90,000 on account from a customer, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$1,170,000	=	$540,000	+	$630,000
B)	$1,170,000	=	$630,000	+	$540,000
C)	$1.170,000	=	$450,000	+	$720,000
D)	$1,080,000	=	$540,000	+	$540,000

Answer: D
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$1,080,000	=	$540,000	+	$540,000
Receipt of customer payment on account	$ 90,000	=		+	
	($ 90,000)		_____		_____
Total	$1,080,000	=	$540,000	+	$540,000

Topic: Analyzing Transactions
LO: 2

114. The accounting equation for Narvy Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$360,000	=	$180,000	+	$180,000

If the company now pays a $30,000 cash dividend to stockholders, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$330,000	=	$180,000	+	$150,000
B)	$360,000	=	$210,000	+	$150,000
C)	$390,000	=	$210,000	+	$180,000
D)	$360,000	=	$180,000	+	$180,000

Answer: A
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$360,000	=	$180,000	+	$180,000
Payment of Dividend	($30,000)	=	_____	+	($30,000)
Total	$330,000	=	$180,000	+	$150,000

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Topic: Analyzing Transactions
LO: 2
115. The accounting equation for Hamilton Enterprises is as follows:

Assets	=	Liabilities	+	Stockholders' Equity
$1,080,000	=	$540,000	+	$540,000

If the company now pays a $90,000 cash dividend to stockholders, the accounting equation will change to:

	Assets		Liabilities		Stockholders' Equity
A)	$ 990,000	=	$540,000	+	$450,000
B)	$1,080,000	=	$630,000	+	$450,000
C)	$1,170,000	=	$630,000	+	$540,000
D)	$1,080,000	=	$540,000	+	$540,000

Answer: A
Rationale:

	Assets	=	Liabilities	+	Stockholders' Equity
Original Balance	$1,080,000	=	$540,000	+	$540,000
Payment of Dividend	($90,000)	=	_____	+	($90,000)
Total	$990,000	=	$540,000	+	$450,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT
116. During its first month of operations, Neptune Company (1) borrowed $200,000 from a bank, and then (2) purchased an equipment costing $80,000 by paying cash of $40,000 and signing a long term note for the remaining amount. During the month, the company also (3) purchased inventory for $60,000 on credit, (4) performed services for clients for $120,000 on account, (5) paid $30,000 cash for accounts payable, and (6) paid $60,000 cash for utilities.

What is the amount of total assets at the end of the month?

A) $190,000
B) $270,000
C) $250,000
D) $330,000

Answer: D
Rationale:

Transaction	Asset Account	Assets	=	Liabilities	+	Stockholders' Equity
(1)	Cash	$200,000		$200,000		
(2)	Equipment	80,000				
(2)	Cash	(40,000)		40,000		
(3)	Inventory	60,000		60,000		
(4)	A/R	120,000				$120,000
(5)	Cash	(30,000)		(30,000)		
(6)	Cash	(60,000)				(60,000)
		$330,000	=	$270,000	+	$60,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT

117. During its first month of operations, Lavender Company (1) borrowed $600,000 from a bank, and then (2) purchased an equipment costing $240,000 by paying cash of $120,000 and signing a long term note for the remaining amount. During the month, the company also (3) purchased inventory for $180,000 on credit, (4) performed services for clients for $360,000 on account, (5) paid $90,000 cash for accounts payable, and (6) paid $180,000 cash for utilities.

What is the amount of total assets at the end of the month?

A) $990,000
B) $570,000
C) $810,000
D) $750,000

Answer: A
Rationale:

Transaction	Account	Assets	=	Liabilities	+	Stockholders' Equity
(1)	Cash	$600,000		$600,000		
(2)	Equipment	240,000				
(2)	Cash	(120,000)		120,000		
(3)	Inventory	180,000		180,000		
(4)	A/R	360,000				360,000
(5)	Cash	(90,000)		(90,000)		
(6)	Cash	(180,000)				(180,000)
		$990,000	=	$810,000	+	$180,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT

118. During its first month of operations, Saturn Company (1) borrowed $200,000 from a bank, and then (2) purchased an equipment costing $80,000 by paying cash of $40,000 and signing a long term note for the remaining amount. During the month, the company also (3) purchased inventory for $60,000 on credit, (4) performed services for clients for $120,000 on account, (5) paid $30,000 cash for accounts payable, and (6) paid $60,000 cash for utilities.

What is the amount of total liabilities at the end of the month?

A) $190,000
B) $270,000
C) $250,000
D) $330,000

Answer: B
Rationale:

Transaction	Account	Assets	=	Liabilities	+	Stockholders' Equity
(1)	Cash	$200,000		$200,000		
(2)	Equipment	80,000				
(2)	Cash	(40,000)		40,000		
(3)	Inventory	60,000		60,000		
(4)	A/R	120,000				120,000
(5)	Cash	(30,000)		(30,000)		
(6)	Cash	(60,000)				(60,000)
		$330,000	=	$270,000	+	$60,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT

119. During its first month of operations, Lavender Company (1) borrowed $600,000 from a bank, and then (2) purchased an equipment costing $240,000 by paying cash of $120,000 and signing a long term note for the remaining amount. During the month, the company also (3) purchased inventory for $180,000 on credit, (4) performed services for clients for $360,000 on account, (5) paid $90,000 cash for accounts payable, and (6) paid $180,000 cash for utilities.

What is the amount of total liabilities at the end of the month?

A) $990,000
B) $570,000
C) $810,000
D) $750,000

Answer: C
Rationale:

Transaction	Account	Assets	=	Liabilities	+	Stockholders' Equity
(1)	Cash	$600,000		$600,000		
(2)	Equipment	240,000				
(2)	Cash	(120,000)		120,000		
(3)	Inventory	180,000		180,000		
(4)	A/R	360,000				360,000
(5)	Cash	(90,000)		(90,000)		
(6)	Cash	(180,000)				(180,000)
		$990,000	=	$810,000	+	$180,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT

120. During its first month of operations, Neptune Company (1) borrowed $200,000 from a bank, and then (2) purchased an equipment costing $80,000 by paying cash of $40,000 and signing a long term note for the remaining amount. During the month, the company also (3) purchased inventory for $60,000 on credit, (4) performed services for clients for $120,000 on account, (5) paid $30,000 cash for accounts payable, and (6) paid $60,000 cash for utilities.

What is the amount of Stockholders' equity at the end of the month?

A) ($ 60,000)
B) $ 90,000
C) $ 60,000
D) $180,000

Answer: C
Rationale:

Transaction	Account	Assets	=	Liabilities	+	Stockholders' Equity
(1)	Cash	$200,000		$200,000		
(2)	Equipment	80,000				
(2)	Cash	(40,000)		40,000		
(3)	Inventory	60,000		60,000		
(4)	A/R	120,000				120,000
(5)	Cash	(30,000)		(30,000)		
(6)	Cash	(60,000)				(60,000)
		$330,000	=	$270,000	+	$60,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT

121. During its first month of operations, Lavender Company (1) borrowed $600,000 from a bank, and then (2) purchased an equipment costing $240,000 by paying cash of $120,000 and signing a long term note for the remaining amount. During the month, the company also (3) purchased inventory for $180,000 on credit, (4) performed services for clients for $360,000 on account, (5) paid $90,000 cash for accounts payable, and (6) paid $180,000 cash for utilities.

What is the amount of Stockholders' equity at the end of the month?

A) $240,000
B) $180,000
C) $210,000
D) $360,000

Answer: B
Rationale:

Transaction	Account	Assets	=	Liabilities	+	Stockholders' Equity
(1)	Cash	$600,000		$600,000		
(2)	Equipment	240,000				
(2)	Cash	(120,000)		120,000		
(3)	Inventory	180,000		180,000		
(4)	A/R	360,000				360,000
(5)	Cash	(90,000)		(90,000)		
(6)	Cash	(180,000)				(180,000)
		$990,000	=	$810,000	+	$180,000

Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT

122. Mr. Montana started a company (Montana Company) by contributing $100,000 cash, and a building valued at $800,000. The company then purchased a machine by making a $100,000 down payment (which accounted for half its purchase price), and signed a note payable to the bank.

After recording the above transactions, Montana Company's balance sheet will show:

	Assets	Liabilities	Stockholders' Equity
A)	$ 920,000	$ 60,000	$860,000
B)	$ 900,000	$100,000	$800,000
C)	$1,000,000	$900,000	$100,000
D)	$1,000,000	$100,000	$900,000

Answer: D
Rationale:

Transaction	Account	Assets	=	Liabilities	+	Stockholders' Equity
(1)	Cash	$100,000				$100,000
(2)	Building	800,000				800,000
(3)	Machine	200,000				
(3)	Note Payable			$100,000		
(3)	Cash	(100,000)				
		$1,000,000	=	$100,000	+	$900,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT

123. Ken Baar started a company (Baar Company) by contributing $300,000 cash, and a building valued at $2,400,000. The company then purchased a machine by making a $300,000 down payment (which accounted for half its purchase price), and signed a note payable to the bank.

After recording the above transactions, Larson Company's balance sheet will show:

	Assets	Liabilities	Stockholders' Equity
A)	$2,760,000	$ 180,000	$2,580,000
B)	$2,700,000	$ 300,000	$2,400,000
C)	$3,000,000	$2,700,000	$ 300,000
D)	$3,000,000	$ 300,000	$2,700,000

Answer: D
Rationale:

Transaction	Account	Assets	=	Liabilities	+	Stockholders' Equity
(1)	Cash	$ 300,000				$ 300,000
(2)	Building	2,400,000				2,400,000
(3)	Machine	600,000				
(3)	Note Payable			$300,000		
(3)	Cash	(300,000)				
		$3,000,000	=	$300,000	+	$2,700,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT

124. On December 31, 2019, the end of the first month of operation, the balance sheet of Drake's Driving School reported total assets of $400,000. The following transactions occurred during the month of January 2020:

(1) The business purchased land for $500,000, paying $200,000 cash and issuing a note payable for the balance.
(2) The business collected accounts receivable totaling $90,000.
(3) The business sold land (which had cost $100,000) for $120,000 cash.
(4) The business paid off $100,000 of Notes Payable.

What is the amount of the company's total assets on January 31, 2020?
A) $920,000
B) $620,000
C) $910,000
D) $730,000

Answer: B
Rationale:

Transaction	Account	Assets	=	Liabilities	+	Stockholders' Equity
Bal. 12/31/19		$400,000				$400,000
(1)	Land	500,000				
(1)	Cash	(200,000)				
(1)	Note Payable			$300,000		
(2)	Cash	90,000				
(2)	A/R	(90,000)				
(3)	Cash	120,000				
(3)	Land	(100,000)				
(3)	Gain on Sale					20,000
(4)	Cash	(100,000)				
(4)	Note Payable			(100,000)		
Bal. 1/31/20		$620,000	=	$200,000	+	$420,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: DIFFICULT

125. On December 31, 2019, the end of the first month of operation, the balance sheet of Michaelene's Real Estate Training School reported total assets of $1,200,000. The following transactions occurred during the month of January 2020:

(1) The business purchased land for $1,500,000, paying $600,000 cash and issuing a note payable for the balance.
(2) The business collected accounts receivable totaling $270,000.
(3) The business sold land (which had cost $300,000) for $360,000 cash.
(4) The business paid off $300,000 of Notes Payable.

What is the amount of the company's total assets on January 31, 2020?
A) $2,190,000
B) $2,760,000
C) $1,860,000
D) $2,730,000

Answer: C
Rationale:

Transaction	Account	Assets	=	Liabilities	+	Stockholders' Equity
Bal. 12/31/19		$1,200,000				$1,200,000
(1)	Land	1,500,000				
(1)	Cash	(600,000)				
(1)	Note Payable			$900,000		
(2)	Cash	270,000				
(2)	A/R	(270,000)				
(3)	Cash	360,000				
(3)	Land	(300,000)				
(3)	Gain on Sale					60,000
(4)	Cash	(300,000)				
(4)	Note Payable			(300,000)		
Bal. 1/31/20		$1,860,000	=	$600,000	+	$1,260,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM

126. On February 1 2019 Cibula's Accounting Services had a cash balance of $10,000, and completed the following transactions during February 2019:

1. Purchased office supplies on account, $600.
2. Completed work for a client on credit, $1,000.
3. Paid cash for the office supplies purchased in (1).
4. Completed work for a client and received $1,600 cash.
5. Received $1,000 cash for the work described in (2).
6. Received $2,000 from a client for accounting services to be performed in March.

What was the balance of the company's cash account after these transactions?
A) $ 4,000
B) $ 5,000
C) $14,000
D) $ 3,400

Answer: C
Rationale:

Transaction	Account	Assets	=	Liabilities	+	Stockholders' Equity
Bal. 2/1/19	Cash	$10,000				$10,000
(1)	Office Supplies	600				
(1)	A/P			$600		
(2)	Fee Revenue					1,000
(2)	A/R	1,000				
(3)	Cash	(600)				
(3)	A/P			(600)		
(4)	Cash	1,600				
(4)	Fee Revenue					1,600
(5)	Cash	1,000				
(5)	A/R	(1,000)				
(6)	Cash	2,000				
(6)	Unearned Revenue			2,000		
Bal. 2/29/19		$14,600	=	$2,000	+	$12,600

Cash Account = $10,000 + ($600) + $1,600 + $1,000 + $2,000 = $14,000

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Topic: Analyzing Transactions
LO: 2
Level of Difficulty: MEDIUM

127. On February 1 2019, Zultner's Accounting Services had a cash balance of $30,000, and completed the following transactions during February 2019:

1. Purchased office supplies on account, $1,800.
2. Completed work for a client on credit, $3,000.
3. Paid cash for the office supplies purchased in (1).
4. Completed work for a client and received $4,800 cash.
5. Received $3,000 cash for the work described in (2).
6. Received $6,000 from a client for accounting services to be performed in March.

What was the balance of the company's cash account after these transactions?
A) $10,200
B) $12,000
C) $15,000
D) $42,000

Answer: D
Rationale:

Transaction	Account	Assets	=	Liabilities	+	Stockholders' Equity
Bal. 2/1/19	Cash	$30,000				$30,000
(1)	Office Supplies	1,800				
(1)	A/P			1,800		
(2)	Fee Revenue					3,000
(2)	A/R	3,000				
(3)	Cash	(1,800)				
(3)	A/P			(1,800)		
(4)	Cash	4,800				
(4)	Fee Revenue					4,800
(5)	Cash	3,000				
(5)	A/R	(3,000)				
(6)	Cash	6,000				
(6)	Unearned Revenue			6,000		
Bal. 2/29/19		$43,800	=	$6,000	+	$37,800

Cash Account = $30,000 + ($1,800) + $4,800 + $3,000 + $6,000 = $42,000

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Topic: The "Account" System
LO: 3
Level of Difficulty: DIFFICULT

128. When Holly received her paycheck, she realized that her employer made an error in computing her wages, and overpaid her by $2,600. So, Holly promptly returned the excess amount.

When the employer receives a check from her for the amount of the overpayment, which of the following journal entries will be made by the employer?

A) Debit Cash $2,600 and credit Wages Expense $2,600
B) Debit Wages Expense $2,600 and credit Cash $2,600
C) Debit Cash $2,600 and credit Wages Payable $2,600
D) Debit Wages Payable $2,600 and credit Wages Expense $2,600

Answer: A
Rationale:

Original Entry		
Wage Expense	XXX + 2,600	
Cash		XXX + 2,600
Correct Entry		
Wage Expense	XXX	
Cash		XXX
Correcting Entry		
Cash	2,600	
Wage Expense		2,600

Topic: The "Account" System
LO: 3
Level of Difficulty: DIFFICULT

129. When Trina received her paycheck, she realized that her employer made an error in computing her wages, and overpaid her by $7,800. So, Trina promptly returned the excess amount.

When the employer receives a check from her for the amount of the overpayment, which of the following journal entries will be made by the employer?

A) Debit Wages Payable $7,800 and Credit Wages Expense $7,800
B) Debit Cash $7,800 and Credit Wages Expense $7,800
C) Debit Wages Expense $7,800 and Credit Cash $7,800
D) Debit Cash $7,800 and Credit Wages Payable $7,800

Answer: B
Rationale:

Original Entry		
Wage Expense	XXX + 7,800	
Cash		XXX + 7,800
Correct Entry		
Wage Expense	XXX	
Cash		XXX
Correcting Entry		
Cash	7,800	
Wage Expense		7,800

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Topic: The "Account" System
LO: 3
Level of Difficulty: MEDIUM

130. Lambchop Company purchased supplies for $14,000 on credit on January 1, 2019. On January 15, the company made a cash payment of $4,000 to the supplier and signed a one-year note for the remaining amount to settle the account.

Lambchop Company's journal entry on January 15 will include:
A) Debit Notes Payable for $10,000
B) Credit Accounts Payable for $10,000
C) Credit Notes Payable for $10,000
D) Debit Cash for $10,000

Answer: C
Rationale:

Cash	
	4,000 (2)

Accounts Payable	
(2) 4,000	14,000 (1)
(3) 10,000	

Notes Payable	
	10,000 (3)

Supplies	
(1) 14,000	

Topic: The "Account" System
LO: 3
Level of Difficulty: MEDIUM

131. Xia Company purchased supplies for $42,000 on credit on January 1, 2019. On January 15, the company made a cash payment of $12,000 to the supplier, and signed a one-year note for the remaining amount to settle the account.

Xia Company's journal entry on January 15 will include:
A) Debit Cash for $30,000
B) Debit Notes Payable for $30,000
C) Credit Accounts Payable for $30,000
D) Credit Notes Payable for $30,000

Answer: D
Rationale:

Cash	
	12,000 (2)

Accounts Payable	
(2) 12,000	42,000 (1)
(3) 30,000	

Notes Payable	
	30,000 (3)

Supplies	
(1) 42,000	

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Topic: The "Account" System
LO: 3
Level of Difficulty: DIFFICULT

132. Lumos Pet Supplies had the following transactions during December 2019:

- Paid a note of $34,000, owed since March, plus $850 for interest.
- Sold $73,050 of merchandise to customers on account. Cost of goods sold was $42,500. [Hint: Cost of goods sold is an expense related to the reduction of inventory (merchandise sold).]
- Paid accounts payable of $4,100.

As a result of these transactions, at year-end, liabilities and stockholders' equity would show a combined total:

A) Decrease by $ 9,600
B) Increase by $ 26,850
C) Decrease by $ 9,150
D) Decrease by $ 8,400

Answer: D
Rationale:

Transaction	Account	Assets	=	Liabilities	+	Stockholders' Equity
(1)	Interest Expense					(850)
(1)	Note Payable			(34,000)		
(1)	Cash	(34,850)				
(2)	A/R	73,050				
(2)	Fee Revenue					73,050
(2)	Inventory	(42,500)				
(2)	Cost of Goods Sold					(42,500)
(3)	Cash	(4,100)				
(3)	A/P			(4,100)		
Bal. 12/31/16		($8,400)	=	($38,100)	+	$29,700

12/31/16 Liabilities + Stockholders' Equity = ($38,100) + $29,700 = ($8,400)

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Topic: The "Account" System
LO: 3
Level of Difficulty: DIFFICULT

133. Mouser Pet Supplies had the following transactions during December 2019:

- Paid a note of $102,000, owed since March, plus $2,550 for interest.
- Sold $219,150 of merchandise to customers on account. Cost of goods sold was $127,500. [Hint: Cost of goods sold is an expense related to the reduction of inventory (merchandise sold).]
- Paid accounts payable of $12,300.

As a result of these transactions, at year-end, liabilities and stockholders' equity would show a combined total:

A) Decrease by $ 25,200
B) Increase by $ 28,800
C) Decrease by $ 80,550
D) Decrease by $ 27,450

Answer: A
Rationale:

Transaction	Account	Assets	=	Liabilities	+	Stockholders' Equity
(1)	Interest Expense					(2,550)
(1)	Note Payable			(102,000)		
(1)	Cash	(104,550)				
(2)	A/R	219,150				
(2)	Fee Revenue					219,150
(2)	Inventory	(127,500)				
(2)	Cost of Goods Sold					(127,500)
(3)	Cash	(12,300)				
(3)	A/P			(12,300)		
Bal. 12/31/19		($25,200)	=	($114,300)	+	$89,100

12/31/19 Liabilities + Stockholders' Equity = ($114,300) + $89,100 = ($25,200)

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Topic: The "Account" System
LO: 3
Level of Difficulty: MEDIUM

134. During January 2019, Randolph Corporation purchased $200,000 of inventory; they paid one-fourth in cash, and signed a note for the remaining balance.

This transaction will be recorded as:

A)

Inventory		200,000	
	Cash		150,000
	Notes Payable		50,000

B)

Inventory		200,000	
	Cash		50,000
	Accounts Payable		150,000

C)

Inventory		200,000	
	Cash		150,000
	Accounts Payable		50,000

D)

Inventory		200,000	
	Cash		50,000
	Notes Payable		150,000

Answer: D
Rationale: $200,000 x 0.25 = $50,000 = Cash
$200,000 - $50,000 = $150,000 = Notes Payable

Topic: The "Account" System
LO: 3
Level of Difficulty: MEDIUM

135. During January 2019, Dakota Corporation purchased $600,000 of inventory; they paid one-fourth in cash, and signed a note for the remaining balance.

This transaction will be recorded as:

A)

Inventory		600,000	
	Cash		150,000
	Notes Payable		450,000

B)

Inventory		600,000	
	Cash		450,000
	Notes Payable		150,000

C)

Inventory		600,000	
	Cash		150,000
	Accounts Payable		450,000

D)

Inventory		600,000	
	Cash		450,000
	Accounts Payable		150,000

Answer: A
Rationale: $600,000 x .25 = $150,000 = Cash
$600,000 - $150,000 = $450,000 = Notes Payable

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Topic: The "Account" System
LO: 3
Level of Difficulty: MEDIUM

136. Horizon Company, an internet service provider, has 2,000,000 customers. The customers make electronic payments of $140 each for that month's service on the last day of each month. Horizon Company does not send any bills to their customers.

The company's journal entry on the day they receive the payment will include:
A) A credit to Internet Service Revenue for $280,000,000
B) A debit to Accounts Receivable for $280,000,000
C) A credit to Accounts Receivable for $280,000,000
D) A debit to Internet Service Expense for $280,000,000

Answer: A
Rationale: 2,000,000 customers x $140 monthly service fee = $280,000,000

Cash	280,000,000	
Internet Service Revenue		280,000,000

Topic: The "Account" System
LO: 3
Level of Difficulty: MEDIUM

137. Vista Company, an internet service provider, has 2,000,000 customers. The customers make electronic payments of $420 each for that month's service on the last day of each month. Buena Company does not send any bills to their customers.

The company's journal entry on the day they receive the payment will include:
A) A debit to Internet Service Expense for $840,000,000
B) A credit to Internet Service Revenue for $840,000,000
C) A debit to Accounts Receivable for $840,000,000
D) A credit to Accounts Receivable for $840,000,000

Answer: B
Rationale: 2,000,000 customers x $420 monthly service fee = $840,000,000

Cash	840,000,000	
Internet Service Revenue		840,000,000

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Topic: The "Account" System
LO: 3
Level of Difficulty: MEDIUM

138. A customer received and then paid an $18,000 utility bill from West Haven Natural Gas Company. The journal entry by West Haven Natural Gas Company to record *receipt* of the payment would include:

A) A credit to Accounts Payable
B) A credit to Accounts Receivable
C) A credit to Utilities Revenue
D) A debit to Accounts Receivable

Answer: B
Rationale:

Entry when revenue earned and bill sent		
Accounts Receivable	18,000	
Utility Revenue		18,000

Entry when payment received		
Cash	18,000	
Accounts Receivable		18,000

Topic: The "Account" System
LO: 3
Level of Difficulty: MEDIUM

139. Ringstar Company purchased a new car for $60,000 by paying $24,000 cash, and trading in an old car with a recorded net cost and market value of $20,000. They also signed a Note for $16,000.

The required journal entry will *not*:

A) Debit New Car for $60,000
B) Debit Notes Payable for $16,000
C) Credit Old Car for $20,000
D) Credit Notes Payable for $16,000

Answer: B
Rationale:

Entry when new car is purchased:		
New Car	60,000	
Cash		24,000
Old Car		20,000
Note Payable		16,000

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Topic: The "Account" System
LO: 3
Level of Difficulty: MEDIUM

140. Stone Circle Company purchased a new car for $135,000 by paying $54,000 cash, and trading in an old car with a recorded net cost and market value of $45,000. They also signed a Note for $36,000.

The required journal entry will *not*:
A) Credit Notes Payable for $36,000
B) Debit New Car for $135,000
C) Debit Notes Payable for $36,000
D) Credit Old Car for $45,000

Answer: C
Rationale:

Entry when new car is purchased:		
New Car	135,000	
Cash		54,000
Old Car		45,000
Note Payable		36,000

Topic: The "Account" System
LO: 3
Level of Difficulty: MEDIUM

141. During the current week, Julissa, (1) received a cash payment for services previously billed to one of her clients. Also, she (2) paid her telephone bill, and (3) bought equipment on credit.

For the three separate transactions, at least one of the journal entries will include a:
A) Credit to Retained Earnings
B) Debit to Notes Payable
C) Debit to Accounts Receivable
D) Credit to Accounts Receivable

Answer: D
Rationale: The first current transaction includes a credit to accounts receivable.

Entry when revenue earned and bill sent: - *pre-transaction (1)*		
Accounts Receivable	XXX	
Service Revenue		XXX
Entry when payment received: - transaction (1)		
Cash	XXX	
Accounts Receivable		XXX
Entry when telephone bill is paid: - transaction (2)		
Telephone Expense	XXX	
Cash		XXX
Entry when equipment on credit purchased: - transaction (3)		
Equipment	XXX	
Accounts Payable		XXX

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Topic: The "Account" System
LO: 3
Level of Difficulty: MEDIUM

142. Koala Company provided consulting service to a client on January 1, and billed them for $30,000. On February 1, the client made cash payment of $16,000 and signed a note for $14,000 to settle the account.

What is Koala Company's journal entry on February 1?

A)

Cash		16,000	
Accounts Receivable		14,000	
	Notes Payable		30,000

B)

Accounts Payable		30,000	
	Notes Payable		14,000
	Cash		16,000

C)

Cash		16,000	
Notes Receivable		14,000	
	Consulting Revenue		30,000

D)

Cash		16,000	
Notes Receivable		14,000	
	Accounts Receivable		30,000

Answer: D
Rationale:

<u>January entry to record consulting revenue earned and billed to client:</u>

Accounts Receivable		30,000	
	Consulting Revenue		30,000

<u>February entry to record settlement of the account receivable:</u>

Cash		16,000	
Notes Receivable		14,000	
	Accounts Receivable		30,000

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Topic: The "Account" System
LO: 3
Level of Difficulty: MEDIUM

143. Hannibal Company provided consulting service to a client on January 1, and billed them for $90,000. On February 1, the client made cash payment of $48,000 and signed a note for $42,000 to settle the account.

What is Hannibal Company's journal entry on February 1?

A)

Cash	48,000	
Notes Receivable	42,000	
Accounts Receivable		90,000

B)

Cash	48,000	
Accounts Receivable	42,000	
Notes Receivable		90,000

C)

Accounts Payable	90,000	
Notes Payable		42,000
Cash		48,000

D)

Cash	48,000	
Notes Receivable	42,000	
Consulting Revenue		90,000

Answer: A
Rationale:

January entry to record consulting revenue earned and billed to client:

Accounts Receivable	90,000	
Consulting Revenue		90,000

February entry to record settlement of the account receivable:

Cash	48,000	
Notes Receivable	42,000	
Accounts Receivable		90,000

Topic: The "Account" System
LO: 3
Level of Difficulty: DIFFICULT

144. Hannibal Company's Accounts Payable account had a balance of $7,400 on September 1, 2019, and a balance of $9,000 on September 30, 2019. During September 2019, the company made total payments of $65,600 on accounts payables.

What must have been their total purchases on account during September 2019.

A) $74,600
B) $58,200
C) $67,200
D) $64,000

Answer: C
Rationale: Beginning A/P balance + Sales on account – Customer payments = Ending A/P balance
$7,400 + X - $65,600 = $9,000
X = $9,000 - $7,400 + $65,600
X = $67,200

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Topic: The "Account" System
LO: 3
Level of Difficulty: DIFFICULT

145. Rabbit Company's Accounts Payable account had a balance of $22,200 on September 1, 2019, and a balance of $27,000 on September 30, 2019. During September 2019, the company made total payments of $196,800 on accounts payables.

What must have been their total purchases on account during September 2019.
A) $192,000
B) $223,800
C) $174,600
D) $201,600

Answer: D
Rationale: Beginning A/P balance + Purchases – Payments = Ending A/P balance
$22,200 + X - $196,800 = $27,000
X = $27,000 - $22,200 + $196,800
X = $201,600

Topic: The "Account" System
LO: 3
Level of Difficulty: DIFFICULT

146. Baker Company's Accounts Receivable account had a balance of $15,000 on September 1, 2019, and a balance of $21,400 on September 30, 2019. During September 2019, the company received cash of $39,400 from credit customers.

Determine the amount of sales on account that occurred in September 2019.
A) $45,800
B) $41,000
C) $52,800
D) $26,000

Answer: A
Rationale: Beginning A/R balance + Sales on account – Cash receipts = Ending A/R balance
$15,000 + X - $39,400 = $21,400
X = $21,400 - $15,000 + $39,400
X = $45,800

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Topic: The "Account" System
LO: 3
Level of Difficulty: DIFFICULT

147. Patrick's Show Choir Company's Accounts Receivable account had a balance of $45,000 on September 1, 2016, and a balance of $64,200 on September 30, 2019. During September 2019, the company received cash of $118,200 from credit customers.

Determine the amount of sales on account that occurred in September 2019.
A) $ 78,000
B) $137,400
C) $126,000
D) $158,400

Answer: B
Rationale: Beginning A/R balance + Sales on account – Cash receipts = Ending A/R balance
$45,000 + X - $118,200 = $64,200
X = $64,200 - $45,000 + $118,200
X = $137,400

Topic: The "Account" System
LO: 3
Level of Difficulty: DIFFICULT

148. Martin Company had $113,500 of Accounts Payable on March 31, 2019. During March, the company made total purchases on account of $193,740, and paid a total of $210,460 cash on accounts payable.

Determine the balance of Accounts Payable on March 1, 2019.
A) $130,400
B) $130,220
C) $ 6,780
D) $290,700

Answer: B
Rationale: Beginning A/P balance + Purchases – Payments = Ending A/P balance
X + $193,740 - $210,460 = $113,500
X = $113,500 - $193,740 + $210,460
X = $130,220

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Topic: The "Account" System
LO: 3
Level of Difficulty: DIFFICULT

149. Morgan Company had $340,500 of Accounts Payable on March 31, 2019. During March, the company made total purchases on account of $581,220, and paid a total of $631,380 cash on accounts payable.

Determine the balance of Accounts Payable on March 1, 2019.
A) $871,100
B) $391,200
C) $390,660
D) $ 20,340

Answer: C
Rationale: Beginning A/P balance + Purchases – Payments = Ending A/P balance
X + $581,220 - $631,380 = $340,500
X = $340,500 - $581,220 + $631,380
X = $390,660

Topic: The "Account" System
LO: 3
Level of Difficulty: DIFFICULT

150. On December 31, 2019, KatoffelSak Company had a $122,550 balance in Accounts Receivable. During the year 2020, the company collected $200,000 from its credit customers. The December 31, 2020 balance of the Accounts Receivable was $170,650.

Determine the amount of sales on accounts for 2020.
A) $248,100
B) $156,900
C) $253,100
D) $156,000

Answer: A
Rationale: Beginning A/R balance + Sales on account – Cash receipts = Ending A/R balance
$122,550 + X - $200,000 = $170,650
X = $170,650 - $122,550 + $200,000
X = $248,100

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Topic: The "Account" System
LO: 3
Level of Difficulty: DIFFICULT

151. On December 31, 2019, Munchkin Company had a $367,650 balance in Accounts Receivable. During the year 2020, the company collected $600,000 from its credit customers. The December 31, 2020 balance of the Accounts Receivable was $511,950.

Determine the amount of sales on accounts for 2020.
A) $468,000
B) $744,300
C) $470,700
D) $759,300

Answer: B
Rationale: Beginning A/R balance + Sales on account – Cash receipts = Ending A/R balance
$367,650 + X - $600,000 = $511,950
X = $511,950 - $367,650 + $600,000
X = $744,300

Topic: The "Account" System
LO: 3
Level of Difficulty: DIFFICULT

152. Bousfield Company had $28,460 of Accounts Payable on September 1 and $25,520 on September 30. During September, the company paid total cash of $26,550 on accounts payable.

Determine the total purchases on account during September.
A) $86,410
B) $80,530
C) $23,610
D) $29,490

Answer: C
Rationale: Beginning A/P balance + Purchases – Payments = Ending A/P balance
$28,460 + X - $26,550 = $25,520
X = $25,520 - $28,460 + $26,550
X = $23,610

Topic: The "Account" System
LO: 3
Level of Difficulty: DIFFICULT

153. MoveLo Company had $85,380 of accounts payable on September 1 and $76,560 on September 30. During September, the company paid total cash of $79,650 on accounts payable.

Determine the total purchases on account during September.
A) $ 88,470
B) $259,230
C) $241,590
D) $ 70,830

Answer: D
Rationale: Beginning A/P balance + Purchases – Payments = Ending A/P balance
$85,380 + X - $79,650 = $76,560
X = $76,560 - $85,380 + $79,650
X = $70,830

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Topic: The "Account" System
LO: 3
Level of Difficulty: DIFFICULT

154. On November 30, Sydney Company had Accounts Receivable of $130,280. During the month of December, the company received total payments of $160,000 from credit customers. The Accounts Receivable on December 31 was $86,320.

What was the amount of credit sales during December?
A) $373,360
B) $116,040
C) $196,720
D) $63,840

Answer: B
Rationale: Beginning A/R balance + Sales on account – Cash receipts = Ending A/R balance
$130,280 + X - $160,000 = $86,320
X = $86,320 - $130,280 + $160,000
X = $116,040

Topic: The "Account" System
LO: 3
Level of Difficulty: DIFFICULT

155. On November 30, Brisbane Company had Accounts Receivable of $390,840. During the month of December, the company received total payments of $480,000 from credit customers. The Accounts Receivable on December 31 was $258,960.

What was the amount of credit sales during December?
A) $ 191,520
B) $1,120,080
C) $ 348,120
D) $ 590,160

Answer: C
Rationale: Beginning A/R balance + Sales on account – Cash receipts = Ending A/R balance
$390,840 + X - $480,000 = $258,960
X = $258,960 - $390,840 + $480,000
X = $348,120

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Topic: The "Account" System
LO: 3
Level of Difficulty: DIFFICULT

156. The accountant at Fog Company recorded the purchase of $600 of supplies for cash as a debit to Supplies for $600 and a credit to Accounts Payable for $600.

Determine the effect of this error on the accounting equation of Fog Company.
A) Total Equity would be overstated by $600
B) Total Liabilities will be understated by $600
C) Total Assets would be overstated by $600
D) Total Equity would be understated by $600

Answer: C
Rationale:

	Assets	Liabilities	Equity
Correct entry:			
Supplies	600		
Cash	(600)		
	0		
Entry made:			
Supplies	600		
A/P	____	600	
Difference:	600	600	

Both Assets and Liabilities are overstated.

Topic: The "Account" System
LO: 3
Level of Difficulty: DIFFICULT

157. The accountant at Befuddled Company recorded the purchase of $1,800 of supplies for cash as a debit to Supplies for $1,800 and a credit to Accounts Payable for $1,800.

Determine the effect of this error on the accounting equation of Befuddled Company.
A) Total Equity would be understated by $1,800
B) Total Equity would be overstated by $1,800
C) Total Liabilities would be understated by $1,800
D) Total Assets would be overstated by $1,800

Answer: D
Rationale:

	Assets	Liabilities	Equity
Correct entry:			
Supplies	1,800		
Cash	(1,800)		
	0		
Entry made:			
Supplies	1,800		
A/P	____	1,800	
Difference:	1,800	1,800	

Both Assets and Liabilities are overstated.

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Topic: Trial Balance
LO: 6
Level of Difficulty: DIFFICULT

158. Which of the following errors, each considered individually, would cause the trial balance totals to be unequal?

A) A transaction was not posted
B) A payment of $112 for insurance was posted as a debit of $112 to Prepaid Insurance and a credit of $112 to Cash
C) A payment of $422 to a creditor was posted as a debit of $4,222 to Accounts Payable and a credit of $422 to Cash
D) Cash received from customers on account was posted as a debit of $200 to Cash and a credit of $200 to Accounts Payable

Answer: C
Rationale: An error in which the debit and credit portion of the entry are not equal will cause the trial balance totals to be unequal.

Topic: Trial Balance
LO: 6
Level of Difficulty: DIFFICULT

159. Which of the following errors, each considered individually, would cause the trial balance totals to be unequal?

A) Cash received from customers on account was posted as a debit of $600 to Cash and a credit of $600 to Accounts Payable
B) A transaction was not posted
C) A payment of $446 for insurance was posted as a debit of $446 to Prepaid Insurance and a credit of $446 to Cash
D) A payment of $1,266 to a creditor was posted as a debit of $12,666 to Accounts Payable and a credit of $1,266 to Cash

Answer: D
Rationale: An error in which the debit and credit portion of the entry are not equal will cause the trial balance totals to be unequal.

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Topic: Trial Balance
LO: 6
Level of Difficulty: DIFFICULT

160. The purchase of a delivery truck for $19,000 (on credit) was posted as debit to Delivery Trucks for $19,000, and a debit to Notes Payable for $19,000.

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 $19,000.
B) The total of the Credit column of the trial balance will exceed the total of the Debit column by $19,000.
C) The total of the Credit column of the trial balance will exceed the total of the Debit column by $38,000.
D) The total of the Debit column of the trial balance will exceed the total of the Credit column by $38,000.

Answer: D
Rationale:
Entry made:

	Trial Balance	
	Debit	Credit
Delivery Trucks	$19,000	
Notes Payable	19,000	
Balance	$38,000	$0

The entry made will result in the Debit column of the trial balance exceeding the total of the Credit column by $38,000. The entry to record the purchase of the delivery truck should have been:

Correct entry:

	Trial Balance	
	Debit	Credit
Delivery Trucks	$19,000	
Notes Payable		$19,000
Balance	$19,000	$19,000

which would have resulted in the debit and credit columns of the trial balance being equal.

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Topic: Trial Balance
LO: 6
Level of Difficulty: DIFFICULT

161. The purchase of a delivery truck for $57,000 (on credit) was posted as debit to Delivery Trucks for $57,000, and a debit to Notes Payable for $57,000.

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 $114,000.
B) The total of the Debit column of the trial balance will exceed the total of the Credit column by $57,000.
C) The total of the Credit column of the trial balance will exceed the total of the Debit column by $57,000.
D) The total of the Credit column of the trial balance will exceed the total of the Debit column by $114,000.

Answer: A
Rationale:
Entry made:

	Trial Balance	
	Debit	Credit
Delivery Trucks	$57,000	
Notes Payable	57,000	
Balance	$114,000	$0

The entry made will result in the Debit column of the trial balance exceeding the total of the Credit column by $114,000. The entry to record the purchase of the delivery truck should have been:

Correct entry:

	Trial Balance	
	Debit	Credit
Delivery Trucks	$57,000	
Notes Payable		$57,000
Balance	$57,000	$57,000

which would have resulted in the debit and credit columns of the trial balance being equal.

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Topic: Trial Balance
LO: 6
Level of Difficulty: MEDIUM

162. The unadjusted Trial Balance for Ann Z. Company shows the following accounts (in alphabetical order) on December 31, 2019. Each account shown has a normal balance.

Accounts Receivable	26,400
Building	107,800
Cash	11,200
Common Stock	146,000
Dividends	5,000
Land	41,600
Rent Expense	4,800
Retained Earnings, Jan 1, 2019	43,200
Service Revenue	22,600
Utilities Expense	**?**

Assuming the Trial Balance is in balance, determine Ann Z, Company's Utilities Expense for 2019:
A) $19,000
B) $15,000
C) $ 7,800
D) $ 5,800

Answer: B
Rationale: (in alphabetical order):

Ann Z. Company Trail Balance December 31, 2019		
	Debit	Credit
Accounts Receivable	$ 26,400	
Building	107,800	
Cash	11,200	
Common Stock		$146,000
Dividends	5,000	
Land	41,600	
Rent Expense	4,800	
Retained Earnings, Jan 1, 2019		43,200
Service Revenue		22,600
Utilities Expense	**?**	
Totals	$196,800	$211,800
Difference	$ 15,000	

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Topic: Trial Balance
LO: 6
Level of Difficulty: MEDIUM

163. The unadjusted Trial Balance for N. Gaffney Company shows the following accounts (in alphabetical order) on December 31, 2019. Each account shown has a normal balance.

Accounts Receivable	79,200
Building	323,400
Cash	33,600
Common Stock	438,000
Dividends	15,000
Land	124,800
Rent Expense	14,400
Retained Earnings, Jan 1, 2019	129,600
Service Revenue	67,800
Utilities Expense	**?**

Assuming the Trial Balance is in balance, determine N. Gaffney Company's Utilities Expense for 2019:

A) $17,400
B) $57,000
C) $45,000
D) $23,400

Answer: C
Rationale: (in alphabetical order):

N. Gaffney Company Trail Balance December 31, 2019		
	Debit	Credit
Accounts Receivable	$ 79,200	
Building	323,400	
Cash	33,600	
Common Stock		$438,000
Dividends	15,000	
Land	124,800	
Rent Expense	14,400	
Retained Earnings, Jan 1, 2019		129,600
Service Revenue		67,800
Utilities Expense	**?**	
Totals	$590,400	$635,400
Difference	$ 45,000	

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Topic: Trial Balance
LO: 6
Level of Difficulty: MEDIUM

164. As of December 31, 2019, the Balance Sheet of Potawatomi Products, Inc. contains the following items (in random order):

Accounts Payable	$12,000
Land	90,000
Building	250,000
Notes Payable	135,000
Accounts Receivable	30,000
Cash	7,000
Retained Earnings	110,000
Common Stock	188,000
Equipment	**?**

Determine the amount of Equipment.
A) $ 43,500
B) $345,000
C) $ 42,000
D) $ 68,000

Answer: D
Rationale: (in random order):

Potawatomi Products, Inc. Trail Balance December 31, 2019		
	Debit	Credit
Accounts Payable		$ 12,000
Land	$ 90,000	
Building	250,000	
Notes Payable		135,000
Accounts Receivable	30,000	
Cash	7,000	
Retained Earnings		110,000
Common Stock		188,000
Equipment	?	
Total	$377,000	$445,000
Difference	$68,000	

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Topic: Trial Balance
LO: 6
Level of Difficulty: MEDIUM

165. As of December 31, 2019, the Balance Sheet of Pokagon Products, Inc. contains the following items (in random order):

Accounts Payable	$36,000
Land	270,000
Building	750,000
Notes Payable	405,000
Accounts Receivable	90,000
Cash	21,000
Retained Earnings	330,000
Common Stock	564,000
Equipment	?

Determine the amount of Equipment.
A) $ 204,000
B) $ 130,500
C) $1,035,000
D) $ 126,000

Answer: A
Rationale: (in random order):

Pokagon Products, Inc. Trail Balance December 31, 2019		
	Debit	Credit
Accounts Payable		$36,000
Land	$ 270,000	
Building	750,000	
Notes Payable		405,000
Accounts Receivable	90,000	
Cash	21,000	
Retained Earnings		330,000
Common Stock		564,000
Equipment	?	
Total	$1,131,000	$1,335,000
Difference	$204,000	

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Exercises

Topic: Fiscal Year-End
LO: 1
1. Why would a company want to have a fiscal year-end that does not match the calendar year-end?

Answer:
A company might set a fiscal year-end that is different from its calendar year-end to allow them to prepare closing accounting records that does not coincide with the busiest shopping season of the year or busiest production time. Thus, the decision about a fiscal year may minimize workload compression and move it to the slowest part of the business year. As such, the fiscal year serves as a period of accounting cycle reference, with the decision allowing a better match for submission of accounting documents to regulatory agencies and inspection by auditors.

Topic: Accounting Cycle
LO: 1
2. Do the steps in the accounting cycle occur with equal frequency? Why or why not?

Answer:
No, the steps in the accounting cycle do not occur with equal frequency because companies analyze and record daily transactions throughout the accounting period. However, they only adjust and report when management requires financial statements, often monthly or quarterly, but at least annually. The last step in the accounting cycle is closing, which only occurs once during the accounting cycle, at the period-end.

Topic: Transaction Analysis
LO: 2
3. The following balance sheet information is given for Minerva, Inc., at June 30, 2019:

Supplies	$ 42,000	Accounts Receivable	$ 102,000
Accounts Payable	30,000	Common Stock	375,000
Cash	30,000	Retained Earnings	?
Equipment	468,000	Notes Payable	84,000

Assume that, during the next three days, the following transactions occurred:

July 1 Paid $15,000 on accounts payable.
2 Purchased equipment for $75,000 and gave a note payable for the amount due.
3 Declared and paid a cash dividend, $12,000.

a. What was the amount of retained earnings on June 30, 2019?
b. Assume a balance sheet is prepared on July 3, 2019, after the three transactions have occurred:
(1) What amount of total assets would appear?
(2) What amount of total liabilities would appear?
(3) What amount of stockholders' equity would appear?

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Answer:

a. $30,000 Cash + $102,000 Accounts Receivable + $42,000 Supplies + $468,000 Equipment = $642,000 Total Assets

$642,000 Total Assets – $30,000 Accounts Payable – $84,000 Notes Payable – $375,000 Common Stock = $153,000 Retained Earnings.

b.

	Assets	Liabilities	Stockholders' Equity
Beginning	$642,000	$114,000	$528,000
July 1	– 15,000	– 15,000	
2	+ 75,000	+ 75,000	
3	– 12,000		– 12,000
Ending	(1) $690,000	(2) $174,000	(3) $516,000

Topic: Analyzing Accounts
LO: 2, 3

4. Compute the unknown amount required in each of the following four independent situations.

	Account	Beginning Balance	Ending Balance	Other Information
(1)	Cash	$19,200	$25,000	Total cash disbursed, $30,000
(2)	Accounts Receivable	11,200	16,000	Services rendered on account, $40,000
(3)	Accounts Payable	11,000	11,800	Supplies acquired on account, $20,000
(4)	Service Fees Earned	0	74,000	Service rendered on account, $40,000
a.	Total cash received			$ _____
b.	Total amount received from credit customers			$ _____
c.	Payments on account during the period			$ _____
d.	Services rendered for cash			$ _____

Answer:

a. Ending cash + cash disbursed – Beginning cash = $25,000 + $30,000 – $19,200 = $35,800

b. Beginning A/R + Services rendered on account – Ending A/R = $ 11,200 + $40,000 – $16,000 = $35,200

c. Beginning A/P + Supplies purchased on account – Ending A/P = $ 11,000 + $20,000 – $11,800 = $19,200

d. Service fees earned – Service rendered on account = $74,000 – $40,000 = $34,000

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Topic: Debits and Credits
LO: 4, 5

5. Match each of the numbered transactions of a corporation with the appropriate letters, indicating the debits and credits to be made (give the debit first). The correct answer for transaction (1) is provided.

(1)	A shareholder purchased stock.	a, f
(2)	Paid rent for the current month	
(3)	Received and immediately paid repair bill.	
(4)	Purchased equipment on account.	
(5)	Billed customers for services rendered.	
(6)	Made partial payment for equipment purchased in transaction (4).	
(7)	Collected amounts due from customers billed in transaction (5).	
(8)	Borrowed money from bank, giving a note.	
(9)	Paid cash dividends.	
(10)	Paid employees' salaries.	

Effect of Transaction

a.	Debit an asset	g.	Debit dividends
b.	Credit an asset	h.	Credit dividends
c.	Debit a liability	i.	Debit revenue
d.	Credit a liability	j.	Credit revenue
e.	Debit common stock	k.	Debit expense
f.	Credit common stock	l.	Credit expense

Answer:

(1)	A shareholder purchased stock.	a, f
(2)	Paid rent for the current month	k, b
(3)	Received and immediately paid repair bill.	k, b
(4)	Purchased equipment on account.	a, d
(5)	Billed customers for services rendered.	a, j
(6)	Made partial payment for equipment purchased in transaction (4).	c, b
(7)	Collected amounts due from customers billed in transaction (5).	a, b
(8)	Borrowed money from bank, giving a note.	a, d
(9)	Paid cash dividends.	g, b
(10)	Paid employees' salaries.	k, b

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Topic: Recording Transactions
LO: 5

6. The following T-accounts contain numbered entries for the July transactions of NCN, Inc., which opened on July 1 of this year.

Cash			
(1)	90,000	27,000	(2)
(7)	15,000	12,000	(4)
(9)	24,300	2,700	(6)
		1,500	(8)

Notes Payable			
		15,000	(7)

Accounts Receivable			
(5)	31,200	24,300	(9)

Common Stock			
		90,000	(1)

Supplies			
(3)	7,200		

Dividends			
(8)	1,500		

Office Equipment			
(2)	27,000		

Professional Fees Earned			
		31,200	(5)

Accounts Payable			
(6)	2,700	7,200	(3)

Rent Expense			
(4)	12,000		

Give a reasonable description of each of the nine numbered transactions entered in the above accounts. Example: (1) Shareholders invested $90,000 cash in the business.

Answer:

(1) Provided.

(2) Purchased office equipment for cash, $27,000.

(3) Purchased supplies on account, $7,200.

(4) Paid rent expense, $12,000.

(5) Billed clients $31,200 for professional services.

(6) Paid $2,700 on accounts payable.

(7) Borrowed $15,000 cash, giving a note payable.

(8) Paid $1,500 cash dividends to shareholders.

(9) Collected $24,300 on account from clients.

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Topic: Analyzing Transactions with T-Accounts
LO: 5
7. Use the T-account below, to answer the following questions.

Accounts Receivable (A)			
1/1	320,000		
4/1	4,800,400	3,013,000	9/1
12/31	?		

a. What journal entry is most likely represented by $4,800,400 in the T-account? What business event caused this?

b. What journal entry is most likely represented by the $3,013,000 in the T-account? What business event caused this?

c. What is the balance of Accounts Receivable on December 31?

Answer:

a.	4/1	Accounts receivable	4,800,400	
		Sales revenue		4,800,400
		The company sold merchandise (or services) on account.		
b.	9/1	Cash	3,013,000	
		Accounts receivable		3,013,000
		The company collected cash from customers.		

c. $320,000 + $4,800,400 – $3,013,000 = $2,107,400

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Problems

Topic: Recording Transactions
LO: 3, 4, 5

1. Make T-accounts for the following general ledger accounts of Mighty Movers, which began business on January 1, 2019: Cash; Accounts Receivable; Supplies; Equipment; Accounts Payable; Notes Payable; Common Stock; Dividends; Moving Fees Earned; Salaries Expense; Rent Expense; and Utilities Expense. Record the following January 2019 transactions in the accounts and key each entry with the transaction number.

(1) Shareholders purchased $270,000 in stock.
(2) Paid rent for the month, $3,300.
(3) Purchased equipment for $90,000, giving a note payable for $90,000.
(4) Purchased supplies on account, $15,000.
(5) Billed clients for services rendered, $57,000.
(6) Paid salaries for the month, $23,400.
(7) Paid $12,000 on account for supplies purchased in transaction (4).
(8) Collected $26,100 from clients previously billed.
(9) Paid utilities for the month, $1,470.
(10) Paid $17,400 cash dividends.

Answer:

Cash			
(1)	270,000	3,300	(2)
(8)	26,100	23,400	(6)
		12,000	(7)
		1,470	(9)
		17,400	(10)

Common Stock			
		270,000	(1)

Accounts Receivable			
(5)	57,000	26,100	(8)

Dividends			
(10)	17,400		

Supplies			
(4)	15,000		

Moving Fees Earned			
		57,000	(5)

Equipment			
(3)	90,000		

Salary Expense			
(6)	23,400		

Accounts Payable			
(7)	12,000	15,000	(4)

Rent Expense			
(2)	3,300		

Notes Payable			
		90,000	(3)

Utilities Expense			
(9)	1,470		

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Topic: Journal Entries
LO: 5

2. Andes Transport, Inc. has the following accounts (among others) in its general ledger: Cash; Accounts Receivable; Prepaid Rent; Supplies; Delivery Trucks; Accounts Payable; Unearned Delivery Fees; Common Stock; Dividends; Delivery Fees Earned; Rent Expense; and Salaries Expense. Prepare general journal entries to record the following transactions:

June 1	Shareholders contributed $60,000 cash and a delivery truck worth $34,000 in exchange for stock.
2	Paid $12,000 as rent for June, July, and August.
3	Purchased supplies on account, $5,600.
9	Billed customers for deliveries made, $6,200.
14	Received $2,000 cash from a customer as advance payment for deliveries scheduled throughout July.
17	Paid $3,000 on account to suppliers.
20	Collected $4,600 on account from customers.
29	Paid $1,500 cash dividends to shareholders
30	Paid salaries for June, $4,000.

Answer:

June	1	Cash	60,000	
		Delivery Trucks	34,000	
		Common Stock		94,000
		Contributed cash and delivery truck in exchange for stock.		
	2	Prepaid Rent	12,000	
		Cash		12,000
		Paid rent for June, July, and August.		
	3	Supplies	5,600	
		Accounts Payable		5,600
		Purchased supplies on account.		
	9	Accounts Receivable	6,200	
		Delivery Fees Earned		6,200
		Billed customers for deliveries made.		
	14	Cash	2,000	
		Unearned Delivery Fees		2,000
		Received advance payment from customer.		
	17	Accounts Payable	3,000	
		Cash		3,000
		Paid suppliers on account.		
	20	Cash	4,600	
		Accounts Receivable		4,600
		Received payments from customers on account.		
	29	Dividends	1,500	
		Cash		1,500
		Paid cash dividends.		
	30	Salaries Expense	4,000	
		Cash		4,000
		Paid salaries for June.		

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Topic: Journal Entries
LO: 5

3. Helen H. Designs has the following accounts in its general ledger: Cash; Accounts Receivable; Supplies; Office Equipment; Accounts Payable; Common Stock; Dividends; Service Fees Earned; Rent Expense; and Salaries Expense. Prepare general journal entries to record the following transactions:

May 1	Shareholders invested $330,000 cash in exchange for stock.
2	Paid May rent, $15,900.
4	Purchased office equipment for $27,000, paying $9,000 cash, with the balance due on account in 60 days.
5	Purchased supplies on account, $6,900.
12	Billed clients for services, $17,400.
18	Collected $11,400 on account from clients.
19	Paid $4,500 on account to suppliers.
26	Paid $27,000 cash dividends.
31	Paid salaries for May, $9,600.

Answer:

May	1	Cash	330,000	
		Common Stock		330,000
		Cash received for stock.		
	2	Rent Expense	15,900	
		Cash		15,900
		Paid May rent.		
	4	Office Equipment	27,000	
		Cash		9,000
		Accounts Payable		18,000
		Purchased office equipment for $18,000.		
		Terms: $6,000 down, remainder due in 60 days.		
	5	Supplies	6,900	
		Accounts Payable		6,900
		Purchased supplies on account.		
	12	Accounts Receivable	17,400	
		Service Fees Earned		17,400
		Billed clients for services.		
	18	Cash	11,400	
		Accounts Receivable		11,400
		Received payments from clients on account.		
	19	Accounts Payable	4,500	
		Cash		4,500
		Paid suppliers on account.		

Continued next page

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May	26	Dividends	27,000	
		Cash		27,000
		Paid cash dividends.		
	31	Salaries Expense	9,600	
		Cash		9,600
		Paid salaries for May.		

Topic: Trial Balance
LO: 6

4. The following accounts, in alphabetical order, are from the general ledger of Oma Bean's Advice Service, Inc. at January 31, 2019. The firm's accounting year began on January 1. All accounts have normal balances.

Accounts payable	$ 6,900	Insurance expense	$ 1,120
Accounts receivable	36,400	Rent expense	1,700
Advertising expense	1,680	Salaries expense	10,800
Common stock	53,200	Service fees earned	38,300
Dividends	5,400	Supplies expense	960
Cash	17,000	Supplies inventory	3,120
Equipment	19,080	Utilities expense	1,140

Prepare a trial balance at January 31, 2019, from the given data.

Answer:

OMA BEAN'S ADVICE SERVICE, INC.
Trial Balance
January 31, 2019

	Debit	Credit
Cash	$ 17,000	
Accounts receivable	36,400	
Supplies inventory	3,120	
Equipment	19,080	
Accounts payable		$ 6,900
Common stock		53,200
Dividends	5,400	
Service fees earned		38,300
Advertising expense	1,680	
Insurance expense	1,120	
Rent expense	1,700	
Salaries expense	10,800	
Supplies expense	960	
Utilities expense	1,140	
	$98,400	$98,400

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