

## Chapter 2

# ACCOUNTING FOR BUSINESS TRANSACTIONS

### *True /False Questions*

1. The first step in the processing of a transaction is to analyze the transaction and source documents.

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Analyzing and Recording Process*

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

Answer: False

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Analyzing and Recording Process*

3. Source documents identify and describe transactions and events entering the accounting process.

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Analyzing and Recording Process*

4. Items such as sales tickets, bank statements, checks, and purchase orders are examples of a business's source documents.

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Analyzing and Recording Process*

5. An account is a record of increases and decreases in a specific asset, liability, equity, revenue, or expense item.

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: The Account and Its Analysis*

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

Answer: False

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: The Account and Its Analysis*

7. Dividends paid to stockholders are a business expense.

Answer: False

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: The Account and Its Analysis*

8. The purchase of land and buildings will generally be recorded in the same ledger account.

Answer: False

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: The Account and Its Analysis*

9. Unearned revenues are classified as liabilities.

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: The Account and Its Analysis*

10. Dividends distributed to stockholders should be treated as an expense of the business.

Answer: False

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: The Account and Its Analysis*

11. When a company provides services for which cash will not be received until some future date, the company should record the amount billed as accounts receivable.

Answer: True

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C2*  
*Topic: The Account and Its Analysis*

12. Dividends always decrease equity.

Answer: True

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C2*

*Topic: The Account and Its Analysis*

13. Expenses always decrease equity.

Answer: True

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C2*

*Topic: The Account and Its Analysis*

14. Revenues always increase equity.

Answer: True

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C2*

*Topic: The Account and Its Analysis*

15. Stockholder investments always decrease equity.

Answer: False

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C2*

*Topic: The Account and Its Analysis*

16. “Unearned” accounts are liabilities that must be fulfilled.

Answer: True

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C2*  
*Topic: The Account and Its Analysis*

17. A company’s chart of accounts is a list of all the accounts used and includes an identification number assigned to each account.

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C3*  
*Topic: Ledger and Chart of Accounts*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: The Account and its Analysis*

19. The right side of an account is called the *debit* side.

Answer: False

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

20. In a double-entry accounting system, the total dollar amount debited must always equal the total dollar amount credited.

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

21. Increases in liability accounts are recorded as debits.

Answer: False

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

22. Debits increase asset and expense accounts.

Answer: True

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

23. Credits always increase account balances.

Answer: False

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

24. *Crediting* an expense account decreases it.

Answer: True

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

25. A revenue account normally has a debit balance.

Answer: False

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

26. Asset accounts are decreased by debits.

Answer: False

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

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

Answer: False

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

28. Asset accounts normally have debit balances and revenue accounts normally have credit balances.

Answer: True

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

29. The dividends account normally has a debit balance.

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

30. A debit entry is always an increase in the account.

Answer: False

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

31. A transaction that credits an asset account and credits a liability account must also affect one or more other accounts.

Answer: True

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*



32. A transaction that decreases a liability and increases an asset must also affect one or more other accounts.

Answer: True

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

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

Answer: True

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

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

Answer: True

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

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

Answer: False

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

36. If a company provides services to a customer on credit, the company providing the service should credit Accounts Receivable.

Answer: False

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

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

Answer: False

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

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

Answer: True

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

39. The higher a company's debt ratio, the lower the risk of a company not being able to meet its obligations.

Answer: False

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*

Topic: Debt Ratio

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

Answer: False

Blooms: Remember  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 02-A2  
Topic: Debt Ratio

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

Answer: True

Blooms: Understand  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 02-A2  
Topic: Debt Ratio

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

Answer: True

Blooms: Understand  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 02-A2  
Topic: Debt Ratio

43. Booth Industries has liabilities of \$105 million and total assets of \$350 million. Its debt ratio is 40.0%.

Answer: False

Blooms: Apply  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 3 Hard  
Learning Objective: 02-A2  
Topic: Debt Ratio

Feedback:  $Debt\ Ratio = Total\ Liabilities / Total\ Assets$

*Debt Ratio = \$105 million/\$350 million = 30%*

44. A journal entry that affects no more than two accounts is called a compound entry.

Answer: False

*Blooms: Remember  
AACSB: Reflective Thinking  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: Easy  
Learning 1 Objective: 02-A1  
Topic: Analyzing Transactions*

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

Answer: True

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 02-P1  
Topic: Journalizing and Posting Transactions*

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

Answer: False

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 02-P1  
Topic: Journalizing and Posting Transactions*

47. The journal is known as a book of original entry.

Answer: True

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 02-P1  
Topic: Journalizing and Posting Transactions*

48. A general journal gives a complete record of each transaction in one place, and shows the debits and credits for each transaction.

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Journalizing and Posting Transactions*

49. The general journal is known as the book of *final* entry because financial statements are prepared from it.

Answer: False

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Journalizing and Posting Transactions*

50. At a given point in time, a business's trial balance is a list of all of its general ledger accounts and their balances.

Answer: True

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P2*  
*Topic: Preparing a Trial Balance*

51. The ordering of accounts in a trial balance typically follows their identification number from the chart of accounts, that is, assets first, then liabilities, then common stock and dividends, followed by revenues and expenses.

Answer: True

*Blooms: Remember*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P2*

*Topic: Preparing a Trial Balance*

52. The trial balance can serve as a replacement for the balance sheet, since total debits must equal total credits.

Answer: False

*Blooms: Understand*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-P2*

*Topic: Preparing a Trial Balance*

Draft Only

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

Answer: False

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P2*  
*Topic: Preparing a Trial Balance*

54. If cash was incorrectly debited for \$100 instead of correctly crediting it for \$100, the cash account's balance will be overstated (too high).

Answer: True

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

55. The financial statement that summarizes the changes in the retained earnings account is called the balance sheet.

Answer: False

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

56. An income statement is also called an earnings statement, a statement of operations or a profit and loss statement.

Answer: True

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

57. The detail of individual revenue and expense accounts is reported on the statement of retained earnings.

Answer: False.

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

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

Answer: False

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

59. If the common stock account had a \$10,000 credit balance at the beginning of the period, and during the period, stockholders invest an additional \$5,000, the balance in the common stock account listed on the trial balance will be equal to a debit balance of \$5,000.

Answer: False

*Feedback:  $\$10,000cr + \$5,000cr = \$15,000$  credit balance*

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective 02-C4*  
*Learning Objective: 02-P2*  
*Topic: Debits and Credits*  
*Topic: Preparing a Trial Balance*



60. Dividends are **not** reported on a business's income statement.

Answer: True

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

61. An income statement reports the revenues earned less the expenses incurred by a business over a period of time.

Answer: True

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

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

Answer: True

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

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

Answer: True

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Global*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

64. Neither U.S. GAAP nor IFRS require the use of accrual basis accounting.

Answer: False

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Global*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

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

Answer: True

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Global*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

### ***Multiple Choice Questions***

66. The accounting process begins with:

- A. Analysis of business transactions and source documents.
- B. Preparing financial statements and other reports.
- C. Summarizing the recorded effect of business transactions.
- D. Presentation of financial information to decision-makers.
- E. Preparation of the trial balance.

Answer: A

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C1*  
*Topic: Analyzing and Recording Process*

67. Which of the following statements is *not* true:

- A. Accounts receivable are held by a seller.
- B. Accounts receivable arise from credit sales.
- C. Accounts receivable are increased by customer payments.
- D. Accounts receivable are classified as assets.
- E. Accounts receivable are increased by billings to customers.

Answer: C

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 1 Easy*

*Learning Objective: 02-C2*

*Topic: The Account and Its Analysis*

Draft Only

68. A business's source documents may include all of the following *except*:

- A. Sales tickets.
- B. Ledgers.
- C. Checks.
- D. Purchase orders.
- E. Bank statements.

Answer: B

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C1*

*Topic: Analyzing and Recording Process*

69. A business's source documents:

- A. Include the ledger.
- B. Provide objective evidence that a transaction has taken place.
- C. Must be in electronic form.
- D. Are prepared internally to ensure accuracy.
- E. Include the chart of accounts.

Answer: B

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C1*

*Topic: Analyzing and Recording Process*

70. A business's record of the increases and decreases in a specific asset, liability, equity, revenue, or expense is known as a(n):

- A. Journal.
- B. Posting.
- C. Trial balance.
- D. Account.
- E. Chart of accounts.

Answer: D

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 1 Easy*

*Learning Objective: 02-C2*

*Topic: The Account and Its Analysis*

71. An account used to record stockholders' investments in a business is called a(n):

- A. Dividends account.
- B. Common stock account.
- C. Revenue account.
- D. Expense account.
- E. Liability account.

Answer: B

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 1 Easy*

*Learning Objective: 02-C2*

*Topic: The Account and Its Analysis*

72. Identify the account used by businesses to record the transfer of assets from a business to its stockholders:

- A. A revenue account.
- B. The dividends account.
- C. The common stock account.
- D. An expense account.
- E. A liability account.

Answer: B

*Blooms: Remember*

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 1 Easy*

*Learning Objective: 02-C2*

*Topic: The Account and Its Analysis*

73. Identify the statement below that is correct.

- A. When a future expense is paid in advance, the payment is normally recorded in a liability account called Prepaid Expense.
- B. Promises of future payment by the customer are called accounts receivable.
- C. Increases and decreases in cash are always recorded in the common stock account.
- D. An account called Land is commonly used to record increases and decreases in both the land and buildings owned by a business.
- E. Accrued liabilities include accounts receivable.

Answer: B

*Blooms: Apply*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 3 Hard*

*Learning Objective: 02-C2*

*Topic: The Account and Its Analysis*

74. Unearned revenues are generally:

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

Answer: C

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 2 Medium*

*Learning Objective: 02-C2*

*Topic: The Account and Its Analysis*

75. Unearned revenues refer to a(n):

- A. Asset that will be used over time.
- B. Expense incurred because a customer has paid in advance.
- C. Liability that is settled in the future when a company delivers its products or services.
- D. Increase in revenues as a result of delivering products or services to a customer.
- E. Decrease in an asset.

Answer: C

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 2 Medium*

*Learning Objective: 02-C2*

*Topic: The Account and Its Analysis*

76. Prepaid accounts (also called prepaid expenses) are generally:

- A. Payments made for products and services that never expire.
- B. Classified as liabilities on the balance sheet.
- C. Decreases in equity.
- D. Assets that represent prepayments of future expenses.
- E. Promises of payments by customers.

Answer: D

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C2*  
*Topic: The Account and Its Analysis*

77. A company's formal promise to pay (in the form of a promissory note) a future amount is a(n):

- A. Unearned revenue.
- B. Prepaid expense.
- C. Credit account.
- D. Note payable.
- E. Account receivable.

Answer: D

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C2*  
*Topic: The Account and Its Analysis*

78. The record of all accounts and their balances used by a business is called a:

- A. Journal.
- B. Book of original entry.
- C. General Journal.
- D. Balance column journal.
- E. Ledger (or General Ledger).

Answer: E

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C3*  
*Topic: Ledger and Chart of Accounts*



79. A company's ledger is:

- A. A record containing increases and decreases in a specific asset, liability, equity, revenue, or expense item.
- B. A journal in which transactions are first recorded.
- C. A collection of documents that describe transactions and events entering the accounting process.
- D. A list of all accounts a company uses with an assigned identification number.
- E. A record containing all accounts and their balances used by the company.

Answer: E

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C3*

*Topic: Ledger and Chart of Accounts*

80. A company's list of accounts and the identification numbers assigned to each account is called a:

- A. Source document.
- B. Journal.
- C. Trial balance.
- D. Chart of accounts.
- E. General Journal.

Answer: D

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Difficulty: 2 Medium*

*Learning Objective: 02-C3*

*Topic: Ledger and Chart of Accounts*

81. The numbering system used in a company's chart of accounts:
- A. Is the same for all companies.
  - B. Is determined by generally accepted accounting principles.
  - C. Depends on the source documents used in the accounting process.
  - D. Typically begins with balance sheet accounts.
  - E. Typically begins with income statement accounts.

Answer: D

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C3*  
*Topic: Ledger and Chart of Accounts*

82. A debit:
- A. Always increases an account.
  - B. Is the right-hand side of a T-account.
  - C. Always decreases an account.
  - D. Is the left-hand side of a T-account.
  - E. Is not needed to record a transaction.

Answer: D

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

83. The right side of a T-account is a(n):
- A. Debit.
  - B. Increase.
  - C. Credit.
  - D. Decrease.
  - E. Account balance.

Answer: C

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

84. Identify the statement below that is *incorrect*.
- A. The normal balance of accounts receivable is a debit.
  - B. The normal balance of dividends is a debit.
  - C. The normal balance of unearned revenues is a credit.
  - D. The normal balance of an expense account is a credit.
  - E. The normal balance of the common stock account is a credit.

Answer: D

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

85. A credit is used to record an increase in all of the following accounts *except*:
- A. Accounts Payable
  - B. Service Revenue
  - C. Unearned Revenue
  - D. Wages Expense
  - E. Common Stock

Answer: D

*Blooms: Remember*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

86. A debit is used to record an increase in all of the following accounts *except*:
- A. Supplies
  - B. Cash
  - C. Accounts Payable
  - D. Dividends
  - E. Prepaid Insurance

Answer: C

*Blooms: Remember*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

87. Identify the account below that is classified as a liability in a company's chart of accounts:

- A. Cash
- B. Unearned Revenue
- C. Salaries Expense
- D. Accounts Receivable
- E. Supplies

Answer: B

*Blooms: Remember*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C3*

*Topic: Chart of Accounts*

88. Identify the account below that is classified as an asset in a company's chart of accounts:

- A. Accounts Receivable
- B. Accounts Payable
- C. Common Stock
- D. Unearned Revenue
- E. Service Revenue

Answer: A

*Blooms: Remember*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 1 Easy*

*Learning Objective: 02-C3*

*Topic: Chart of Accounts*

89. Identify the account below that is classified as an asset account:

- A. Unearned Revenue
- B. Accounts Payable
- C. Supplies
- D. Common Stock
- E. Service Revenue

Answer: C

*Blooms: Remember*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: The Account and Its Analysis*

90. Identify the account below that is classified as a liability account:

- A. Cash
- B. Accounts Payable
- C. Salaries Expense
- D. Common Stock
- E. Equipment

Answer: B

*Blooms: Remember*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: The Account and Its Analysis*

91. Identify the account below that impacts the Equity of a business:

- A. Utilities Expense
- B. Accounts Payable
- C. Accounts Receivable
- D. Cash
- E. Unearned Revenue

Answer: A

*Blooms: Remember*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: The Account and Its Analysis*

92. Which of the following does not affect the equity of a business:

- A. Unearned Revenue
- B. Common Stock
- C. Services Revenue
- D. Wages Expense
- E. Dividends

Answer: A

*Blooms: Remember*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: The Account and Its Analysis*

93. Which of the following is NOT an asset account:

- A. Cash
- B. Land
- C. Services Revenue
- D. Buildings
- E. Equipment

Answer: C

*Blooms: Remember*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: The Account and Its Analysis*

94. A business uses a credit to record:

- A. An increase in an expense account.
- B. A decrease in an asset account.
- C. A decrease in an unearned revenue account.
- D. A decrease in a revenue account.
- E. A decrease in a common stock account.

Answer: B

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

95. A simple tool that is widely used in accounting to represent a ledger account and to understand how debits and credits affect an account balance is called a:

- A. Dividends account.
- B. Common Stock account.
- C. Asset account.
- D. T-account.
- E. Balance column sheet.

Answer: D

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 1 Easy*

*Learning Objective: 02-C4*

*Topic: Debits and Credits*

96. Identify the statement below that is correct.

- A. The left side of a T-account is the credit side.
- B. Debits decrease asset and expense accounts, and increase liability, equity, and revenue accounts.
- C. The left side of a T-account is the debit side.
- D. Credits increase asset and expense accounts, and decrease liability, equity, and revenue accounts.
- E. In certain circumstances the total amount debited need not equal the total amount credited for a particular transaction.

Answer: C

*Blooms: Understand*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C4*

*Topic: Debits and Credits*

97. An account balance is:

- A. The total of the credit side of the account.
- B. The total of the debit side of the account.
- C. The difference between the total debits and total credits for an account including the beginning balance.
- D. Assets = liabilities + equity.
- E. Always a credit.

Answer: C

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

98. Select the account below that normally has a credit balance.

- A. Cash.
- B. Office Equipment.
- C. Wages Payable.
- D. Dividends.
- E. Sales Salaries Expense.

Answer: C

*Blooms: Remember*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

99. A debit is used to record which of the following:

- A. A decrease in an asset account.
- B. A decrease in an expense account.
- C. An increase in a revenue account.
- D. An increase in the common stock account.
- E. An increase in the dividends account.

Answer: E

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*



Draft Only

100. A credit entry:

- A. Increases asset and expense accounts, and decreases liability, common stock, and revenue accounts.
- B. Is always a decrease in an account.
- C. Decreases asset and expense accounts, and increases liability, common stock, and revenue accounts.
- D. Is recorded on the left side of a T-account.
- E. Is always an increase in an account.

**Answer: C**

*Blooms: Understand*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C4*

*Topic: Debits and Credits*

101. A double-entry accounting system is an accounting system:

- A. That records each transaction twice.
- B. That records the effects of transactions and other events in at least two accounts with equal debits and credits.
- C. In which each transaction affects and is recorded in two or more accounts but that could include two debits and no credits.
- D. That may only be used if T-accounts are used.
- E. That insures that errors never occur.

**Answer: B**

*Blooms: Understand*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C4*

*Topic: Debits or Credits*

102. Ralph Pine Consulting received its telephone bill in the amount of \$300, and immediately paid it. Pine's general journal entry to record this transaction will include a
- A. Debit to Telephone Expense for \$300.
  - B. Credit to Accounts Payable for \$300.
  - C. Debit to Cash for \$300.
  - D. Credit to Telephone Expense for \$300.
  - E. Debit to Accounts Payable for \$300.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

103. Golddigger Services, Inc. provides services to clients. On May 1, a client prepaid Golddigger Services \$60,000 for 6-months services in advance. Golddigger Services' general journal entry to record this transaction will include a:
- A. Debit to Unearned Management Fees for \$60,000.
  - B. Credit to Management Fees Earned for \$60,000.
  - C. Credit to Cash for \$60,000.
  - D. Credit to Unearned Management Fees for \$60,000.
  - E. Debit to Management Fees Earned for \$60,000.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

104. Willow Rentals purchased office supplies on credit. The general journal entry made by Willow Rentals will include a:

- A. Debit to Accounts Payable.
- B. Debit to Accounts Receivable.
- C. Credit to Cash.
- D. Credit to Accounts Payable.
- E. Credit to Common Stock.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

105. An asset created by prepayment of an insurance premium is:

- A. Recorded as a debit to Unearned Revenue.
- B. Recorded as a debit to Prepaid Insurance.
- C. Recorded as a credit to Unearned Revenue.
- D. Recorded as a credit to Prepaid Insurance.
- E. Not recorded in the accounting records until the insurance period expires.

Answer: B

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

106. Richard Redden, the sole stockholder, contributed \$70,000 in cash and land worth \$130,000 in exchange for common stock to open a new business, RR Consulting. Which of the following general journal entries will RR Consulting make to record this transaction?

- A. Debit Assets \$200,000; credit Common Stock, \$200,000.
- B. Debit Cash and Land, \$200,000; credit Common Stock, \$200,000.
- C. Debit Cash \$70,000; debit Land \$130,000; credit Common Stock, \$200,000.
- D. Debit Common Stock, \$200,000; credit Cash \$70,000, credit Land, \$130,000.
- E. Debit Common Stock, \$200,000; credit Assets, \$200,000.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

107. Paul's Landscaping purchased \$500 of office supplies on credit. The company's policy is to initially record prepaid and unearned items in balance sheet accounts. Which of the following general journal entries will Paul's Landscaping make to record this transaction?

- A. Debit Office Supplies Expense, \$500; credit Cash, \$500.
- B. Debit Cash, \$500; credit Office Supplies, \$500.
- C. Debit Office Supplies, \$500; credit Cash, \$500.
- D. Debit Office Supplies, \$500; credit Accounts Payable, \$500.
- E. Debit Accounts Payable, \$500; credit Office Supplies, \$500.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

108. Paul's Landscaping paid \$500 on account for supplies purchased in the prior month. Which of the following general journal entries will Paul's Landscaping make to record this transaction?

- A. Debit Office Supplies Expense, \$500; credit Cash, \$500.
- B. Debit Cash, \$500; credit Office Supplies, \$500.
- C. Debit Office Supplies, \$500; credit Cash, \$500.
- D. Debit Office Supplies, \$500; credit Accounts Payable, \$500.
- E. Debit Accounts Payable, \$500; credit Cash, \$500.

Answer: E

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

109. A law firm billed a client \$1,800 for work performed in the current month. Which of the following general journal entries will the firm make to record this transaction?

- A. Debit Accounts Receivable, \$1,800; credit Unearned Legal Fees Revenue, \$1,800.
- B. Debit Cash, \$1,800; credit Unearned Legal Fees Revenue, \$1,800.
- C. Debit Legal Fees Revenue, \$1,800; credit Accounts Receivable, \$1,800.
- D. Debit Accounts Receivable, \$1,800; credit Legal Fees Revenue, \$1,800.
- E. Debit Cash, \$1,800; credit Accounts Receivable, \$1,800.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

110. A law firm collected \$1,800 on account for work performed in the previous month. Which of the following general journal entries will the firm make to record this transaction?

- A. Debit Accounts Receivable, \$1,800; credit Unearned Legal Fees Revenue, \$1,800.
- B. Debit Cash, \$1,800; credit Unearned Legal Fees Revenue, \$1,800.
- C. Debit Legal Fees Revenue, \$1,800; credit Accounts Receivable, \$1,800.
- D. Debit Accounts Receivable, \$1,800; credit Legal Fees Revenue, \$1,800.
- E. Debit Cash, \$1,800; credit Accounts Receivable, \$1,800.

Answer: E

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

111. A law firm collected \$1,800 for work to be performed in the following month. Which of the following general journal entries will the firm make to record this transaction?

- A. Debit Accounts Receivable, \$1,800; credit Unearned Legal Fees Revenue, \$1,800.
- B. Debit Cash, \$1,800; credit Unearned Legal Fees Revenue, \$1,800.
- C. Debit Legal Fees Revenue, \$1,800; credit Accounts Receivable, \$1,800.
- D. Debit Accounts Receivable, \$1,800; credit Legal Fees Revenue, \$1,800.
- E. Debit Cash, \$1,800; credit Accounts Receivable, \$1,800.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

112. Wiley Consulting purchased \$7,000 worth of supplies and paid cash immediately. Which of the following general journal entries will Wiley Consulting make to record this transaction? Assume the company's policy is to initially record prepaid and unearned items in balance sheet accounts.

A.

Accounts Payable	7,000	
Supplies		7,000

B

Cash	7,000	
Supplies		7,000

C.

Supplies	7,000	
Cash		7,000

D.

Supplies	7,000	
Accounts Payable		7,000

E.

Supplies Expense	7,000	
Accounts Payable		7,000

Answer: C

*Blooms: Apply*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 2 Medium*

*Learning Objective: 02-A1*

*Learning Objective: 02-P1*

*Topic: Analyzing Transactions*

*Topic: Journal Entries*

Draft Only



113. J. Brown Consulting immediately paid \$500 cash for utilities for the current month. Given the choices below, determine the general journal entry that J. Brown Consulting will make to record this transaction.

A.

Utilities Expense	500	
Cash		500

B.

Cash	500	
Utilities Expense		500

C.

Cash	500	
Accounts Payable		500

D.

Utilities Expense	500	
Accounts Payable		500

E.

Prepaid Utilities	500	
Accounts Payable		500

Answer: A

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Learning Objective: 02-P1*  
*Topic: Analyzing Transactions*  
*Topic: Journal Entries*

114. J. Brown Consulting paid \$2,500 cash for a 5-month insurance policy which begins on December 1. Given the choices below, determine the general journal entry that J. Brown Consulting will make to record the cash payment. Assume the company's policy is to initially record prepaid and unearned items in balance sheet accounts.

A.

Insurance Expense	2,500	
Cash		2,500

B.

Cash	2,500	
Insurance Expense		2,500

C.

Cash	2,500	
Prepaid Insurance		2,500

D.

Prepaid Insurance	2,500	
Cash		2,500

E.

Insurance Expense	2,500	
Prepaid Insurance		2,500

Answer: D

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Learning Objective: 02-P1*  
*Topic: Analyzing Transactions*  
*Topic: Journal Entries*

115. ABC Catering received \$800 cash from a customer for catering services to be provided next month. Given the choices below, determine the general journal entry that ABC Catering will make to record the cash receipt. Assume the company's policy is to initially record prepaid and unearned items in balance sheet accounts.

A.

Unearned Catering Revenue	800	
Catering Revenue		800

B.

Cash	800	
Accounts Receivable		800

C.

Cash	800	
Unearned Catering Revenue		800

D.

Cash	800	
Catering Revenue		800

E.

Accounts Receivable	800	
Catering Revenue		800

Answer: C

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Learning Objective: 02-P1*  
*Topic: Analyzing Transactions*  
*Topic: Journal Entries*

116. Grills R Us Catering provided \$1,000 of catering services and billed its client for the amount owed. Given the choices below, determine the general journal entry that Grills R Us Catering will make to record this transaction.

A.

Unearned Catering Revenue	1,000	
Catering Revenue		1,000

B.

Catering Revenue	1,000	
Accounts Receivable		1,000

C.

Accounts Receivable	1,000	
Unearned Catering Revenue		1,000

D.

Accounts Receivable	1,000	
Catering Revenue		1,000

E.

Cash	1,000	
Catering Revenue		1,000

Answer: D

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Learning Objective: 02-P1*  
*Topic: Analyzing Transactions*  
*Topic: Journal Entries*

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

A.

Cash	1,500	
Accounts Receivable		1,500

B.

Cash	1,500	
Unearned Design Revenue		1,500

C.

Accounts Receivable	1,500	
Unearned Design Revenue		1,500

D.

Cash	1,500	
Design Revenue		1,500

E.

Accounts Receivable	1,500	
Cash		1,500

Answer: A

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Learning Objective: 02-P1*  
*Topic: Analyzing Transactions*  
*Topic: Journal Entries*

118. J. Smith, the sole stockholder, received a \$100 dividend from Jay's Limo Services. Which of the following general journal entries will Jay's Limo Services make to record this transaction?

A.

Dividends	100	
Cash		100

B.

Cash	100	
Dividends		100

C.

Common Stock	100	
Dividends		100

D.

Dividends	100	
Common Stock		100

E.

Cash	100	
Common Stock		100

Answer: A

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Learning Objective 02-P1*  
*Topic: Analyzing Transactions*  
*Topic: Journal Entries*

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

A.

Salaries Expense	300	
Accounts Payable		300

B.

Cash	300	
Salaries Expense		300

C.

Salaries Expense	300	
Dividends		300

D.

Salaries Payable	300	
Salaries Expense		300

E.

Salaries Expense	300	
Cash		300

Answer: E

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Learning Objective 02-P1*  
*Topic: Analyzing Transactions*  
*Topic: Journal Entries*

120. Able Graphics received a \$400 utility bill for the current month's electricity. It is not due until the end of the next month which is when they intend to pay it. Which of the following general journal entries will Able Graphics make to record this transaction?

A.

Utilities Expense	400	
Cash		400

B.

Cash	400	
Utilities Expense		400

C.

Utilities Expense	400	
Accounts Payable		400

D.

Accounts Payable	400	
Utilities Expense		400

E. No journal entry is required.

**Answer: C**

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Learning Objective 02-P1*  
*Topic: Analyzing Transactions*  
*Topic: Journal Entries*



121. HH Consulting & Design provided \$800 of consulting work and \$100 of design work to the same client. It billed the client for the total amount and is expecting to collect from the customer next month. Which of the following general journal entries will HH Consulting & Design make to record this transaction?

A.

Design Revenue	100	
Consulting Revenue	800	
Accounts Receivable		900

B.

Accounts Payable	800	
Design Revenue		100
Consulting Revenue		800

C.

Consulting Revenue	800	
Design Revenue	100	
Cash		900

D.

Cash	900	
Consulting Revenue		800
Design Revenue		100

E.

Accounts Receivable	900	
Consulting Revenue		800
Design Revenue		100

Answer: E

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Learning Objective 02-P1*  
*Topic: Analyzing Transactions*  
*Topic: Journal Entries*

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

A.

Rental Revenue	100	
Instruction Revenue	150	
Cash		250

B.

Accounts Payable	250	
Rental Revenue		100
Instruction Revenue		150

C.

Cash	250	
Rental Revenue		100
Instruction Revenue		150

D.

Accounts Receivable	250	
Rental Revenue		100
Instruction Revenue		150

E.

Unearned Revenue	250	
Rental Revenue		100
Instruction Revenue		150

Answer: C

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Learning Objective 02-P1*  
*Topic: Analyzing Transactions*  
*Topic: Journal Entries*

123. Geraldine Parker, the sole stockholder of Gi Gi's Dance Studio, started the business by investing \$10,000 cash and donating a building worth \$20,000 in exchange for common stock. Identify the general journal entry below that Gi Gi's will make to record the transaction.

A.

Cash	10,000	
Common Stock		30,000

B.

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

C.

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

D.

Owner's Investments	30,000	
Common Stock		30,000

E.

Cash & Building	30,000	
Common Stock		30,000

Answer: C

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Learning Objective 02-P1*  
*Topic: Analyzing Transactions*  
*Topic: Journal Entries*

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

A.

Accounts Receivable	12,000	
Cash		12,000

B.

Cash	12,000	
Consulting Services Revenue		12,000

C.

Consulting Services Revenue	12,000	
Cash		12,000

D.

Accounts Payable	12,000	
Consulting Services Revenue		12,000

E.

Accounts Receivable	12,000	
Consulting Services Revenue		12,000

Answer: E

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Learning Objective 02-P1*  
*Topic: Analyzing Transactions*  
*Topic: Journal Entries*

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

A.

Accounts Receivable	12,000	
Cash		12,000

B.

Cash	12,000	
Consulting Services Revenue		12,000

C.

Consulting Services Revenue	12,000	
Cash		12,000

D.

Accounts Payable	12,000	
Consulting Services Revenue		12,000

E.

Accounts Receivable	12,000	
Consulting Services Revenue		12,000

Answer: B

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Learning Objective 02-P1*  
*Topic: Analyzing Transactions*

126. Mary Martin, the sole stockholder of Martin Consulting, received a \$2,000 dividend from the company. Identify the general journal entry below that Martin Consulting will make to record the transaction.

A.

Dividends	2,000	
Cash		2,000

B.

Common Stock	2,000	
Cash		2,000

C.

Dividends	2,000	
Common Stock		2,000

D.

Cash	2,000	
Common Stock		2,000

E.

Cash	2,000	
Dividends		2,000

Answer: A

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Learning Objective 02-P1*  
*Topic: Analyzing Transactions*  
*Topic: Journal Entries*

127. Mary Martin, the sole stockholder of Martin Consulting, started the business by investing \$40,000 cash. Identify the general journal entry below that Martin Consulting will make to record the transaction.

A.

Cash	40,000	
Common Stock		40,000

B.

Common Stock	40,000	
Cash		40,000

C.

Investments	40,000	
Cash		40,000

D.

Investments	40,000	
Common Stock		40,000

E.

Cash	40,000	
Increased Equity		40,000

Answer: A

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Learning Objective 02-P1*  
*Topic: Analyzing Transactions*  
*Topic: Journal Entries*

128. If cash is received from customers in payment for products or services that have not yet been delivered to the customers, the business would record the cash receipt as:

- A. A debit to an unearned revenue account.
- B. A debit to a prepaid expense account.
- C. A credit to an unearned revenue account.
- D. A credit to a prepaid expense account.
- E. No entry is required at the time of collection.

Answer: C

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

129. On May 31, the Cash account of Bottle's R US had a normal balance of \$5,000. During May, the account was debited for a total of \$12,200 and credited for a total of \$11,500. What was the balance in the Cash account at the beginning of May?

- A. A \$0 balance.
- B. A \$4,300 debit balance.
- C. A \$4,300 credit balance.
- D. A \$5,700 debit balance.
- E. A \$5,700 credit balance.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

*Feedback: Beginning Cash Balance + Debits – Credits = Ending Cash Balance*

$$\text{Beginning Cash Balance} + \$12,200 - \$11,500 = \$5,000$$

$$\text{Beginning Cash Balance} + \$700 = \$5,000; \text{Beginning Balance} = \$4,300 \text{ debit balance}$$

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



130. On April 30, Victor Services had an Accounts Receivable balance of \$18,000. During the month of May, total credits to Accounts Receivable were \$52,000 from customer payments. The May 31 Accounts Receivable balance was \$13,000. What was the amount of credit sales during May?

- A. \$ 5,000.
- B. \$47,000.
- C. \$52,000.
- D. \$57,000.
- E. \$32,000.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

*Feedback: Beginning Accounts Receivable Balance + Credit Sales (Debits) – Customer Payments (Credits) = Ending Accounts Receivable Balance*

$$\$18,000 + \text{Credit Sales (Debits)} - \$52,000 = \$13,000$$

$$\text{Credit Sales (Debits)} - \$34,000 = \$13,000$$

$$\text{Credit Sales (Debits)} = \$47,000$$

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

131. During the month of February, Victor Services had cash receipts of \$7,500 and cash disbursements of \$8,600. The February 28 cash balance was \$1,800. What was the February 1 beginning cash balance?

- A. \$700.
- B. \$1,100.
- C. \$2,900.
- D. \$0.
- E. \$4,300.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

*Feedback: Beginning Cash Balance + Cash Receipts – Cash Disbursements = Ending Cash Balance*

$$\text{Beginning Cash Balance} + \$7,500 - \$8,600 = \$1,800$$

$$\text{Beginning Cash Balance} - \$1,100 = \$1,800$$

$$\text{Beginning Cash Balance} = \$2,900$$

Cash	
2,900	
7,500	8,600
1,800	

132. The following transactions occurred during July:

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

What was the amount of revenue for July?

- A. \$ 900.
- B. \$ 1,275.
- C. \$ 2,525.
- D. \$ 3,275.
- E. \$11,100.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

*Feedback: Revenues = \$900 (from #1) + \$375 (from #4) = \$1,275*

133. If Taylor Willow, the sole stockholder of Willow Hardware, uses cash of the business to purchase a family automobile, the business should record this use of cash with an entry to:

- A. Debit Salary Expense and credit Cash.
- B. Debit Cash and credit Salary Expense.
- C. Debit Cash and credit Dividends.
- D. Debit Dividends and credit Cash.
- E. Debit Automobiles and credit Cash.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

134. Larry Bar opened a frame shop and completed these transactions:

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

What was the balance of the cash account after these transactions were posted?

- A. \$300.
- B. \$41,500.
- C. \$40,300.
- D. \$38,500.
- E. \$38,700.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

*Feedback: Ending Cash Balance = \$40,000 (#1) - \$1,200 (#3) + \$1,500 (#4) = \$40,300*

135. At the beginning of January of the current year, Little Mikey's Catering ledger reflected a normal balance of \$52,000 for accounts receivable. During January, the company collected \$14,800 from customers on account and provided additional services to customers on account totaling \$12,500. Additionally, during January one customer paid Mikey \$5,000 for services to be provided in the future. At the end of January, the balance in the accounts receivable account should be:

- A. \$54,700.
- B. \$49,700.
- C. \$2,300.
- D. \$54,300.
- E. \$49,300.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

*Feedback: Beginning Accounts Receivable Balance + Services on Account – Collections from Customers = Ending Accounts Receivable Balance*  
 $\$52,000 + \$12,500 - \$14,800 = \text{Ending Accounts Receivable Balance}$   
 $\text{Ending Accounts Receivable} = \$49,700$

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

136. During the month of March, Harley’s Computer Services made purchases on account totaling \$43,500. Also during the month of March, Harley was paid \$8,000 by a customer for services to be provided in the future and paid \$36,900 of cash on its accounts payable balance. If the balance in the accounts payable account at the beginning of March was \$77,300, what is the balance in accounts payable at the end of March?

- A. \$83,900.
- B. \$91,900.
- C. \$6,600.
- D. \$75,900.
- E. \$4,900.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

*Feedback: Beginning Accounts Payable Balance + Purchases on Account – Payments on Accounts = Ending Accounts Payable Balance*  
 $\$77,300 + \$43,500 - \$36,900 = \text{Ending Accounts Payable Balance}$   
 $\text{Ending Accounts Payable} = \$83,900$

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

137. On January 1 of the current year, Jimmy's Sandwich Company reported stockholders' equity totaling \$122,500. During the current year, total revenues were \$96,000 while total expenses were \$85,500. Also, during the current year paid \$20,000 in cash dividends. No other changes in equity occurred during the year. If, on December 31 of the current year, total assets are \$196,000, the **change** in total stockholders' equity during the year was:
- A. A decrease of \$9,500.
  - B. An increase of \$9,500.
  - C. An increase of \$30,500.
  - D. A decrease of \$30,500.
  - E. An increase of 73,500.

Answer: A

Blooms: Apply

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Difficulty: 3 Hard

Learning Objective: 02-A1

Topic: Analyzing Transactions

*Feedback: Beg. Equity + Revenues – Expenses – Dividends = End. Equity*

$$\$122,500 + \$96,000 - \$85,500 - \$20,000 = \text{Ending Equity}$$

$$\text{Ending Equity} = \$113,000$$

*Change in Equity = Beginning Equity – Ending Equity*

$$\text{Change in Equity} = \$122,500 - \$113,000 = \$9,500 \text{ Decrease}$$

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

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

Based on this information, the balance in the cash account at the end of January would be:

- A. \$41,450.
- B. \$12,225
- C. \$18,700.
- D. \$15,250.
- E. \$13,500.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

*Feedback: Ending Cash Balance = \$13,500 (#1) – \$2,100 (#3) + \$5,700 (#4) – \$1,500 (#7) – \$3,100 (#8) – \$275 (#9) = \$12,225*

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

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

Based on this information, the amount of total stockholders' equity reported on the Balance Sheet at the end of the month would be:

- A. \$31,400.
- B. \$39,200.
- C. \$31,150.
- D. \$40,175.
- E. \$30,875.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

*Feedback: Ending Equity = \$13,500 (#1) + \$20,000 (#2) + \$5,700 (#4) + \$2,750 (#6) – \$1,500 (#7) – \$275 (#9) = \$40,175*



140. The debt ratio is used:

- A. To measure the ratio of equity to expenses.
- B. To assess the risk associated with a company's use of liabilities.
- C. Only by banks when a business applies for a loan.
- D. To determine how much debt a firm should pay off.
- E. To determine how much debt a company should borrow.

Answer: B

*Blooms: Understand*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Risk Analysis*

*Difficulty: 2 Medium*

*Learning Objective: 02-A2*

*Topic: Debt Ratio*

141. Identify the correct formula below used to calculate the debt ratio.

- A. Total Equity/Total Liabilities.
- B. Total Liabilities/Total Equity.
- C. Total Liabilities/Total Assets.
- D. Total Assets/Total Liabilities.
- E. Total Equity/Total Assets.

Answer: C

*Blooms: Remember*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Risk Analysis*

*Difficulty: 2 Medium*

*Learning Objective: 02-A2*

*Topic: Debt Ratio*

142. Lu Lu's Catering has a debt ratio equal to .3 and its competitor, Able's Bakery, has a debt ratio equal to .7. Determine the statement below that is *correct*.

- A. Able's Bakery has a smaller percentage of its assets financed with liabilities as compared to Lu Lu's.
- B. Able's Bakery's financial leverage is *less* than Lu Lu's
- C. Able's Bakery's financial leverage is *greater* than Lu Lu's.
- D. Lu Lu's has a higher risk from its financial leverage
- E. Higher financial leverage involves lower risk.

Answer: C

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Risk Analysis*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

143. Identify the statement that is *incorrect*.
- A. Higher financial leverage involves higher risk.
  - B. Risk is higher if a company has more liabilities.
  - C. Risk is higher if a company has higher assets.
  - D. The debt ratio is one measure of financial risk.
  - E. Lower financial leverage involves lower risk.

**Answer: C**

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Risk Analysis*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

144. The debt ratio of Company A is .31 and the debt ratio of Company B is .21. Based on this information, an investor can conclude:
- A. Company B has more debt than Company A.
  - B. Company B has a lower risk from its financial leverage.
  - C. Company A has a lower risk from its financial leverage.
  - D. Company A has 10% more assets than Company B.
  - E. Both companies have too much debt.

**Answer: B**

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Risk Analysis*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

145. The debt ratio of Jackson's Shoes is .9 and the debt ratio of Billy's Catering is 1.0. Based on this information, an investor can conclude:

- A. Billy's Catering finances a relatively lower portion of its assets with liabilities than Jackson's Shoes.
- B. Billy's Catering has a lower risk from its financial leverage.
- C. Jackson's Shoes has a higher risk from its financial leverage.
- D. Billy's Catering has the exact same dollar amount of total liabilities and total assets.
- E. Jackson's Shoes has less equity per dollar of assets than Billy's Catering.

Answer: D

*Blooms: Understand*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Risk Analysis*

*Difficulty: 2 Medium*

*Learning Objective: 02-A2*

*Topic: Debt Ratio*

Draft Only

146. Gi Gi's Bakery has total assets of \$425 million. Its total liabilities are \$110 million. Its equity is \$315 million. Calculate the debt ratio.

- A. 38.6%.
- B. 13.4%.
- C. 34.9%.
- D. 25.9%.
- E. 14.9%.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Risk Analysis*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

*Feedback: Debt Ratio = Total Liabilities/Total Assets*

$$\text{Debt Ratio} = \$110 \text{ million} / \$425 \text{ million}; \text{ Debt Ratio} = 0.2588 \approx 25.9\%$$

147. Happiness Catering has total assets of \$385 million. Its total liabilities are \$100 million and its equity is \$285 million. Calculate its debt ratio.

- A. 35.1%.
- B. 26.0%.
- C. 38.5%.
- D. 28.5%.
- E. 58.8%.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Risk Analysis*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

*Feedback: Debt Ratio = Total Liabilities/Total Assets*

$$\text{Debt Ratio} = \$100 \text{ million} / \$385 \text{ million}; \text{ Debt Ratio} = 0.2597 = 26.0\%$$

148. All of the following statements accurately describe the debt ratio *except*.
- A. It is of use to both internal and external users of accounting information.
  - B. A relatively high ratio is always desirable.
  - C. The dividing line for a high and low ratio varies from industry to industry.
  - D. Many factors such as a company's age, stability, profitability and cash flow influence the determination of what would be interpreted as a high versus a low ratio.
  - E. The ratio might be used to help determine if a company is capable of increasing its income by obtaining further debt.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Risk Analysis*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

149. At the end of the current year, Leer Company reported total liabilities of \$300,000 and total equity of \$100,000. The company's debt ratio on the last year-end was:
- A. 300%.
  - B. 33.3%
  - C. 75.0%.
  - D. 66.67%.
  - E. \$400,000.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Risk Analysis*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

*Feedback: Debt Ratio = Total Liabilities/Total Assets*

$$\text{Debt Ratio} = \$300,000/\$400,000^*; \text{Debt Ratio} = 0.75 = 75\%$$

$$^*\text{Total Assets} = \text{Total Liabilities} + \text{Total Equity}$$

$$\text{Total Assets} = \$300,000 + \$100,000; \text{Total Assets} = \$400,000$$

150. At the beginning of the current year, Trenton Company's total assets were \$248,000 and its total liabilities were \$175,000. During the year, the company reported total revenues of \$93,000, total expenses of \$76,000 and dividends of \$5,000. There were no other changes in equity during the year and total assets at the end of the year were \$260,000. Trenton Company's debt ratio at the end of the current year is:

- A. 70.6%.
- B. 67.3%.
- C. 32.7%.
- D. 48.6%.
- E. 1.42%.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Risk Analysis*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

*Feedback: Debt Ratio = Total Liabilities/Total Assets*

$$\text{Debt Ratio} = \$175,000 / \$260,000; \text{Debt Ratio} = 0.6730 = 67.3\%$$

$$*\text{Beginning Total Assets} = \text{Beginning Total Liabilities} + \text{Beginning Total Equity}$$

$$\$248,000 = \$175,000 + \text{Beginning Total Equity}; \text{Beginning Total Equity} = \$73,000$$

$$**\text{Ending Total Assets} = \text{Ending Total Liabilities} + \text{Ending Total Equity}$$

$$\$260,000 = \text{Ending Total Liabilities} + (\text{Beginning Equity} + \text{Revenues} - \text{Expenses} - \text{Dividends})$$

$$\$260,000 = \text{Ending Total Liabilities} + (\$73,000 + \$93,000 - \$76,000 - \$5,000)$$

$$\$260,000 = \text{Ending Total Liabilities} + \$85,000; \text{Ending Total Liabilities} = \$175,000$$

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

Answer: B

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Journalizing and Posting Transactions*

152. A column in journals and ledger accounts that is used to cross reference journal and ledger entries is the:
- A. Account balance column.
  - B. Debit column.
  - C. Posting reference column.
  - D. Credit column.
  - E. Description column.

Answer: C

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Journalizing and Posting Transactions*

153. The chronological record of each complete transaction that has occurred in a business is called the:

- A. Account balance.
- B. Ledger.
- C. Journal.
- D. Trial balance.
- E. Cash account.

Answer: C

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 1 Easy*

*Learning Objective: 02-P1*

*Topic: Journalizing and Posting Transactions*

154. A business's general journal provides a place for recording all of the following **except**:

- A. The transaction date.
- B. The names of the accounts involved.
- C. The amount of each debit and credit.
- D. An explanation of the transaction.
- E. The balance in each account.

Answer: E

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 1 Easy*

*Learning Objective: 02-P1*

*Topic: Journalizing and Posting Transactions*

155. The balance column in a ledger account is:

- A. An account entered on the balance sheet.
- B. A column for showing the balance of the account after each entry is posted.
- C. Another name for the dividends account.
- D. An account used to record the transfers of assets from a business to its owner(s).
- E. A simple form of account that is widely used in accounting to illustrate the debits and credits required in recording a transaction.

Answer: B



*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Journalizing and Posting Transactions*

156. A general journal is:

- A. A ledger in which amounts are posted from a balance column account.
- B. Not required if T-accounts are used.
- C. A complete record of all transactions in chronological order from which transaction amounts are posted to the ledger accounts.
- D. Not necessary in electronic accounting systems.
- E. A book of final entry because financial statements are prepared from it.

Answer: C

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Journalizing and Posting Transactions*

157. A record in which the effects of transactions are first recorded and from which transaction amounts are posted to the ledger is a(n):

- A. Account.
- B. Trial balance.
- C. Journal.
- D. T-account.
- E. Balance column account.

Answer: C

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Journalizing and Posting Transactions*

158. Smiles Entertainment had the following accounts and balances at December 31:

Account	Debit	Credit
Cash.....	\$10,000	
Accounts Receivable .....	2,000	

Prepaid Insurance .....	2,400	
Supplies.....	1,000	
Accounts Payable.....		\$5,000
Common Stock.....		4,000
Retained Earnings .....		900
Service Revenue.....		7,000
Salaries Expense .....	500	
Utilities Expense .....	1,000	
Totals	<u>\$16,900</u>	<u>\$16,900</u>

Using the information in the table, calculate the company's reported net income for the period.

- A. \$ 1,100
- B. \$ 4,000.
- C. \$8,500.
- D. \$10,400.
- E. \$ 5,500

Answer: E

*Feedback: Net Income = Total Revenues – Total Expenses.  
 (Service Revenue \$7,000 – Salaries Expense \$500 – Utilities Expense \$1,000 = \$5,500)*

*Blooms: Apply  
 AACSB: Analytic  
 AICPA BB: Industry  
 AICPA FN: Measurement  
 Difficulty: 2Medium  
 Learning Objective: 02-P3  
 Topic: Financial Statements*

Draft Only

159. Jackson Consulting had the following accounts and balances at December 31:

Account	Debit	Credit
Cash .....	\$20,000	
Accounts Receivable .....	6,000	
Prepaid Insurance .....	1,500	
Supplies .....	5,000	
Accounts Payable .....		\$ 500
Common Stock .....		9,000
Retained Earnings.....		7,200
Dividends .....	1,000	
Service Revenue .....		20,000
Utilities Expense.....	2,000	
Salaries Expense .....	1,200	
Totals	<u>\$36,700</u>	<u>\$36,700</u>

Using the information in the table, calculate Jackson Consulting's reported net income for the period.

- A. \$16,800
- B. \$15,800.
- C. \$15,300
- D. \$10,300.
- E. \$23,200

Answer: A

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

*Feedback: Net Income = Total Revenues – Total Expenses.*

*Service Revenue \$20,000 – Utilities Expense \$2,000 – Salaries Expense \$1,200 = \$16,800*

160. Bologna Lodging had the following accounts and balances as of December 31:

Account	Debit	Credit
Cash .....	\$20,000	
Accounts Receivable .....	2,000	
Salaries Expense .....	500	
Accounts Payable .....		\$4,000
Lodging Revenue.....		7,000
Utilities Expense.....	500	
Prepaid Insurance .....	1,400	
Supplies .....	1,500	
Common Stock .....		10,000
Retained Earnings.....		4,900
Totals	<u>\$25,900</u>	<u>\$25,900</u>

Using the information in the table, calculate the **total assets** reported on Bologna's balance sheet for the period.

- A. \$ 24,900
- B. \$ 25,400.
- C. \$ 22,500.
- D. \$ 25,900.
- E. \$ 23,400

Answer: A

*Feedback: (Cash \$20,000 + Accounts Receivable \$2,000 + Prepaid Insurance \$1,400 +Supplies \$1,500= \$24,900)*

*Blooms: Apply*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 3 Hard*

*Learning Objective: 02-P3*

*Learning Objective: 02-C2*

*Topic: Financial Statements*

*Topic: The Account and Its Analysis*

161. At the end of its first month of operations, Michael's Consulting Services reported net income of \$25,000. They also had account balances of: Cash, \$18,000; Office Supplies, \$2,000 and Accounts Receivable \$10,000. The sole stockholder's total investment in exchange for common stock for this first month was \$5,000. There were no dividends in the first month.

Calculate the **amount of total equity** to be reported on the balance sheet at the end of the month.

- A. \$30,000
- B. \$25,000
- C. \$20,000
- D. \$ 5,000
- E. \$ 7,000

Answer: A

*Blooms: Apply*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 3 Hard*

*Learning Objective: 02-P3*

*Topic: Financial Statements*

*Feedback: Stockholder Investments \$5,000 + Net Income \$25,000 = \$30,000*

162. Identify the accounts that would normally have balances in the *debit* column of a business's trial balance.

- A. Assets and expenses.
- B. Assets and revenues.
- C. Revenues and expenses.
- D. Liabilities and expenses.
- E. Liabilities and dividends.

Answer: A

*Blooms: Understand*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Difficulty: 2 Medium*

*Learning Objective: 02-P2*

*Topic: Preparing a Trial Balance*

163. Identify the accounts that would normally have balances in the *credit* column of a business's trial balance

- A. Liabilities and expenses.
- B. Assets and revenues.
- C. Revenues and expenses.
- D. Revenues and liabilities.
- E. Dividends and liabilities

Answer: D

*Blooms: Understand*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Difficulty: 2 Medium*

*Learning Objective: 02-P2*

*Topic: Preparing a Trial Balance*

164. Which of the following is *not* a step in the accounting process?

- A. Record relevant transactions and events in a journal
- B. Post journal information to the ledger accounts
- C. Prepare and analyze the trial balance.
- D. Analyze each transaction
- E. Verify that revenues and expenses are equal.

Answer: E

*Blooms: Remember*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-C1*

*Topic: Analyzing and Recording Process*

165. A bookkeeper has debited an asset account for \$3,500 and credited a liability account for \$2,000. Which of the following would be an *incorrect* way to complete the recording of this transaction:

- A. Credit another asset account for \$1,500.
- B. Credit another liability account for \$1,500.
- C. Credit a revenue account for \$1,500.
- D. Credit the common stock account for \$1,500.
- E. Debit another asset account for \$1,500.

Answer: E

*Blooms: Apply*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 3 Hard*

*Learning Objective: 02-P1*

*Topic: Journalizing and Posting Transactions*

166. A report that lists a business's accounts and their balances, in which the total debit balances should equal the total credit balances, is called a(n):

- A. Account balance.
- B. Trial balance.
- C. Ledger.
- D. Chart of accounts.
- E. General Journal.

Answer: B

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 1 Easy*

*Learning Objective: 02-P2*

*Topic: Preparing a Trial Balance*

167. Identify the statement below that is *true*.

- A. If the trial balance is in balance, it proves that no errors have been made in recording and posting transactions.
- B. The trial balance is a book of original entry.
- C. Another name for the trial balance is the chart of accounts.
- D. The trial balance is a list of all accounts from the ledger with their balances at a point in time.
- E. The trial balance is another name for the balance sheet as long as debits balance with credits.

Answer: D

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 1 Easy*

*Learning Objective: 02-P2*

*Topic: Preparing a Trial Balance*

168. While in the process of posting from the journal to the ledger, a company failed to post a \$500 debit to the Equipment account. The effect of this error will be that:

- A. The Equipment account balance will be overstated.
- B. The trial balance will not balance.
- C. The error will overstate the debits listed in the journal.
- D. The total debits in the trial balance will be larger than the total credits.
- E. The error will overstate the credits listed in the journal.

Answer: B

*Blooms: Understand*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 2 Medium*

*Learning Objective: 02-P2*

*Topic: Preparing a Trial Balance*



169. A \$15 credit to Sales was posted as a \$150 credit. By what amount is the Sales account in error?

- A. \$150 understated.
- B. \$135 overstated.
- C. \$150 overstated.
- D. \$15 understated.
- E. \$135 understated.

Answer: B

*Blooms: Understand*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 2 Medium*

*Learning Objective: 02-A1*

*Topic: Analyzing Transactions*

*Feedback:  $\$150 - 15 = \$135$*

170. At year-end, a trial balance showed total credits exceeding total debits by \$4,950. This difference could have been caused by:

- A. An error in the general journal where a \$4,950 increase in Accounts Receivable was recorded as an increase in Cash.
- B. A net income of \$4,950.
- C. The balance of \$49,500 in Accounts Payable being entered in the trial balance as \$4,950.
- D. The balance of \$5,500 in the Office Equipment account being entered on the trial balance as a debit of \$550.
- E. An error in the general journal where a \$4,950 increase in Accounts Payable was recorded as a decrease in Accounts Payable.

Answer: D

*Blooms: Understand*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 2 Medium*

*Learning Objective: 02-P2*

*Topic: Preparing a Trial Balance*

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

Answer: E

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P2*  
*Topic: Preparing a Trial Balance*

172. The credit purchase of a new oven for \$4,700 was posted to Kitchen Equipment as a \$4,700 debit and to Accounts Payable as a \$4,700 debit. What effect would this error have on the trial balance?
- A. The total of the Debit column of the trial balance will exceed the total of the Credit column by \$4,700.
  - B. The total of the Credit column of the trial balance will exceed the total of the Debit column by \$4,700.
  - C. The total of the Debit column of the trial balance will exceed the total of the Credit column by \$9,400.
  - D. The total of the Credit column of the trial balance will exceed the total of the Debit column by \$9,400.
  - E. The total of the Debit column of the trial balance will equal the total of the Credit column.

Answer: C

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P2*  
*Topic: Preparing a Trial Balance*

173. On a trial balance, if the Debit and Credit column totals are equal, then:

- A. All transactions have been recorded correctly.
- B. All entries from the journal have been posted to the ledger correctly.
- C. All ledger account balances are correct.
- D. Equal debits and credits have been recorded for transactions.
- E. The balance sheet would be correct.

Answer: D

*Blooms: Understand*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 2 Medium*

*Learning Objective: 02-P2*

*Topic: Preparing a Trial Balance*

174. Given the following errors, identify the one by itself that will cause the trial balance to be out of balance.

- A. A \$200 cash salary payment posted as a \$200 debit to Cash and a \$200 credit to Salaries Expense.
- B. A \$100 cash receipt from a customer in payment of her account posted as a \$100 debit to Cash and a \$10 credit to Accounts Receivable.
- C. A \$75 cash receipt from a customer in payment of her account posted as a \$75 debit to Cash and a \$75 credit to Cash.
- D. A \$50 cash purchase of office supplies posted as a \$50 debit to Office Equipment and a \$50 credit to Cash.
- E. An \$800 prepayment from a customer for services to be rendered in the future was posted as an \$800 debit to Unearned Revenue and an \$800 credit to Cash.

Answer: B

*Blooms: Understand*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 2 Medium*

*Learning Objective: 02-P2*

*Topic: Preparing a Trial Balance*

175. A \$130 credit to Supplies was credited to Fees Earned by mistake. By what amounts are the accounts under- or overstated as a result of this error?

- A. Supplies, understated \$130; Fees Earned, overstated \$130.
- B. Supplies, understated \$260; Fees Earned, overstated \$130.
- C. Supplies, overstated \$130; Fees Earned, overstated \$130.
- D. Supplies, overstated \$130; Fees Earned, understated \$130.
- E. Supplies, overstated \$260; Fees Earned, understated \$130.

Answer: C

*Blooms: Apply*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 3 Hard*

*Learning Objective: 02-P2*

*Topic: Preparing a Trial Balance*

176. All of the following are asset accounts except:

- A. Accounts Receivable.
- B. Buildings.
- C. Supplies expense.
- D. Equipment.
- E. Prepaid insurance.

Answer: C

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 1 Easy*

*Learning Objective: 02-C3*

*Topic: Ledger and Chart of Accounts*

177. Compare the list of accounts below and choose the list that contains only accounts that would be classified as asset accounts on the Chart of Accounts.

- A. Accounts Payable; Cash; Supplies.
- B. Unearned Revenue; Accounts Payable; Dividends.
- C. Building; Prepaid Insurance; Supplies Expense.
- D. Cash; Prepaid Insurance; Equipment. Notes Payable; Cash; Dividends.

Answer: D

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C3*

Draft Only

178. Which financial statement reports an organization's financial position at a single point in time?

- A. Income statement.
- B. Balance sheet.
- C. Statement of retained earnings.
- D. Cash flow statement.
- E. Trial balance.

Answer: B

Blooms: Understand

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Difficulty: 2 Medium

Learning Objective: 02-P3

Topic: Using a Trial Balance to Prepare Financial Statements

179. Joe Jackson opened Jackson's Repairs on March 1 of the current year. During March, the following transactions occurred and were recorded in the company's books:

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

Based on this information, net income for March would be:

- A. \$10,300.
- B. \$13,400
- C. \$5,300
- D. \$8,400
- E. \$13,500.

Answer: A

Blooms: Apply

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Difficulty: 3 Hard

Learning Objective: 02-A1

*Topic: Analyzing Transactions*

*Feedback: Net Income = Revenues – Expenses*

$$\text{Net Income} = \$16,000 (\#4) - \$2,000 (\#3) - \$6,200 (\#5) + \$3,000 (\#6) - \$500 (\#7) = \$10,300$$

180. Joel Consulting received \$3,000 from a customer for services provided. Joel's general journal entry to record this transaction will be:

- A. Debit Services Revenue, credit Accounts Receivable.
- B. Debit Cash, credit Accounts Payable.
- C. Debit Cash, credit Accounts Receivable.
- D. Debit Cash, credit Services Revenue.
- E. Debit Accounts Payable, credit Services Revenue.

Answer: D

*Blooms: Apply*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 2 Medium*

*Learning Objective: 02-P1*

*Topic: Journalizing and Posting Transactions*

Draft Only

181. Wiley Hill opened Hill's Repairs on March 1 of the current year. During March, the following transactions occurred and were recorded in the company's books:

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

Based on this information, total stockholder's equity reported on the balance sheet at the end of March would be:

- A. \$133,400.
- B. \$130,300
- C. \$125,300
- D. \$8,400
- E. \$13,500.

**Answer: B**

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

*Feedback: Ending Equity = \$25,000 (#1) + \$100,000 (#2) + \$16,000 (#4) + \$3,000 (#6) - \$2,000 (#3) - \$6,200 (#5) - \$500 (#7) - \$5,000 (#9) = \$130,300*



## Matching Questions

182. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

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

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

Answer:

1. J; 2. E; 3. I; 4. C; 5. B; 6. D; 7. F; 8. A; 9. G; 10. H

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 1 Easy*

*Learning Objective: 02-C1*

*Learning Objective: 02-C2*

*Learning Objective: 02-C3*

*Learning Objective: 02-C4*

*Learning Objective: 02-P2*

*Topic: Analyzing and Recording Process*

Topic: The Account and Its Analysis  
 Topic: Ledger and Chart of Accounts  
 Topic: Debits and Credits  
 Topic: Trial Balance

183. Provided below is a list of definitions and terms. Match them by placing the letter that identifies the best definition in the blank space next to each term.

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

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

Answer:

1. A; 2. C; 3. J; 4. I; 5. G; 6. F; 7. E; 8. B; 9. D; 10. H

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 1 Easy*

*Learning Objective: 02-A2*

*Learning Objective: 02-C1*

*Learning Objective: 02-C2*

*Learning Objective: 02-C3*

*Learning Objective: 02-C4*

*Topic: Debt Ratio*

*Topic: Analyzing and Recording Process*

*Topic: The Account and Its Analysis*

*Topic: Ledger and Chart of Accounts*

*Topic: Debits and Credits*

Draft Only

184. . Provided below is a list of definitions and terms. Match them by placing the letter that identifies the best definition in the blank space next to each term.

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

- A. A simple form used as a helpful tool in understanding the effect of transactions and events on specific accounts.
- B. The most flexible type of journal, it can be used to record any kind of transaction.
- C. A journal entry that affects at least three accounts.
- D. A written promise from a customer to pay a definite sum of money on a specified future date.
- E. A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense item.
- F. A list of all accounts used by a company and the identification number assigned to each account.
- G. The process of transferring journal entry information to the ledger.
- H. A list of accounts and their balances at a point in time; the total debit balances should equal the total credit balances.
- I. A column in journals where individual account numbers are entered when entries are posted to ledger accounts.
- J. Liabilities created when customers pay in advance for products or services; satisfied by delivering the products or services in the future.

Answer:

1. B; 2. F; 3. D; 4. A; 5. J; 6. C; 7. I; 8. G; 9. E; 10. H

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 1 Easy*

*Learning Objective: 02-C1*

*Learning Objective: 02-C2*

*Learning Objective: 02-C3*

*Learning Objective: 02-C4*

*Topic: Analyzing and Recording Process*

*Topic: The Account and Its Analysis*

*Topic: Ledger and Chart of Accounts*

*Topic: Debits and Credits*

185. Identify each of the following accounts as a revenue (R), expense (E), asset (A), liability (L), or equity (SE) by placing initials (R,E,A,L or SE) in the blanks.

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

Answer:

1. E; 2. A; 3. A; 4. OE; 5. R; 6. A; 7. L; 8. OE; 9. A; 10. L; 11. A; 12. A

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C3*

*Topic: Ledger and Chart of Accounts*

186. Review the transactions below and identify with an “X” those that would be posted as a *credit* in the ledger (The first one has been done for you):

- X   1. Salary Payable was increased.
- \_\_\_ 2. Cash was decreased
- \_\_\_ 3. Equipment was increased
- \_\_\_ 4. Common Stock was increased
- \_\_\_ 5. Salaries Expense was increased
- \_\_\_ 6. Accounts Receivable was decreased
- \_\_\_ 7. Unearned Revenue was increased
- \_\_\_ 8. Dividends was increased
- \_\_\_ 9. Supplies was increased
- \_\_\_ 10. Building was increased
- \_\_\_ 11. Utilities Expense was increased
- \_\_\_ 12. Service Revenue was increased

Answer:

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

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-P1*

*Topic: Journalizing and Posting Transactions*

187. The following accounts appear on either the Income Statement (IS) or Balance Sheet (BS). In the space to the left of each account, write the letters, IS or BS to identify the statement on which the account appears.

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

Answer:

1. BS; 2. IS; 3. BS; 4. IS; 5. BS; 6. BS; 7. IS; 8. BS; 9. BS; 10. BS

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Using a Trial Balance to Prepare Financial Statements*

Draft Only

**Essay Questions**

188. Miley Block is a building consultant. Shown below are (a) several accounts in her ledger with each account preceded by an identification number, and (b) several transactions completed by Block. Indicate the accounts debited and credited when recording each transaction by placing the proper account identification numbers to the right of each transaction.

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

Example:

Completed consulting work for a client who will pay at a later date.

- A. Received cash in advance from a customer for designing a building
- B. Purchased office supplies on credit.
- C. Paid for the supplies purchased in B.
- D. Received the telephone bill of the business and immediately paid it.
- E. Paid for a 3-year insurance policy

Debit	Credit
2	4

Answer:

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



Blooms: Apply  
 AACSB: Analytic  
 AICPA BB: Industry  
 AICPA FN: Measurement  
 Difficulty: 3 Hard  
 Learning Objective: 02-A1  
 Topic: Analyzing Transactions

189. Drew Castle is an insurance appraiser. Shown below are (a) several accounts in his ledger with each account preceded by an identification number, and (b) several transactions completed by Castle. Indicate the accounts debited and credited when recording each transaction by placing the proper account identification numbers to the right of each transaction.

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

Example:

Completed an appraisal for a client who promised to pay at a later date.

1. Received cash in advance for appraising a hail damage claim.....
2. Purchased office supplies on credit.....
3. Drew Castle used cash from the business to pay his home telephone bill. There were no business calls on the bill.....
4. Received the telephone bill of the business and immediately paid it.....
5. Paid the salary of the office assistant....

Debit	Credit
2	3

- Ⓕ. Paid for the supplies purchased in transaction B.....
- Ⓖ. Completed an appraisal for a client and immediately collected cash for the work done...


Answer:

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

Blooms: Apply  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 02-A1  
Topic: Analyzing Transactions

### Short Answer Questions

190. List the steps in processing transactions.

Answer: Business transactions and events are the starting point. Source documents are analyzed for the effects of the transactions and events on the accounting records. The information is recorded into the journal. The information is then posted to the accounts and a trial balance is prepared from the ledger balances. The final step is the preparation of financial statements for decision makers.

Blooms: Understand  
AACSB: Communications  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 02-C1  
Topic: Analyzing and Recording Process

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

Answer: Source documents are the proof that transactions and events have occurred and should be recorded in the accounting records. They provide objective and reliable evidence about transactions and their amounts. Examples of source documents include checks, invoices, sales receipts, credit card statements, and bank statements. They can be in hard copy or electronic form.

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Analyzing and Recording Process*

192. Explain how accounts are used in recording information about a business's transactions.

Answer: Accounts are classified into three general categories: assets, liabilities and equity accounts. Accounts are records of increases and decreases in specific items in these categories. Information from an account is analyzed, summarized, and presented in reports and financial statements.

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C2*  
*Topic: The Account and Its Analysis*

193. Explain the difference between a general ledger and a chart of accounts.

Answer: A ledger is a record containing all of the accounts of a business and their balances. The chart of accounts is a list of all of the accounts a company uses and includes an identification number assigned to each account.

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C3*  
*Topic: Ledger and Chart of Accounts*

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

Answer: Debit refers to the left side of an account and credit refers to the right side of an account. Debits and credits are part of the double-entry accounting system. This system is based on the concept that all transactions and events affect at least two accounts. The double entry system is organized around the accounting equation which states that assets = liabilities + equity. Assets, expenses and the dividends account, all have normal debit balances, and liabilities, revenues and the common stock account, all have normal credit balances.

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

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

Answer: The debt ratio is calculated by dividing total liabilities by total assets. It reveals the percentage of the company's assets that are financed by creditors. The higher the ratio, the more risk a company has in trying to repay the debt and interest.

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Risk Analysis*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

196. Explain the recording and posting processes.

Answer: Information from business transactions and events is recorded in the journal in the form of journal entries. The journal entries include the date, the account titles, and debit and credit amounts. Journal entries may also include a further description of the transaction. During the posting process the debit and credit amounts recorded in the journal are transferred to the individual accounts in the ledger.

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P1*  
*Topic: Journalizing and Posting Transactions*

197. What is a trial balance? What is its purpose?

Answer: The trial balance is a list of all of the accounts in the ledger with balances at a point in time presented in debit and credit columns according to their balance. The purpose of the trial balance is to summarize the account totals and to verify the accuracy of the total debits and credits. If the total debits and credits are not equal, it indicates an error in the accounting records. However, even if debits do equal credits this is no guarantee that no errors were made in recording and posting transactions.

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P2*  
*Topic: Preparing a Trial Balance*

198. Describe the link between a business's income statement, the statement of retained earnings, and the balance sheet.

Answer: The income statement shows the amount of net income the company has earned. That income is carried to the statement of retained earnings. The net income is added to the beginning retained earnings balance, and dividends are subtracted to determine the ending retained earnings. The ending retained earnings is then carried to the balance sheet.

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

Draft Only

## Problems

199. Identify by marking an X in the appropriate column, whether each of the following items would likely serve as a source document. The first one is done as an example

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

Answer:

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

Blooms: Understand

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Difficulty: 2 Medium

Learning Objective: 02-C1

Topic: Analyzing and Recording Process

200. Indicate whether a debit or credit entry would be required to record the following changes in each account.

- a. To decrease Cash
- b. To increase Common Stock
- c. To decrease Accounts Payable.
- d. To increase Salaries Expense.
- e. To decrease Supplies.
- f. To increase Revenue.
- g. To decrease Accounts Receivable.
- h. To increase Dividends.

*Answer:*

a. Credit, b. Credit, c. Debit, d. Debit, e. Credit, f. Credit, g. Credit, h. Debit

*Blooms: Understand*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

201. Using the following list of accounts and identification letters A through J for Homer's Management Co., enter the type of account and its normal balance into the table below. The first item is filled in as an example:

- A. Common Stock
- B. Interest Payable
- C. Land
- D. Dividends
- E. Fees Earned
- F. Prepaid Rent
- G. Advertising Expense
- H. Unearned Rent Revenue
- I. Commissions Earned
- J. Notes Receivable

	Type of Account			Normal Balance	
	Asset	Liability	Equity	Debit	Credit
A			X		X
B					
C					
D					
E					
F					
G					
H					
I					



J						
---	--	--	--	--	--	--

Answer:

	Type of Account			Normal Balance	
	Asset	Liability	Equity	Debit	Credit
A			X		X
B		X			X
C	X			X	
D			X	X	
E			X		X
F	X			X	
G			X	X	
H		X			X
I			X		X
J	X			X	

Blooms: Understand

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Difficulty: 2 Medium

Learning Objective: 02-C2

Learning Objective: 02-C3

Learning Objective: 02-C4

Topic: Accounts

Topic: Ledger and Chart of Accounts

Topic: Debits and Credits

202. Rowdy Bolton began Bolton Office Services in October and during that month completed these transactions:

- Invested \$10,000 cash, and \$15,000 of computer equipment in exchange for common stock.
- Paid \$500 cash for an insurance premium covering the next 12 months.
- Completed a word processing assignment for a customer and collected \$1,000 cash.
- Paid \$200 cash for office supplies.
- Paid \$2,000 for October's rent.

Prepare journal entries to record the above transactions. Explanations are unnecessary.

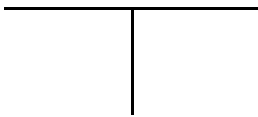
Answer:

a.	Cash .....	10,000	
	Computer Equipment .....	15,000	
	Common Stock .....		25,000
b.	Prepaid Insurance .....	500	
	Cash .....		500
c.	Cash .....	1,000	

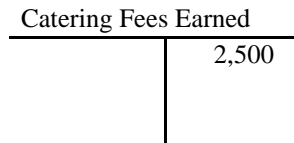
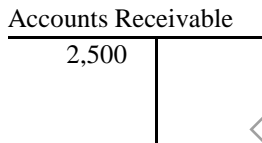
	Office Services Revenue .....		1,000
d.	Office Supplies .....	200	
	Cash .....		200
e.	Rent Expense .....	2,000	
	Cash .....		2,000

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Journalizing and Posting Transactions*

203. BBB Company sends a \$2,500 invoice to a customer for catering services it provided during the month. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.



*Answer:*



*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

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





*Answer:*



*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

205. A business paid \$100 cash to Charles Nice (the sole stockholder) for his personal use. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.



*Answer:*



*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Analyzing Transactions*

206. On December 3, the ABBJ Company paid \$1,400 cash in salaries to office personnel. Prepare the general journal entry to record this transaction.

Answer:

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

Blooms: Apply  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 02-P1  
Topic: Journalizing and Posting Transactions

207. On February 5, Teddy's Catering purchased an oven that cost \$35,000. The firm made a down payment of \$5,000 cash and signed a long-term note payable for the balance. Show the general journal entry to record this transaction.

Answer:

2/5	Oven.....	35,000	
	Cash .....		5,000
	Note Payable .....		30,000

Blooms: Apply  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 02-P1  
Topic: Journalizing and Posting Transactions

208. Jarrod Automotive, owned and operated by Jarrod Johnson, began business in September of the current year. Jarrod, a mechanic, had no experience with recording business transactions. As a result, Jarrod entered all of September's transactions directly into the ledger accounts. When he tried to locate a particular entry he found it confusing and time consuming. He has hired you to improve his accounting procedures. The accounts in his General Ledger follow:

<table style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="4" style="text-align: center; border-bottom: 1px solid black;">Cash</th> </tr> <tr> <td style="width: 10%; border-right: 1px solid black;">9/01</td> <td style="width: 20%;">(a) 4,200</td> <td style="width: 10%; border-right: 1px solid black;">9/4 (b)</td> <td style="width: 20%;">550</td> </tr> <tr> <td style="border-right: 1px solid black;">9/11</td> <td>(d) 150</td> <td></td> <td></td> </tr> <tr> <td style="border-right: 1px solid black;">9/15</td> <td>(e) 190</td> <td></td> <td></td> </tr> </table>	Cash				9/01	(a) 4,200	9/4 (b)	550	9/11	(d) 150			9/15	(e) 190			<table style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="4" style="text-align: center; border-bottom: 1px solid black;">Equipment</th> </tr> <tr> <td style="width: 10%; border-right: 1px solid black;">9/1</td> <td style="width: 20%;">(a) 800</td> <td style="width: 10%; border-right: 1px solid black;">9/4</td> <td style="width: 20%;">(b) 2,550</td> </tr> </table>	Equipment				9/1	(a) 800	9/4	(b) 2,550
Cash																									
9/01	(a) 4,200	9/4 (b)	550																						
9/11	(d) 150																								
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<table style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Common Stock</th> </tr> <tr> <td style="width: 10%; border-right: 1px solid black;"></td> <td style="width: 20%;">9/1 (a) 5,000</td> </tr> </table>	Common Stock			9/1 (a) 5,000	<table style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Notes Payable</th> </tr> <tr> <td style="width: 10%; border-right: 1px solid black;"></td> <td style="width: 20%;">9/4 (b) 2,000</td> </tr> </table>	Notes Payable			9/4 (b) 2,000																
Common Stock																									
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Notes Payable																									
	9/4 (b) 2,000																								
<table style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="4" style="text-align: center; border-bottom: 1px solid black;">Accounts Receivable</th> </tr> <tr> <td style="width: 10%; border-right: 1px solid black;">9/9</td> <td style="width: 20%;">(c) 275</td> <td style="width: 10%; border-right: 1px solid black;">9/15</td> <td style="width: 20%;">(e) 190</td> </tr> </table>	Accounts Receivable				9/9	(c) 275	9/15	(e) 190	<table style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="4" style="text-align: center; border-bottom: 1px solid black;">Revenue</th> </tr> <tr> <td style="width: 10%; border-right: 1px solid black;"></td> <td style="width: 20%;">9/9</td> <td style="width: 10%; border-right: 1px solid black;"></td> <td style="width: 20%;">(c) 275</td> </tr> <tr> <td style="border-right: 1px solid black;"></td> <td>9/11</td> <td style="border-right: 1px solid black;"></td> <td>(d) 150</td> </tr> </table>	Revenue					9/9		(c) 275		9/11		(d) 150				
Accounts Receivable																									
9/9	(c) 275	9/15	(e) 190																						
Revenue																									
	9/9		(c) 275																						
	9/11		(d) 150																						

Prepare the general journal entries, in chronological order (a) through (e), from the T-account entries shown. Include a brief description of the probable nature of each transaction.

*Answer:*

	Sept. 1	Cash .....	4,200	
		Equipment .....	800	
		Common Stock .....		5,000
		To record initial investment by sole stockholder.		
a.	4	Equipment .....	2,550	
		Cash .....		550
		Notes Payable .....		2,000
		To record purchase of equipment, paying \$550 in cash and paying a \$2,000 note payable for the balance due.		
b.	9	Accounts Receivable .....	275	
		Revenue .....		275

To record credit sale of services.

l.	11	Cash .....	150	
		Revenue .....		150
		To record cash sale of services.		

l.	15	Cash .....	190	
		Accounts Receivable .....		190
		To record collection from customer.		

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Journalizing and Posting Transactions*

Draft Only

209. Pippa's Paralegal Services completed these transactions in February:

- a. Purchased office supplies on account, \$300.
- b. Completed work for a client on credit, \$500.
- c. Paid cash for the office supplies purchased in (a).
- d. Completed work for a client and received \$800 cash.
- e. Received \$500 cash for the work described in (b).
- f. Received \$1,000 from a client for paralegal services to be performed in March.

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

Answer:

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

Blooms: Apply

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Difficulty: 3 Hard

Learning Objective: 02-P1

Topic: Journalizing and Posting Transactions

210. Larry Matt completed these transactions during December of the current year:

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

Prepare general journal entries to record these transactions.

Answer:

Dec. 1	Cash.....	15,000	
	Office Equipment.....	5,000	
	Common stock.....		20,000
	<i>Stockholder invested in business.</i>		
2	Office Equipment.....	1,200	
	Accounts Payable.....		1,200
	<i>Purchased office equipment and supplies on credit.</i>		
3	Office Supplies.....	300	
	Accounts Payable.....		300
4	Cash.....	900	
	Fees Earned.....		900
	<i>Rendered services for cash.</i>		
8	Accounts Receivable.....	1,700	
	Fees Earned.....		1,700
	<i>Rendered services on account.</i>		



10	Accounts Payable .....	300	
	Cash .....		300
	<i>Paid amount owed for supplies</i>		
14	Prepaid Insurance .....	960	
	Cash .....		960
	<i>Paid insurance premium for one year.</i>		
18	Cash .....	1,700	
	Accounts Receivable .....		1,700
	<i>Received payment on account.</i>		
27	Dividends.....	650	
	Cash .....		650
	<i>Paid cash dividends.</i>		
30	Utility Expense .....	175	
	Cash .....		175
	<i>Paid utility bills.</i>		
30	Cash.....	2,000	
	Unearned Fees .....		2,000
	<i>Received cash for services to be provided next year</i>		

Blooms: Apply  
 AACSB: Analytic  
 AICPA BB: Industry  
 AICPA FN: Measurement  
 Difficulty: 3 Hard  
 Learning Objective: 02-P1  
 Topic: Journalizing and Posting Transactions

211. Mary Sunny began business as Sunny Law Firm on November 1. Record the following November transactions by making entries directly to the T-accounts provided. Then, prepare a trial balance, as of November 30.

- a) Mary invested \$15,000 cash and a law library valued at \$6,000 in exchange for common stock.
- b) Purchased \$7,500 of office equipment from John Bronx on credit.
- c) Completed legal work for a client and received \$1,500 cash in full payment.
- d) Paid John Bronx. \$3,500 cash in partial settlement of the amount owed.
- e) Completed \$4,000 of legal work for a client on credit.
- f) The firm paid \$2,000 cash in dividends.
- g) Received \$2,500 cash as partial payment for the legal work completed for the client in (e).
- h) Paid \$2,500 cash for the legal secretary's salary.

Cash	

Office Equipment	

Dividends	

Accounts Receivable	

Accounts Payable	

Legal Fees Earned	

Law Library	

Common Stock	

Salaries Expense	

Answer:

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

Office Equipment	
(b) 7,500	

Dividends	
(f)	
2,000	

Accounts Receivable		Accounts Payable		Legal Fees Earned	
e) 4,000	g) 2,500	((d) 3,500	(b) ,500	(c) 1,500	(e) ,000

Law Library		Common Stock		Salary Expense	
(a) 6,000		(a) 21,000		(h) 2,500	

Sunny Law Firm  
Trial Balance  
November 30

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

Bloom's: Apply  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 02-A1  
Learning Objective: 02-P1  
Learning Objective: 02-P2

Topic: Analyzing Transactions  
Topic: Journalizing and Posting Transactions  
Topic: Preparing a Trial Balance

212. Jerry's Butcher Shop had the following assets and liabilities at the beginning and end of the current year:

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

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

Answer:

Beginning equity =  $\$114,000 - \$68,000 = \$46,000$

Ending equity =  $\$135,000 - \$73,000 = \$62,000$

Increase in equity =  $\$62,000 - \$46,000 = \$16,000$

Since there were no stock issuances or dividends during the year, the net income is \$16,000.

Blooms: Apply  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 02-A1  
Learning Objective: 02-P3  
Topic: Analyzing Transactions  
Topic: Using a Trial Balance to Prepare Financial Statements

213. Jerry's Butcher Shop had the following assets and liabilities at the beginning and end of the current year:

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

If stockholders invested an additional \$12,000 in the business during the year in exchange for common stock, but no dividends were paid during the year, what was the amount of net income earned by Jerry's Butcher Shop?

*Answer:*

$$\text{Beginning equity} = \$114,000 - \$68,000 = \$46,000$$

$$\text{Ending equity} = \$135,000 - \$73,000 = \$62,000$$

$$\text{Increase in equity} = \$62,000 - \$46,000 = \$16,000$$

$$\text{Net income} = \$16,000 - \$12,000 = \$4,000$$

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Learning Objective: 02-P3*  
*Topic: Analyzing Transactions*  
*Topic: Financial Statements*

Draft Only

214. Jerry's Butcher Shop had the following assets and liabilities at the beginning and end of the current year:

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

If there were no stockholder investments in the business but the company paid \$5,000 in dividends during the year, what was the amount of net income earned by Jerry's Butcher Shop?

*Answer:*

Beginning equity = \$114,000 – \$68,000 = \$46,000

Ending equity = \$135,000 – \$73,000 = \$62,000

Increase in equity = \$62,000 – \$46,000 = \$16,000

Net income = \$16,000 + \$5,000 = \$21,000

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Learning Objective: 02-P3*  
*Topic: Analyzing Transactions*  
*Topic: Financial Statements*

Draft Only

215. Jerry's Butcher Shop had the following assets and liabilities at the beginning and end of the current year:

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

If stockholders invested an additional \$12,000 in the business in exchange for common stock and \$5,000 of dividends were paid during the year, what was the amount of net income earned by Jerry's Butcher Shop?

*Answer:*

$$\text{Beginning equity} = \$114,000 - \$68,000 = \$46,000$$

$$\text{Ending equity} = \$135,000 - \$73,000 = \$62,000$$

$$\text{Increase in equity} = \$62,000 - \$46,000 = \$16,000$$

$$\text{Net income} = \$16,000 - \$12,000 + \$5,000 = \$9,000$$

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Learning Objective: 02-P3*  
*Topic: Analyzing Transactions*  
*Topic: Financial Statements*

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

*Answer:*

$$\text{Debt Ratio} = \text{Total Liabilities} / \text{Total Assets} = \$101,500 / \$350,000 = 29\%$$

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*AICPA FN: Risk Analysis*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

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

*Answer:*

*Debt Ratio = Total Liabilities/Total Assets = \$275,500/\$475,000 = 58%*

*Blooms: Apply*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*AICPA FN: Risk Analysis*

*Difficulty: 3 Hard*

*Learning Objective: 02-A2*

*Topic: Debt Ratio*

218. List the four steps in recording transactions.

*Answer:*

1. Analyze each transaction and event from source documents.
2. Record relevant transactions and events in a journal.
3. Post journal entry information to ledger accounts.
4. Prepare and analyze the trial balance.

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 1 Easy*

*Learning Objective: 02-C1*

*Topic: Analyzing and Recording Process*



219. Given each of the following errors, indicate on the table below the amount by which the trial balance will be out of balance and which trial balance column (debit or credit) will have the larger total as a result of the error.

- a. \$100 debit to Cash was debited to the Cash account twice.
- b. \$1,900 credit to Sales was posted as a \$190 credit.
- c. \$5,000 debit to Office Equipment was debited to Office Supplies.
- d. \$625 debit to Prepaid Insurance was posted as a \$62.50 debit.
- e. \$520 credit to Accounts Payable was not posted.

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

*Answer:*

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

*Blooms: Apply*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 3 Hard*

*Learning Objective: 02-P2*

*Topic: Preparing a Trial Balance*

220. After preparing an (unadjusted) trial balance at year-end, R. Chang of Chang Window Company discovered the following errors:

1. Cash payment of the \$225 telephone bill for December was recorded twice.
2. Cash payment of a note payable was recorded as a debit to Cash and a debit to Notes Payable for \$1,000.
3. A \$900 cash withdrawal by the owner was recorded to the correct accounts as \$90.
4. An additional investment of \$5,000 cash by the stockholder was recorded as a debit to Common Stock and a credit to Cash.
5. A credit purchase of office equipment for \$1,800 was recorded as a debit to the Office Equipment account with no offsetting credit entry.

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

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

Would the errors cause the trial balance to be out of balance?

Answer:

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

Yes, the trial balance will be out of balance.

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Preparing a Trial Balance*

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

Accounts Payable.....	\$ 6,500	Wages Expense.....	36,000
Accounts Receivable...	7,000	Rent Expense.....	6,000
Cash.....	?		
Office Supplies.	1,200		
Building.....	125,000		
Supplies Expense.....	21,500	Land.....	50,000
Common Stock.....	118,700	Unearned Management Fees	4,000
Management Revenue.	175,000	Dividends	48,000

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

Answer:

MILOS MANAGEMENT CO.			
Trial Balance			
December 31			
Cash**.....	\$9,500		
Accounts Receivable .....	7,000		
Office Supplies .....	1,200		
Land .....	50,000		
Building .....	125,000		
Accounts Payable .....		\$ 6,500	
Unearned Management Fees.....		4,000	
Common Stock .....		118,700	
Dividends.....	48,000		
Management Revenue .....		175,000	
Wages Expense.....	36,000		
Rent Expense .....	6,000		
Supplies Expense.....	21,500		
Totals.....	<u>\$304,200</u>	<u>\$304,200</u>	
**Total credits .....		\$304,200	
Total debits (excluding cash) .....	<u>294,700</u>		
Cash.....	<u>\$9,500</u>		

Blooms: Apply  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 02-P2

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

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

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

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

Answer:

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

*Blooms: Apply*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 3 Hard*

*Learning Objective: 02-P1*

*Learning Objective: 02-P2*

*Topic: Journalizing and Posting Transactions*

*Topic: Preparing a Trial Balance*

Draft Only

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

HG'S AUTO MAINTENANCE		
Trial Balance		
October 31		
	Debit	Credit
Cash .....	\$1,975	
Accounts receivable .....	2,800	
Supplies .....	500	
Shop equipment.....	13,000	
Office equipment.....	6,600	
Accounts payable .....		\$ 4,510
Common Stock.....		22,000
Dividends .....	4,200	
Repair fees earned.....		11,875
Supplies expense .....	8,600	
Totals .....	<u>\$37,675</u>	<u>\$38,385</u>

Because the trial balance did not balance, you decided to examine the accounting records. You found that the following errors had been made:

1. A purchase of supplies on account for \$245 was posted as a debit to Supplies and as a debit to Accounts Payable.
2. An investment of \$500 cash by the sole stockholder was debited to Common Stock and credited to Cash.
3. In computing the balance of the Accounts Receivable account, a debit of \$600 was omitted from the computation.
4. One debit of \$300 to the Dividends account was posted as a credit.
5. Office equipment purchased for \$800 was posted to the Shop Equipment account.
6. One entire entry was not posted to the general ledger. The transaction involved the receipt of \$125 cash for repair services performed for cash.

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

*Answer:*

HG'S AUTO MAINTENANCE  
Trial Balance  
October 31

	Debit	Credit
Cash <sup>a</sup>	\$3,100	
Accounts receivable <sup>b</sup>	3,400	

Supplies	500	
Shop equipment <sup>c</sup> .....	12,200	
Office equipment <sup>d</sup> .....	7,400	
Accounts payable <sup>e</sup> .....		\$5,000
Common Stock.....		23,000
Dividends. ....	4,800	
Repair fees earned <sup>h</sup> .....		12,000
Supplies expense.....	<u>8,600</u>	
Totals.....	<u>\$40,000</u>	<u>\$40,000</u>

<sup>a</sup>Cash: Balance \$1,975 + \$1,000 (2) + 125 (#6) = \$3,100

<sup>b</sup>Accounts Receivable: Bal. \$2,800 + 600 (#3) = \$3,400

<sup>c</sup>Shop Equipment: Bal. \$13,000 – 800 (#5) = \$12,200

<sup>d</sup>Office Equipment: Bal. \$6,600 + 800 (#5) = \$7,400

<sup>e</sup>Accounts Payable: Bal \$4,510 + 490 (#1) = \$5,000

<sup>f</sup>Common Stock: Bal. \$22,000 + 1,000 (#2) = \$23,000

<sup>g</sup>Dividends: Bal. \$4,200 + 600 (#4) = \$4,800

<sup>h</sup>Repair fees earned: Bal \$11,875 + 125 (#6) = \$12,000

*Blooms: Apply*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Difficulty: 3 Hard*

*Learning Objective: 02-A1*

*Learning Objective: 02-P2*

*Topic: Analyzing Transactions*

*Topic: Preparing a Trial Balance*

Draft Only

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

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

a. Calculate net income.

b. Determine the amount of total equity to be shown on the August 31 balance sheet.

Answer:

A.	\$75,000	Service revenues earned
	(3,600)	Rent expense
	(5,000)	Advertising expense
	<u>(30,000)</u>	Salaries expense
	<u>\$36,400</u>	Net income

B.	\$58,100	Total equity (beginning)
	36,400	Net income
	<u>(24,000)</u>	Dividends
	<u>\$70,500</u>	Total equity (ending)

Blooms: Apply

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Difficulty: 3 Hard

Learning Objective: 02-P3

Topic: Using a Trial Balance to Prepare Financial Statements



225. Based on the following trial balance for Sally's Salon, prepare an income statement, statement of retained earnings, and a balance sheet. Sally Crawford, the sole stockholder, made no additional investments in the company during the year.

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

Answer:

Sally's Salon Income Statement For Year Ended December 31		
Revenue earned.....		\$72,000
Expenses:		
Beauty supplies expense....	\$ 3,425	
Rent expense.....	6,000	
Wages expense.....	22,000	
Total expenses.....		31,425
Net Income.....		\$40,575

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

Retained earnings, January 1.....	\$0
Plus: Net income.....	<u>40,575</u>
	\$40,575
Less: Withdrawals by owner.....	<u>(36,000)</u>
Retained earnings, December 31.....	<u>\$4,575</u>

Sally's Salon  
Balance Sheet  
At December 31

Assets		Liabilities	
Cash.....	\$ 6,500	Accounts payable.....	\$ 745
Accounts receivable.....	475		
Beauty supplies.....	2,500	Equity	
Beauty shop equipment....	17,000	Common Stock.....	21,155
	<u>        </u>	Retained Earnings	<u>4,575</u>
Total assets.....	<u>\$26,475</u>	Total liabilities and equity.	<u>\$26,475</u>

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P3*  
*Topic: Using a Trial Balance to Prepare Financial Statements*

226. George Butler owned a tugboat and was tired of his current job. He decided to open a business that provides day tugboat tours to tourists along the Mississippi River near his hometown. Prepare journal entries to record the following transactions.

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

Answer:

May 1	Cash.....	20,000	
	Tugboat.....	90,000	
	G. Butler, Capital.....	110,000	
	<i>Owner invested in business.</i>		
2	Office Equipment.....	3,000	
	Cash.....	3,000	
	<i>Purchased office equipment.</i>		
3	Boating Supplies.....	2,500	
	Accounts Payable.....	2,500	
	<i>Purchased supplies on account.</i>		
4	Rent Expense.....	500	
	Cash.....	500	
	<i>Paid for dock rent.</i>		
5	Prepaid Insurance.....	1,800	
	Cash.....	1,800	

*Paid for six month insurance policy.*

10 Cash.....	2,000
Tugboat Tour Revenue.....	2,000

*Recorded tour revenue.*

12 Accounts Receivable.....	3,500
Tugboat Tour Revenue .....	3,500

*Recorded tour revenue provided on account.*

19 Accounts Payable.....	2,500
Cash.....	2,500

*Paid on account.*

22 Cash.....	3,500
Accounts Receivable.....	3,500

*Record collection on account.*

25 Cash.....	2,750
Tugboat Tour Revenue .....	2,750

*Recorded tour revenue.*

31 Salary Expense.....	1,000
Cash.....	1,000

*Paid assistant's salary.*

31 Dividends .....	2,000
Cash.....	2,000

*Record dividends paid.*

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Journalizing and Posting Transactions*

227. Based on the following trial balance for Barry's Automotive Shop, prepare an income statement, statement of retained earnings, and a balance sheet. Barry, the company's sole stockholder, made no additional investments in the company during the year.

Barry's Automotive Shop  
Trial Balance  
December 31

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

Answer:

Barry's Automotive Shop		
Income Statement		
For Year Ended December 31		
Service revenue .....		\$125,000
Expenses:		
Supplies expense.....	\$ 3,425	
Rent expense.....	18,000	
Utilities expense.....	5,000	
Gas expense.....	7,200	
Wages expense.....	22,000	
Total expenses.....		<u>55,625</u>
Net Income.....		<u>\$69,375</u>

Barry's Automotive Shop	
Statement of Retained Earnings	
For Year Ended December 31	
Retained Earnings, January 1	\$8,525
Plus: Net income	69,375
	\$77,900
Less: Dividends	(36,000)
Retained Earnings, December 31	\$41,900

Draft Only

Barry's Automotive Shop  
Balance Sheet  
December 31

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

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*

Draft Only

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

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

Answer:

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

*Bloom's: Remember*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C3*

*Learning Objective: 02-C4*

*Topic: Ledger and Chart of Accounts*

*Topic: Debits and Credits*



229. For each of the following accounts, identify whether a debit or credit yields the indicated change

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

*Answer:*

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

*Blooms: Remember*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

230. Indicate on which of the financial statements the following items appears. Use I for income statement, RE for statement of retained earnings, and B for balance sheet. More than one statement may be appropriate for some items.

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

Answer:

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

Blooms: Remember

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Difficulty: 2 Medium

Learning Objective: 02-P3

Topic: Using a Trial Balance to Prepare Financial Statements

231. Jason Hope decided to open a hotel in his hometown. Prepare journal entries to record the following transactions. Hope uses the accounts Room Rental Revenue and Event Revenue. All expenses for special events are recorded as Event Expense. (Omit explanations.)

June 1	Hope invested \$400,000 into the business in exchange for common stock.
June 2	Hope purchased an existing building and land for the hotel costing \$900,000. The purchase appraisal allocated \$100,000 for land and \$800,000 to the building. Hope paid \$250,000 and financed the remainder with a mortgage note payable.
June 3	Paid \$6,000 for a six-month insurance policy on the hotel.
June 5	Purchased linens and other supplies costing \$4,000 on account.
June 10	Received advance payments of \$12,000 from customers that will be staying at the hotel in July. Payments will be refunded if the customer cancels within 7 days of their scheduled arrival time.
June 14	Received cash payments of \$13,000 from current customers staying at the hotel in June.
June 15	Paid the staff \$2,000 for the first semi-monthly payroll.
June 16	Paid \$500 for general maintenance and repairs expense.
June 17	Received \$10,000 payment for a wedding reception during the weekend.
June 18	Paid the caterer \$2,500 for providing catering services for the wedding reception.
June 18	Paid Fixture Rentals \$1,000 for table and chair rental.
June 19	Paid the florist \$2,000 for flowers for the event.
June 24	Paid for the linens and supplies purchased on June 5.
June 25	Recorded an additional \$5,000 from current hotel customers for June.
June 30	Paid the staff \$2,000 for the second semi-monthly payroll.
June 30	Paid \$4,000 in dividends to sole stockholder.

Answer:

June 1	Cash	400,000	
	Common Stock		400,000
June 2	Land	100,000	
	Building	800,000	
	Cash		250,000
	Mortgage Note Payable		650,000
June 3	Prepaid Insurance	6,000	
	Cash		6,000

June 5	Supplies	4,000	
	Accounts Payable		4,000
June 10	Cash	12,000	
	Unearned Rental Revenue		12,000
June 14	Cash	13,000	
	Room Rental Revenue		13,000
June 15	Salaries Expense	2,000	
	Cash		2,000
June 16	Maintenance and Repairs Expense	500	
	Cash		500
June 17	Cash	10,000	
	Event Revenue		10,000
June 18	Catering Expense	2,500	
	Cash		2,500
June 18	Event Expense	1,000	
	Cash		1,000
June 19	Event Expense	2,000	
	Cash		2,000
June 24	Accounts Payable	4,000	
	Cash		4,000
June 25	Cash	5,000	
	Room Rental Revenue		5,000
June 30	Salaries Expense	2,000	
	Cash		2,000
June 30	Dividends	4,000	
	Cash		4,000

*Blooms: Apply*  
*AACSB: Analytic*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Journalizing and Posting Transactions*

Draft Only

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

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

Answer:

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

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C3*

*Learning Objective: 02-C4*

*Topic: Ledger and Chart of Accounts*

*Topic: Debits and Credits*

233. The steps in the accounting process focus on analyzing and recording financial transactions and events within a company. Those steps are shown below. Using the number system of 1 as the first step and 4 as the last step in the process, number the steps in the correct order in which they would occur (1 thru 4).

- \_\_\_\_\_ Record relevant transactions and events in a journal,
- \_\_\_\_\_ Post journal information to the ledger accounts
- \_\_\_\_\_ Prepare and analyze the trial balance
- \_\_\_\_\_ Analyzing each transaction

Answer:

- 2   Record relevant transactions and events in a journal,
- 3   Post journal information to the ledger accounts
- 4   Prepare and analyze the trial balance
- 1   Analyzing each transaction

*Blooms: Remember*

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-C1*

*Topic: Analyzing and Recording Process*

### ***Fill in the Blank Questions***

234. \_\_\_\_\_ and \_\_\_\_\_ are the starting points for the *analyzing and recording* process.

**Answer:** Business transactions; Events

*Feedback: answers can appear in either order*

*Blooms: Understand*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 2 Medium*

*Learning Objective: 02-C1*

*Topic: Analyzing and Recording Process*

235. The second step in the analyzing and recording process is to record the transactions and events in the book of original entry, called the \_\_\_\_\_.

Answer: journal

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C1*  
*Topic: Analyzing and Recording Process*

236. The third step in the analyzing and recording process is to post the information to the \_\_\_\_\_.

Answer: ledger accounts

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C1*  
*Topic: Analyzing and Recording Process*

237. \_\_\_\_\_ documents identify and describe transactions and events and provide objective evidence and amounts for recording.

Answer: Source

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C1*  
*Topic: Analyzing and Recording Process*

238. Revenues and expenses are two categories of \_\_\_\_\_ accounts.

Answer: equity

*Blooms: Understand*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C2*  
*Topic: The Account and Its Analysis*



239. The \_\_\_\_\_ is a record containing all accounts used by a company as well as the transactions and ending balances of each of the accounts.

Answer: general ledger (or ledger)

*Feedback: either answer is acceptable*

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 02-C3  
Topic: Ledger and Chart of Accounts*

240. In a seller's accounting records, \_\_\_\_\_ are promises of payment waiting to be received from customers.

Answer: Accounts receivable

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 02-C2  
Topic: The Account and Its Analysis*

241. Unearned revenue is classified as a(an) \_\_\_\_\_ on a business's balance sheet.

Answer: liability

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 02-C2  
Topic: The Account and Its Analysis*

242. The four categories of equity accounts are \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_. Answer: Common Stock; Dividends; revenues; expenses

*Feedback: answers can appear in any order*

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Difficulty: 1 Easy*

*Learning Objective: 02-C2*

*Topic: The Account and Its Analysis*

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243. A \_\_\_\_\_ is a *list* of all the accounts used by a company and their identification codes but does not contain the balances.

Answer: chart of accounts

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C3*  
*Topic: Ledger and Chart of Accounts*

244. A record containing all the separate accounts for a company as well as all of their balances is called the \_\_\_\_\_

Answer: ledger

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C3*  
*Topic: Ledger and Chart of Accounts*

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

Answer: double-entry accounting

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Debits and Credits*

246. The \_\_\_\_\_ is found by determining the difference between total debits and total credits for an account, including any beginning balance.

Answer: account balance

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*

Topic: The Account and Its Analysis

247. To increase an asset account, we would \_\_\_\_\_ it and to increase a liability account, we would \_\_\_\_\_ it.

Answer: debit; credit

Feedback: answers need to appear in the order shown above

Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 02-C4  
Topic: Debits and Credits

248. Funky Music purchased \$25,000 of equipment for cash. The Equipment asset account is \_\_\_\_\_ for \$25,000 and the Cash account is \_\_\_\_\_ for \$25,000.

Answer: debited; credited

Feedback: answers need to appear in the order as shown above

Blooms: Understand  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 02-C4  
Topic: Debits and Credits

249. Jackson Brown Footwear had total liabilities of \$130 million and total assets of \$375 million. Its debt ratio was \_\_\_\_\_. (round to one decimal place)

Answer: 34.7%

Blooms: Apply  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 3 Hard  
Learning Objective: 02-A2  
Topic: Debt Ratio

Feedback:  $Debt Ratio = Total Liabilities/Total Assets$

$Debt Ratio = \$130 million/\$375 million = 34.7\%$

250. \_\_\_\_\_ is the process of transferring journal entry information from the journal to the ledger.

Answer: Posting

*Blooms: Remember*  
*AACSB: Communications*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Journalizing and Posting Transactions*

251. A \_\_\_\_\_ gives a complete record of each transaction in one place, and shows debits and credits for each transaction.

Answer: journal

*Blooms: Remember*  
*AACSB: Communication*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Journalizing and Posting Transactions*

252. A more structured format that is similar to a T-account in that it has columns for debits and credits, but that is different in that it has columns for transaction date, explanation, and the account balance is the \_\_\_\_\_.

Answer: balance column account

*Blooms: Remember*  
*AACSB: Communications*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: The Account and Its Analysis*

253. The posting process is the link between the \_\_\_\_\_ and the \_\_\_\_\_.

Answer: journal; ledger

*Feedback: answers can be recorded in either order*

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 02-P1  
Topic: Journalizing and Posting Transactions*

254. You increase the *Service Revenue* account on the \_\_\_\_\_ side of its account.

Answer: right or credit

*Blooms: Remember  
AACSB: Communications  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 02-C4  
Topic: Debits and Credits*

255. You decrease the *Accounts Payable* account on the \_\_\_\_\_ side of its account.

Answer: left or debit

*Blooms: Remember  
AACSB: Communications  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 02-C4  
Topic: Debits and Credits*