

*Financial Accounting, 9e (Harrison/Horngren/Thomas)*  
**Chapter 2 Transaction Analysis**

2.1 Learning Objective 2-1

1) A transaction is any event that has a financial impact on the business that can be measured reliably.

Answer: TRUE

Diff: 1

LO: 2-1

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

2) Every transaction has two sides—you give something and you receive something.

Answer: TRUE

Diff: 1

LO: 2-1

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

3) Which of the following is NOT a business transaction?

A) The company sells goods on account.

B) The company buys land for cash.

C) The company is featured in a magazine article.

D) The company sells stock for cash.

Answer: C

Diff: 2

LO: 2-1

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

4) Transactions:

A) must be recorded for every company event.

B) provide objective information about the financial impact on a company.

C) are recorded only if the amounts are significant to the company.

D) only have one side that needs to be recorded.

Answer: B

Diff: 1

LO: 2-1

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

5) Any event that has a financial impact on the business and can be measured reliably is a(n):

- A) expense.
- B) transaction.
- C) asset.
- D) journal.

Answer: B

Diff: 1

LO: 2-1

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

6) Which of the following business events would NOT be recorded in a company's accounting records?

- A) The company paid a monthly utility bill.
- B) The company issued 100 shares of common stock.
- C) The company purchased two acres of land for future plant expansion.
- D) The company signed a contract to provide services in the next accounting period.

Answer: D

Diff: 2

LO: 2-1

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

## 2.2 Learning Objective 2-2

1) The account is the basic summary device of accounting.

Answer: TRUE

Diff: 1

LO: 2-2

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

2) An accounts receivable usually specifies an interest rate.

Answer: FALSE

Diff: 2

LO: 2-2

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

3) Assets include cash, land, and accounts payable.

Answer: FALSE

Diff: 2

LO: 2-2

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

4) Prepaid expenses are an asset.

Answer: TRUE

Diff: 2

LO: 2-2

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

5) Income statement data appears as revenues and expenses under Retained Earnings.

Answer: TRUE

Diff: 2

LO: 2-2

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

6) A record of all the changes in a particular asset, liability, or stockholders' equity during a period is called a(n):

A) transaction.

B) trial balance.

C) journal.

D) account.

Answer: D

Diff: 1

LO: 2-2

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

7) Which of the following is a liability account?

A) Retained Earnings

B) Accrued Liabilities

C) Accounts Receivable

D) Prepaid Expenses

Answer: B

Diff: 2

LO: 2-2

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

8) Goods purchased on account for future use in the business, such as store supplies, are called:

A) accrued liabilities.

B) expenses.

C) revenues.

D) prepaid expenses.

Answer: D

Diff: 2

LO: 2-2

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

9) All of the following accounts would be considered assets EXCEPT for:

- A) Cash.
- B) Retained Earnings.
- C) Prepaid Expenses.
- D) Notes Receivable.

Answer: B

Diff: 2

LO: 2-2

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

10) Which account includes bank account balances?

- A) Accounts Receivable
- B) Notes Receivable
- C) Cash
- D) Prepaid Expenses

Answer: C

Diff: 1

LO: 2-2

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

11) Which of the following is a correct statement?

- A) Shareholders' equity is also called Proprietorship Equity.
- B) A proprietorship has more than one capital account.
- C) A partnership has a separate owner's equity account for each partner.
- D) Retained earnings is the owner's investment in the corporation.

Answer: C

Diff: 2

LO: 2-2

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

12) Notes payable, accounts payable, taxes payable and salaries payable are all examples of:

- A) liabilities.
- B) revenues.
- C) expenses.
- D) assets.

Answer: A

Diff: 1

LO: 2-2

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

## 2.3 Learning Objective 2-3

1) If a company declares and pays a dividend to its stockholders, both cash and expenses will decrease.

Answer: FALSE

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

2) The rules for recording accounting transactions include all of the following EXCEPT:

A) Every transaction's net amount on the left side of the equation must equal the net amount on the right side of the equation.

B) Total assets must always equal total liabilities plus total equity.

C) Every transaction affects the financial statements of the business.

D) Both sides of the accounting equation must be affected.

Answer: D

Diff: 3

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

3) Generally companies will prepare financial statements:

A) after every transaction.

B) only when both the balance sheet and income statement are affected.

C) at the end of the accounting period.

D) at the close of every business day.

Answer: C

Diff: 1

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

4) When services are performed on account:

A) cash is increased.

B) revenue will not be recorded until the cash is received from the customer.

C) accounts receivable is increased.

D) accounts payable is increased.

Answer: C

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

5) A company received cash in exchange for issuing stock. This transaction increased assets and:

- A) increased expenses.
- B) increased revenues.
- C) increased liabilities.
- D) increased equity.

Answer: D

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

6) When a business purchases land on account:

- A) both assets and stockholders' equity are increased.
- B) assets are decreased and stockholder's equity is increased.
- C) both assets and liabilities are increased.
- D) assets are increased and liabilities are decreased.

Answer: C

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

7) The debt created by a business when it makes a purchase on account is a(n):

- A) revenue.
- B) prepaid expense.
- C) account receivable.
- D) account payable.

Answer: D

Diff: 2

LO: 2-3

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

8) Which of the following transactions will increase Stockholders' Equity?

- A) The company pays a dividend to its shareholders.
- B) The company issues common stock to new shareholders.
- C) The president of the company buys a new personal automobile.
- D) The company makes a payment on account.

Answer: B

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

9) Which of the following transactions will increase one asset and decrease another asset?

- A) The purchase of office supplies on account.
- B) The performance of services on account.
- C) The purchase of equipment for cash.
- D) The performance of services for cash.

Answer: C

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

10) A company performed services for a customer for cash. This transaction increased assets and:

- A) decreased equity.
- B) increased liabilities.
- C) increased expenses.
- D) increased revenues.

Answer: D

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

11) When cash is paid for utilities:

- A) stockholders' equity is decreased.
- B) expenses are decreased.
- C) assets are increased.
- D) liabilities are increased.

Answer: A

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

12) A company paid cash for an amount owed to a creditor. This transaction decreased cash and:

- A) decreased revenues.
- B) decreased liabilities.
- C) decreased expenses.
- D) increased expenses.

Answer: B

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

13) Company Z sells land for the same amount it paid for it three years ago. When the company records this transaction:

- A) assets and stockholders' equity are increased.
- B) one asset is increased and another asset is decreased.
- C) one liability is increased and another liability is decreased.
- D) assets are increased and liabilities are decreased.

Answer: B

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking, Legal/Regulatory

AICPA Functional: Measurement

14) When a company incurs additional debt, which type of account is increased?

- A) Expense account
- B) Retained earnings
- C) Liability account
- D) Common Stock account

Answer: C

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

15) A company performs services for a client on account. When the company receives the cash from the customer one month later:

- A) a revenue account is increased.
- B) a liability account is decreased.
- C) an asset account is increased.
- D) an expense account is decreased.

Answer: C

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement



16) When a company borrows cash from the bank:

- A) total assets remain the same.
- B) liabilities are increased.
- C) retained earnings is decreased.
- D) total liabilities remain the same.

Answer: B

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

17) When a company pays an amount it owes a creditor:

- A) assets are decreased and net income is decreased.
- B) assets are decreased and liabilities are increased.
- C) liabilities are decreased and net income is increased.
- D) assets are decreased and liabilities are decreased.

Answer: D

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

18) The payment of salaries to employees would:

- A) increase assets and increase liabilities.
- B) decrease net income and decrease assets.
- C) increase liabilities and increase net income.
- D) decrease assets and increase liabilities.

Answer: B

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

19) Muddle Company performs a service for one of its customers and immediately collects the cash. This transaction will:

- A) have no effect on liabilities.
- B) decrease net income.
- C) decrease Retained Earnings.
- D) increase Accounts Receivable.

Answer: A

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 20) Purchasing supplies on account would:
- A) increase total assets and decrease total liabilities.
  - B) increase total liabilities and decrease total assets.
  - C) increase total assets and increase total liabilities.
  - D) increase total liabilities and increase stockholders' equity.

Answer: C

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 21) Paying a repair bill as soon as it was received would:
- A) increase expenses.
  - B) increase liabilities.
  - C) increase owners' equity.
  - D) decrease revenues.

Answer: A

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 22) If a company buys inventory on account:
- A) cash would decrease.
  - B) accounts payable would increase.
  - C) net income would increase.
  - D) common Stock would decrease.

Answer: B

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 23) Receiving a payment from a customer on account:
- A) increases stockholders' equity.
  - B) has no effect on total assets.
  - C) decreases stockholders' equity.
  - D) decreases liabilities.

Answer: B

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

24) Which of the following transactions would decrease an asset and decrease stockholders' equity?

- A) The payment of an account payable
- B) The performance of a service for a client on account
- C) The borrowing of money from the bank for thirty days
- D) The declaration and payment of a dividend to the shareholders

Answer: D

Diff: 3

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

25) An important fact to remember when analyzing the transactions of a company is that:

- A) the income statement data appears under Common Stock.
- B) the balance sheet data includes the ending balances of the asset, liabilities and revenues of the company.
- C) dividends are added when computing the ending balance of retained earnings.
- D) the income statement includes revenues and expenses.

Answer: D

Diff: 3

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

26) Performing services on account:

- A) decreases both assets and liabilities.
- B) increases assets and decreases stockholders' equity.
- C) decreases revenues and decreases stockholders' equity.
- D) increases both net income and stockholders' equity.

Answer: D

Diff: 3

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

27) To compute the ending balance of retained earnings:

- A) the beginning balance in retained earnings will be zero for a new business.
- B) net income for the period is subtracted from the beginning balance.
- C) dividends are added to the beginning balance.
- D) common stock sold during the period is added to the beginning balance.

Answer: A

Diff: 3

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

28) Cash dividends paid to stockholders will:

- A) increase assets and decrease liabilities.
- B) increase assets and increase liabilities.
- C) have no effect on stockholders' equity or revenues.
- D) decrease assets and decrease stockholders' equity.

Answer: D

Diff: 3

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

29) When preparing the financial statements:

- A) the balance sheet lists the balance of the asset accounts at the end of the period.
- B) retained earnings is included in common stock.
- C) data for the statement of cash flows can be found under the retained earnings account.
- D) data for the income statement is found under the Cash account.

Answer: A

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

30) To compute ending retained earnings on the statement of retained earnings:

- A) net income is added to the beginning retained earnings and dividends are subtracted from the beginning retained earnings.
- B) net income and dividends are both added to beginning retained earnings.
- C) net loss and dividends are both added to beginning retained earnings.
- D) net income or net loss does not affect retained earnings.

Answer: A

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

31) When preparing the financial statements:

- A) assets, liabilities, and revenues are reported on the balance sheet.
- B) the balance sheet reports the beginning balance of retained earnings.
- C) assets, liabilities, and stockholders' equity are reported on the balance sheet.
- D) assets, liabilities, and dividends are reported on the balance sheet.

Answer: C

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

32) Lucy Morton opened an engineering office and titled the business Engineering Enterprises P.C. During its first month of operations, it completed the following transactions:

- I. Lucy invested \$30,000 in the business, which in turn issued common stock to her.
- II. The business purchased equipment on account for \$6,000.
- II. The business provided engineering services on account, \$10,000.
- III. The business paid salaries to the receptionist, \$1,000.
- IV. The business received cash from a customer as payment on account \$6,000.
- V. The business borrowed \$8,000 from the bank, issuing a note payable.

Total assets would be:

- A) \$30,000.
- B) \$37,000.
- C) \$47,000.
- D) \$61,000.

Answer: C

Explanation: C)  $30,000 - 6,000 + 10,000 - 1,000 + 6,000 + 8,000 = 47,000$

Diff: 3

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

33) Lucy Morton opened an engineering office and titled the business Engineering Enterprises P.C. During its first month of operations, it completed the following transactions:

- I. Lucy invested \$30,000 in the business, which in turn issued common stock to her.
- II. The business purchased equipment on account for \$6,000.
- II. The business provided engineering services on account, \$10,000.
- III. The business paid salaries to the receptionist, \$1,000.
- IV. The business received cash from a customer as payment on account \$6,000.
- V. The business borrowed \$8,000 from the bank, issuing a note payable.

Total liabilities would be:

- A) \$0.
- B) \$6,000.
- C) \$14,000.
- D) \$20,000.

Answer: C

Explanation: B)  $6,000 + 8,000 = 14,000$

Diff: 3

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

34) A company completed the following transactions during the month of October:

- I. Purchased office supplies on account, \$4,000.
- II. Provided services for cash, \$10,000.
- III. Provided services on account, \$12,000.
- IV. Collected cash from a customer on account \$7,000.
- V. Paid the monthly rent of \$3,000.

What was the company's total revenue for the month?

- A) \$10,000
- B) \$22,000
- C) \$29,000
- D) \$36,000

Answer: B

Explanation: B)  $10,000 + 12,000 = 22,000$

Diff: 3

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

35) A company completed the following transactions during the month of October:

- I. Purchased office supplies on account, \$4,000.
- II. Provided services for cash, \$10,000.
- III. Provided services on account, \$12,000.
- IV. Collected cash from a customer on account \$7,000.
- V. Paid the monthly rent of \$3,000.

What was the company's net income for the month?

- A) \$0
- B) \$10,000
- C) \$19,000
- D) \$22,000

Answer: C

Explanation: C)  $10,000 + 12,000 - 3,000 = 19,000$

Diff: 3

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

36) A company had credit sales of \$30,000 and cash sales of \$10,000 during the month of May. Also during May, the company paid wages of \$1,000 and utilities of \$800. It also received payments from customers on account totaling \$4,000. What was the company's net income for the month?

- A) \$10,000
- B) \$38,200
- C) \$41,000
- D) \$44,000

Answer: B

Explanation: B)  $30,000 + 10,000 - 1,000 - 800 = 38,200$

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

37) A company had credit sales of \$30,000 and cash sales of \$10,000 during the month of May. Also during May, the company paid wages of \$1,000 and utilities of \$800. It also received payments from customers on account totaling \$4,000. At the beginning of May, the company had a cash balance of \$25,000. What is the company's cash balance at the end of May?

- A) \$23,200
- B) \$25,000
- C) \$37,200
- D) \$65,000

Answer: C

Explanation: C)  $25,000 + 10,000 - 1,000 - 800 + 4,000 = 37,200$

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

38) ABC Company began business in June when stockholders invested \$80,000 in the business, which in turn issued its common stock to them. ABC Company then purchased a building for \$40,000 cash and inventory for \$20,000 cash, performed services for clients for \$10,000 cash, purchased supplies for \$5,000 cash, and paid utilities of \$2,000 cash. What is the amount of total assets?

- A) \$80,000
- B) \$88,000
- C) \$108,000
- D) \$163,000

Answer: B

Explanation: B)  $80,000 - 60,000 + 40,000 + 20,000 + 10,000 - 5,000 + 5,000 - 2,000 = 88,000$

Diff: 3

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

39) Sabre Company began business in June and completed the following transactions:

- A) Received \$30,000 cash and issued common stock to the stockholders.
- B) Purchased supplies for \$500, and equipment for \$2,000 on account.
- C) Paid \$2,000 monthly rent for office space.
- D) Performed services for a customer and billed the customer \$4,500.
- E) Paid for the supplies purchased on account, \$500.
- F) Declared and paid dividends of \$1,000.

REQUIRED:

1. Record the effects of the following transactions on the accounting equation. After recording the transactions, compute the ending balances of the equation to prove it balances.

Answer:

<i>ASSETS</i>				=			
Accounts					Accounts	Common	Retained
Cash	Receivable +	Supplies +	Equipment	=	Payable +	Stock +	Earnings
+30,000						+30,000	
A							
B		+500	+2,000		+2,500		
C	-2,000						-2,000
D	4,500						+4,500
E	-500				-500		
F	-1,000						-1,000
26,500	4,500	500	2,000		2,000	30,000	1,500

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement



40) Record the effects of the following transactions on the accounting equation. After recording the transactions, compute the ending balances of the equation to prove it balances.

1. A business received \$10,000 and issued common stock.
2. Paid \$2,000 monthly rent for office space.
3. Purchased \$3,000 of office equipment, paying cash.
4. Purchased \$500 of office supplies on account.
5. Recorded \$4,000 of revenue, receiving cash.
6. Performed \$1,500 of services on account.
7. Paid utilities expense of \$900.
8. Collected cash from a customer on account, \$1,000.
9. Borrowed \$10,000 from the bank and signed a note payable.

Answer:

	ASSETS				=	LIABILITIES + STOCKHOLDERS' EQUITY			
	Cash +	Accounts Receivable +	Office Supplies +	Office Equip	=	Accounts Payable +	Note Payable +	Common Stock +	Retained Earnings
	+10,000							+10,000	
1.									
2.	-2,000								-2,000
3.	3,000			+3,000					
4.			+500			+500			
5.	+4,000								+4,000
6.		+1,500							+1,500
7.	-900								-900
8.	+1,000	-1,000							
9.	+ 10,000						+10,000		
<b>Bal.</b>	<u>19,100</u>	<u>500</u>	<u>500</u>	<u>3,000</u>	=	<u>500</u>	<u>10,000</u>	<u>10,000</u>	<u>2,600</u>
	23,100				=	23,100			

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

41) Indicate whether the account is an asset (A), liability (L), stockholders' equity (SE), revenue (R) or expense (E) account. Also indicate if the account would appear on the Balance Sheet (BS) or Income Statement (IS) or the Statement of Retained Earnings (SRE) The first account has been completed for you.

	ACCOUNT	TYPE OF ACCOUNT	FINANCIAL STATEMENT
1.	Land	A	BS
2.	Common Stock		
3.	Notes Payable		
4.	Service Revenue		
5.	Telephone Expense		
6.	Dividends		
7.	Accounts Receivable		
8.	Computer Supplies		
9.	Accounts Payable		
10.	Prepaid Expenses		

Answer:

	ACCOUNT	TYPE OF ACCOUNT	FINANCIAL STATEMENT
1.	Land	A	BS
2.	Common Stock	SE	BS
3.	Notes Payable	L	BS
4.	Service Revenue	R	IS
5.	Telephone Expense	E	IS
6.	Dividends	SE	SRE
7.	Accounts Receivable	A	BS
8.	Computer Supplies	A	BS
9.	Accounts Payable	L	BS
10.	Prepaid Expenses	A	BS

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

42) The transactions of the Morton Company for the month of November are summarized below:

Date	Accounts			Accounts	Common	Retained	Type of Stockholders'
	Cash	Receivable +	Supplies +	Payable +	Stock +	Earnings	Equity Transaction
Nov. 6	12,000				12,000		Issued stock
13			1,700	1,700			
15	3,800	3,800				7,600	Service revenue
18	-1,300					(1,300)	Salary expense
24	-700					(700)	Rent expense
26	-500					(500)	Utilities expense
29	700		(700)				
31	<u>-800</u>	<u>          </u>	<u>          </u>	<u>(800)</u>	<u>          </u>	<u>          </u>	
Bal.	<u>13,200</u>	<u>3,800</u>	<u>1,000</u>	<u>900</u>	<u>12,000</u>	<u>5,100</u>	

REQUIRED:

Answer the following questions about Morton Company:

1. How much are total assets?
2. How much does the business expect to collect from customers?
3. How much does the business owe?
4. How much net income or net loss did Morton Company have for the month of November?

Answer:

1. Total assets are \$18,000. Calculation: 13,200 + 3,800 + 1,000
2. The business expects to collect \$3,800 from its customers, the amount of its Accounts Receivable.
3. The business owes \$900, the balance in Accounts Payable.
4. Morton had net income of \$5,100. Calculation: 7,600 - 1,300 - 700 - 500

Diff: 2

LO: 2-3

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

## 2.4 Learning Objective 2-4

1) The double-entry system of accounting records the dual effects on the entity.

Answer: TRUE

Diff: 1

LO: 2-4

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

2) The amount remaining in an account is called its balance.

Answer: TRUE

Diff: 1

LO: 2-4

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

3) Double-entry accounting affects at least three accounts.

Answer: FALSE

Diff: 1

LO: 2-4

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

4) The left hand side of a T account is the debit side and the right hand side is the credit side.

Answer: TRUE

Diff: 1

LO: 2-4

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

5) The account title appears at the top of the T.

Answer: TRUE

Diff: 1

LO: 2-4

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

6) An account with a normal debit balance is most often an asset or revenue account.

Answer: FALSE

Diff: 2

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

7) Accounts payable is increased with a credit.

Answer: TRUE

Diff: 2

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

8) Assets, expenses, and dividends are all increased by debits.

Answer: TRUE

Diff: 2

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

9) Revenues and expenses are specialized stockholders' equity accounts, all having debit balances.

Answer: FALSE

Diff: 2

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

10) All stockholders' equity accounts are increased by debits.

Answer: FALSE

Diff: 2

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

11) If the credits to an account exceed the debits to the account, the account will have a credit balance.

Answer: TRUE

Diff: 1

LO: 2-4

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

12) All business transactions involve an increase in at least one account and a decrease in at least one other account.

Answer: FALSE

Diff: 2

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

13) The left side of a T-account is always the:

A) increase side.

B) decrease side.

C) debit side.

D) credit side.

Answer: C

Diff: 1

LO: 2-4

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

14) An important rule to remember when working with T accounts is:

- A) when you debit an account, you are entering an amount of the right-hand side of the T account.
- B) an increase to accounts payable will be recorded as a debit.
- C) to credit an account means to enter an amount on the right-hand side of the T account.
- D) the debit side of a T account is on the right-hand side of the T account for liabilities and revenues.

Answer: C

Diff: 2

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

15) Which of the following is a true statement regarding T accounts?

- A) The transaction needs to be analyzed to determine which accounts are affected before entering amounts in the T accounts.
- B) If a company pays cash, an amount would be entered on the left side of the T account.
- C) T accounts are only used to record complex transactions.
- D) To debit an asset, an amount is entered on the left side of the T account and to debit a liability an amount is entered on the right side of the T account.

Answer: A

Diff: 2

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

16) Which of the following statement about the rules of debits and credits is correct?

- A) An asset is increased by a debit.
- B) Dividends are decreased by debits.
- C) A liability is increased by a debit.
- D) Revenue is increased by a debit.

Answer: A

Diff: 3

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

17) Which of the following is a correct statement?

- A) Revenues are decreased with a credit.
- B) Expenses are increased with a credit.
- C) Dividends are a negative equity account.
- D) Dividends decrease net income.

Answer: C

Diff: 2

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

18) Increases in stockholders' equity that result from delivering goods or services to customers are:

- A) assets.
- B) revenues.
- C) expenses.
- D) liabilities.

Answer: B

Diff: 2

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

19) An important rule to remember when analyzing the impact of business transactions on accounts is:

- A) net income increases stockholders' equity.
- B) if expenses exceed revenues, the company will have a net income.
- C) a net loss does not affect stockholders' equity.
- D) stockholders' equity includes the two categories of income statement accounts, revenues and liabilities.

Answer: A

Diff: 2

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

20) An important rule of debits and credits is:

- A) credits increase a liability account.
- B) debits decrease an asset account
- C) revenues are increased by a debit.
- D) expenses are increased by a credit.

Answer: A

Diff: 2

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

21) Which accounts are increased by debits?

- A) Cash and accounts payable
- B) Salaries expense and common stock.
- C) Accounts receivable and utilities expense
- D) Accounts payable and service revenue

Answer: C

Diff: 3

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

22) An account is increased by a debit and has a debit balance. This account is:

- A) an expense account.
- B) a liability account.
- C) an asset account.
- D) both an expense account and an asset account.

Answer: D

Diff: 2

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

23) Company A received cash and issued stock to a new stockholder. In recording this transaction:

- A) cash would be debited.
- B) common stock would be debited.
- C) cash would be credited.
- D) retained earnings would be credited.

Answer: A

Diff: 2

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

24) Company B purchased office supplies on account. In recording this transaction:

- A) cash would be credited.
- B) accounts payable would be credited.
- C) accounts receivable would be credited.
- D) office supplies would be credited.

Answer: B

Diff: 2

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement



25) Evan Jones started a sports consulting business and completed the following transactions during October, 2012:

1. Evan incorporated the business, Sports, Inc., and invested \$15,000 for common stock.
2. Purchased a new computer on account, \$2,000.
3. Purchased \$1,000 of office supplies, paying cash.
4. Signed a football player to a contract and received service revenue of \$8,000 on account.
5. Signed a hockey player to a contract and received service revenue of \$3,000 cash.
6. Paid his secretary a salary of \$2,500 for the month.
7. Paid the monthly rent of \$1,000.
8. Collected cash from the football player on account, \$8,000.

REQUIRED:

Set up T-accounts for Cash, Accounts Receivable, Supplies, Office Equipment, Accounts Payable, Common Stock, Service Revenue, Rent Expense, and Salaries Expense. Post the transactions to the T-accounts and compute ending account balances.

Answer:

15,000	1,000
3,000	2,500
8,000	1,000
<u>21,500</u>	

8,000	8,000
<u>0</u>	

<u>1,000</u>	
--------------	--

<u>2,000</u>	
--------------	--

	<u>2,000</u>
--	--------------

	<u>15,000</u>
--	---------------

	8,000
	3,000
	<u>11,000</u>

<u>1,000</u>	
--------------	--

<u>2,500</u>	
--------------	--

Diff: 2

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

26) Complete the following chart indicating if the account is increased with a debit or a credit.

ACCOUNT	INCREASED WITH A:
Assets	
Liabilities	
Stockholders' equity	
Revenues	
Expenses	
Dividends	

Answer:

ACCOUNT	INCREASED WITH A:
Assets	Debit
Liabilities	Credit
Stockholders' equity	Credit
Revenues	Credit
Expenses	Debit
Dividends	Debit

Diff: 2

LO: 2-4

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

## 2.5 Learning Objective 2-5

1) When preparing a journal entry, debits are always listed before credits.

Answer: TRUE

Diff: 1

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

2) The ledger is the book of original entry.

Answer: FALSE

Diff: 1

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

3) Information is taken from the ledger and the posted to the journal.

Answer: FALSE

Diff: 2

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

4) The total debits to an account must equal the total credits to the account.

Answer: FALSE

Diff: 2

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

5) In a journal entry, the sum of the debits must always equal the sum of the credits.

Answer: TRUE

Diff: 1

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

6) All companies must use the same chart of accounts.

Answer: FALSE

Diff: 2

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

7) Journal entries can have more than two accounts as long as the total debits equal the total credits.

Answer: TRUE

Diff: 2

LO: 2-5

AICPA Functional: Measurement

8) Each journal entry should contain a brief description of the transaction.

Answer: TRUE

Diff: 1

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

9) The balance of an account can be determined by adding all of the debits, adding all of the credits, and then subtracting the two amounts.

Answer: TRUE

Diff: 1

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

10) Entering a transaction in the journal is also known as booking the journal entry.

Answer: TRUE

Diff: 1

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

11) When analyzing a transaction, first pinpoint the effects, if any, on cash.

Answer: TRUE

Diff: 1

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

12) Posting accounting transactions avoids the necessity of journalizing transactions.

Answer: FALSE

Diff: 1

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

13) The journal is also known as the book of original entry.

Answer: FALSE

Diff: 1

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

14) Accounting transactions are initially recorded in the:

A) T-account.

B) ledger.

C) journal.

D) financial statements.

Answer: C

Diff: 2

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 15) The journalizing process involves all of the following steps except for:
- A) determining whether each account is increased or decreased by the transaction.
  - B) copying the information from the journal to the ledger.
  - C) entering the debit side on the left margin of the journal.
  - D) specifying each account affected by the transaction and classifying the account by type.

Answer: B

Diff: 2

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

- 16) The process of copying the information from the journal to the ledger is called:

- A) posting.
- B) summarizing.
- C) journalizing.
- D) preparing the financial statements.

Answer: A

Diff: 2

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

- 17) When journalizing and posting transactions in the books:

- A) the rules of debit and credit are followed to increase or decrease each account.
- B) the credit side of the transaction is entered on the left margin.
- C) it is not necessary to use both the journal and the ledger.
- D) debits in the journal can be posted as credits in the ledger.

Answer: A

Diff: 2

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

- 18) In order to see a complete transaction in one place, you would need to look at the:

- A) trial balance.
- B) ledger.
- C) journal.
- D) financial statements.

Answer: C

Diff: 2

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

19) Which of the following is a true statement?

- A) In most accounting systems, the journal, but not the ledger is computerized.
- B) In the phrase "keeping the books," *books* refers to the journals and the ledger.
- C) The journal entry shows the balance in each account.
- D) If entries are correctly entered in the journal, the same data does not need to be entered in the ledger.

Answer: B

Diff: 2

LO: 2-5

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

20) Entries are listed in the journal:

- A) alphabetically.
- B) chronologically.
- C) in random order.
- D) in order of importance.

Answer: B

Diff: 2

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

21) An account will have a debit balance if:

- A) the amount of the credits exceeds the amount of the debits.
- B) the amount of the debits exceeds the amount of the credits.
- C) the account has more debit entries than credit entries.
- D) it is a liability account.

Answer: B

Diff: 2

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

22) What is the last step in the journalizing process?

- A) Record the transaction in the journal.
- B) Post the transaction to the ledger.
- C) Determine whether each account is increased or decreased by the transaction.
- D) Specify each account affected by the transaction and classify each account by type.

Answer: A

Diff: 2

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

23) Which of the following items would NOT be included in the journal entry for a transaction?

- A) The source documents initiating the transaction
- B) The date the accounting transaction was entered
- C) The titles of the accounts debited
- D) The dollar amount credited

Answer: A

Diff: 2

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

24) The proper order for the accounting process is:

- A) posting, transaction occurs, journalizing.
- B) transaction occurs, posting, journalizing.
- C) transaction occurs, transaction analyzed, journalizing, and posting.
- D) transaction occurs, posting, transaction analyzed, journalizing.

Answer: C

Diff: 2

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

25) The ledger:

- A) is a grouping of all of the balance sheet accounts.
- B) is a grouping of all the T-accounts, with their balances.
- C) contains the same information in the same format as the journal.
- D) is used only by large corporations.

Answer: B

Diff: 2

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

26) Posting is:

- A) copying the information from the journal to the trial balance.
- B) entering the data into the journal.
- C) copying the information from the journal to the ledger.
- D) copying the information from the ledger to the financial statements.

Answer: C

Diff: 2

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

27) Every transaction:

- A) must increase at least one account and decrease at least one account.
- B) must debit at least one account and credit at least one account.
- C) is recorded in either the journal or the ledger.
- D) affects both an income statement account and a balance sheet account.

Answer: B

Diff: 2

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

28) In order to determine the balance in an account, you must look at the:

- A) source documents.
- B) journals.
- C) ledgers.
- D) book of original entry.

Answer: C

Diff: 2

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

29) The balance of an account:

- A) must be determined after each transaction.
- B) is entered on the debit side if the total debits to the account exceed the total credits to the account.
- C) is put on the top of the T account next to the account name.
- D) can be determined from the journal.

Answer: B

Diff: 2

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

30) When a revenue account is increased:

- A) an amount is entered on the credit side.
- B) an amount is entered on the debit side.
- C) cash must always be debited.
- D) stockholders' equity is not affected.

Answer: A

Diff: 2

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement



31) The entry to record the purchase of supplies on account would include a debit to:

- A) Supplies.
- B) Accounts Payable.
- C) Supplies Expense.
- D) Retained Earnings.

Answer: A

Diff: 2

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

32) A transaction that would include a debit to Cash is:

- A) the purchase of supplies on account.
- B) the payment of an account payable.
- C) the collection of cash from an account receivable.
- D) the payment of the monthly utility bill.

Answer: C

Diff: 2

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

33) If a journal entry debits Accounts Payable and credits Cash, it can be determined that:

- A) cash will have a credit balance.
- B) accounts payable increased.
- C) cash was increased.
- D) accounts payable decreased.

Answer: D

Diff: 2

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

34) The payment for monthly rent of an office building would include a:

- A) debit to Cash.
- B) debit to Prepaid Rent.
- C) debit to Rent Expense.
- D) credit to Revenue.

Answer: C

Diff: 2

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

35) A journal entry that debits Cash and credits Accounts Receivable indicates that:

- A) payment was received on account.
- B) payment was made on account.
- C) revenue increased.
- D) revenue decreased.

Answer: A

Diff: 2

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

36) An owner makes an investment of cash into the business. This transaction would include a:

- A) debit to Common Stock and a credit to Common Stock.
- B) debit to Cash and a credit to Common Stock.
- C) debit to Retained Earnings and a credit to Cash.
- D) debit to Common Stock and a credit to Retained Earnings.

Answer: B

Diff: 2

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

37) A transaction that includes a debit to an expense and a credit to a liability indicates that:

- A) revenues increased.
- B) expenses increased.
- C) liabilities decreased.
- D) cash decreased.

Answer: B

Diff: 3

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

38) The purchase of equipment involving a cash down payment and a promise to pay the balance in the future would include:

- A) a debit to Cash and a credit to Equipment.
- B) a debit to Note Payable and a credit to Cash.
- C) a credit to Cash and a credit to Note Payable.
- D) a debit to Cash and a debit to Note Payable.

Answer: C

Diff: 2

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

39) The purchase of office computers for cash would include a debit to:

- A) Cash and a credit to Office Equipment.
- B) Office Equipment and a credit to Accounts Payable.
- C) Accounts Receivable and credit to Office Equipment.
- D) Office Equipment and a credit to Cash.

Answer: D

Diff: 2

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

40) Paying a dividend to the company's stockholders would include a debit to:

- A) Cash and a credit to Dividends.
- B) Dividends and a credit to Cash.
- C) Retained Earnings and a credit to Cash.
- D) Accounts Payable and a credit to Retained Earnings.

Answer: B

Diff: 2

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

41) A company sold land for the same price that they paid for it last year. When entering this transaction in

the journal, there will be a:

- A) credit to Land.
- B) debit to Land.
- C) debit to Accounts Payable.
- D) credit to Accounts Receivable.

Answer: A

Diff: 2

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

42) The major shareholder of ABC Company purchased a new yacht with his own funds. ABC would:

- A) debit an asset account.
- B) credit a revenue account.
- C) credit a liability account.
- D) not record the transaction in their books.

Answer: D

Diff: 2

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

43) ABC Company needed money to purchase a new building. They borrowed \$20,000 from the Richest Bank and signed a note promising to pay the amount back in three months. The entry to record the loan is:

A)

Cash	20,000	
	Note Payable	20,000

B)

Building	20,000	
	Cash	20,000

C)

Note Payable	20,000	
	Cash	20,000

D)

Building	20,000	
	Notes Payable	20,000

Answer: A

Diff: 3

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

44) The entry to record a shareholder's investment of \$600 into the business would be:

A)

Dividends	600	
	Cash	600

B)

Cash	600	
	Dividends	600

C)

Cash	600	
	Service Revenue	600

D)

Cash	600	
	Common Stock	600

Answer: D

Diff: 2

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

45) The entry to record the performance of services on account for \$8,000 would be:

A)

Cash	8,000	
	Accounts Payable	8,000

B)

Accounts Receivable	8,000	
	Service Revenue	8,000

C)

Accounts Receivable	8,000	
	Cash	8,000

D)

Cash	8,000	
	Service Revenue	8,000

Answer: B

Diff: 2

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

46) The entry to record the purchase of offices supplies for cash would be:

A)

Office Supplies
Accounts Payable

B)

Cash
Office Supplies

C)

Supplies Expense
Accounts Payable

D)

Office Supplies
Cash

Answer: D

Diff: 2

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

47) Which of the following is not a typical journal entry made by a company?

A)

Accounts Receivable
Sales Revenue

B)

Cash
Sales Revenue

C)

Accounts Receivable
Accounts Payable

D)

Accounts Payable
Cash

Answer: C

Diff: 2

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

48) Accounting has its own vocabulary and basic relationships. Match the following accounting terms with the corresponding definition or meaning.

- |                               |   |
|-------------------------------|---|
| _____ 1. Net income           | A) The cost of operating a business; a decrease in stockholders' equity |
| _____ 2. Receivable           | B) Always a liability   |
| _____ 3. Journal              | C) Revenues minus expenses  |
| _____ 4. Ledger               | D) Grouping of accounts   |
| _____ 5. Balance of account   | E) Assets minus Liabilities   |
| _____ 6. Payable              | F) Record of transactions   |
| _____ 7. Posting              | G) Always an asset  |
| _____ 8. Stockholders' Equity | H) Right side of an account   |
| _____ 9. Credit               | I) The total debits less total credits                                  |
| _____ 10. Expense             | J) Copying data from the journal to the ledger                          |

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

Diff: 2

LO: 2-5

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

49) Anya Smith started Geek Speak, a computer consulting business, in February, 2012. The company completed the following transactions during March, 2012:

1. Geek Speak paid Anya a dividend of \$1,000.
2. Received partial payment from customers on account, \$1,500.
3. Purchased a new computer for \$1,800 and paid cash.
4. Borrowed \$10,000 from the bank and signed a note payable.
5. Paid the employees their monthly salary of \$2,800.
6. Recorded \$4,000 of revenue on account and mailed invoices to the customers.
7. Purchased office supplies of \$600 on account.
8. Paid for the office supplies purchased on account, \$600.

REQUIRED:

Journalize the transactions. Explanations are not required.

Answer:

1. Dividends	1,000	
Cash		1,000
2. Cash	1,500	
Accounts Receivable		1,500
3. Equipment	1,800	
Cash		1,800
4. Cash	10,000	
Notes payable		10,000
5. Salaries Expense	2,800	
Cash		2,800
6. Accounts receivable	4,000	
Service Revenue		4,000
7. Office supplies	600	
Accounts payable		600
8. Accounts payable	600	
Cash		600

Diff: 2

LO: 2-5

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement



50) Great Gardens, Inc., had the following transactions during its first month of operations:

May 1 Great Gardens received \$20,000 cash and issued common stock to the stockholders.

May 1 Paid the May rent, \$1,000.

May 3 Purchased equipment on account for \$6,000.

May 5 Purchased gardening supplies for \$2,000 on account.

May 8 Performed services for a client and received cash of \$1,800.

May 12 Performed services for a client and billed the customer \$12,200. The customer promised to pay within 10 days.

May 15 Paid for the equipment purchased May 3 on account.

May 22 Received payment from a customer on account, \$12,200.

May 28 Borrowed \$20,000 from First National Bank for business use.

May 30 Paid the employee salaries of \$3,000 for the month.

May 31 Paid the utility bill of \$800.

Required: Record the transactions of the business in a journal. Include an explanation for each entry.

Answer:

Date	Account	Dr	Cr
May 1	Cash	20,000	
	Common Stock		20,000
	Issued common stock.		
1	Rent expense	1,000	
	Cash		1,000
	Paid May rent.		
3	Equipment	6,000	
	Accounts Payable		6,000
	Purchased equipment on account.		
5	Supplies	2,000	
	Accounts payable		2,000
	Purchased supplies on account.		
8	Cash	1,800	
	Service Revenue		1,800
	Performed services.		
12	Accounts Receivable	12,200	
	Service Revenue		12,200
	Performed services on account.		
15	Accounts payable	6,000	
	Cash		6,000
	Paid cash on account.		
22	Cash	12,200	
	Accounts Receivable		12,200
	Collected cash on account.		
28	Cash	20,000	
	Note Payable		20,000
	Borrowed from bank.		
30	Salary Expense	3,000	
	Cash		3,000
	Paid salaries for month.		
31	Utility Expense	800	
	Cash		800
	Paid utility expense.		

Diff: 2  
LO: 2-5  
AACSB: Analytical Skills  
AICPA Bus Persp: Strategic/Critical Thinking  
AICPA Functional: Measurement

## 2.6 Learning Objective 2-6

1) Accounts are listed in random order in a trial balance.

Answer: FALSE

Diff: 1

LO: 2-6

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

2) A trial balance is one of a company's major financial statements.

Answer: FALSE

Diff: 1

LO: 2-6

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

3) Although a trial balance can be taken at any time, the most common time is at the end of the accounting period.

Answer: TRUE

Diff: 2

LO: 2-6

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

4) When a trial balance is out of balance due to a transposition error, the difference between total debits and total credits will be evenly divisible by 2.

Answer: FALSE

Diff: 2

LO: 2-6

AACSB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

5) When a trial balance is out of balance due to a slide-type error, the difference between total debits and total credits will be evenly divisible by 9.

Answer: TRUE

Diff: 2

LO: 2-6

AACSB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

6) The only way to find a transposition error in the trial balance is to go back to the source documents.

Answer: FALSE

Diff: 2

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

7) A bookkeeper posted the same journal entry twice. This will cause the trial balance to be out of balance.

Answer: FALSE

Diff: 2

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

8) Since cash is increased with a debit, it must always have a debit balance.

Answer: FALSE

Diff: 3

LO: 2-6

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

9) The T-account is only used by beginning accounting students.

Answer: FALSE

Diff: 2

LO: 2-6

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

10) Business managers must often make decisions without the benefit of a complete accounting system.

Answer: TRUE

Diff: 2

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

11) To see how a transaction affects a business, managers must first enter the transaction in the journal.

Answer: FALSE

Diff: 2

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

12) The financial statements can be prepared from the information on the trial balance.

Answer: TRUE

Diff: 2

LO: 2-6

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

13) The normal balance of an expense account is a \_\_\_\_\_ because expenses decrease \_\_\_\_\_.

A) debit, assets

B) debit, expenses

C) debit, stockholders' equity

D) credit, stockholders' equity

Answer: C

Diff: 2

LO: 2-6

AAASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

14) The normal balance of an account:

A) falls on the side where increases are recorded.

B) is computed in the journal.

C) must be computed after every transaction.

D) cannot be computed in a non-computerized accounting system.

Answer: A

Diff: 2

LO: 2-6

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

15) The normal balance of a revenue account is a \_\_\_\_\_ because revenues increase \_\_\_\_\_.

A) credit, assets

B) debit, expenses

C) debit, stockholders' equity

D) credit, stockholders' equity

Answer: D

Diff: 2

LO: 2-6

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

- 16) When computing the normal balance of an account:
- A) salaries expense should have a credit balance.
  - B) accounts payable should have a credit balance.
  - C) equipment can have either a credit or debit balance.
  - D) notes payable can have either a credit or debit balance.

Answer: B

Diff: 2

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 17) A trial balance:
- A) cannot be corrected if it contains errors.
  - B) proves that all transactions have been recorded properly.
  - C) proves that total debits equal total credits.
  - D) should be prepared at the end of each business day.

Answer: C

Diff: 2

LO: 2-6

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

- 18) Which error will be uncovered by a trial balance?
- A) The bookkeeper recorded the same journal entry three times.
  - B) The bookkeeper forgot to record a journal entry for a large amount.
  - C) The bookkeeper recorded both the debit and credit of a journal entry as \$200 instead of \$700.
  - D) The bookkeeper recorded a journal entry with a debit of \$400 and a credit of \$930.

Answer: D

Diff: 2

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 19) The trial balance is used to determine if:
- A) total assets equal total liabilities.
  - B) total debits equal total credits.
  - C) total revenues equal total expenses.
  - D) total increases in accounts equal total decreases in accounts.

Answer: B

Diff: 2

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 20) If the bookkeeper forgot to record a credit to accounts receivable:
- A) the trial balance would still balance.
  - B) debits would exceed credits on the trial balance.
  - C) credits would exceed debits on the trial balance.
  - D) total debits and total credits would both be incorrect on the trial balance.

Answer: B

Diff: 3

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 21) If a posting error has occurred when recording a transaction by posting a debit as a credit, then the out-of-balance amount will be evenly divisible by:

- A) 11.
- B) 9.
- C) 2.
- D) 5.

Answer: C

Diff: 2

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

- 22) If the trial balance does not balance, several steps can be taken to find the error. Which step will probably NOT help you find the error?

- A) Tracing each account back and forth from the journal to the ledger
- B) Divide the out-of-balance amount by 2
- C) Divide the out-of-balance amount by 9
- D) Analyzing the financial statements

Answer: D

Diff: 2

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

23) A trial balance shows total debits of \$540,000 and total credits of \$450,000. This discrepancy is most likely due to which type of error?

- A) Slide
- B) Transposition
- C) Mislabeling
- D) Failure to post a transaction

Answer: B

Diff: 2

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

24) A chart of accounts:

- A) is used by an organization to determine the balance in all of their accounts.
- B) lists all of the accounts of an organization in alphabetical order.
- C) must be the same for all organizations.
- D) lists all of an organization's accounts and account numbers.

Answer: D

Diff: 2

LO: 2-6

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

25) If the total debits and the total credits of a trial balance are not equal, the error could be due to:

- A) recording the same transaction twice.
- B) recording both the debit and credit of the journal entry for the same incorrect amount.
- C) an error in determining an account balance.
- D) forgetting to record a transaction.

Answer: C

Diff: 3

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

26) Which of the following statements regarding a trial balance is TRUE?

- A) A trial balance may be taken at any time during the accounting period.
- B) A trial balance is a list of all accounts with their balances.
- C) A trial balance shows that total debits equals total credits.
- D) All of the above are true.

Answer: D

Diff: 2

LO: 2-6

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement



27) A trial balance has which of the following features?

- A) Totals for balance sheet accounts only
- B) Totals for income statement accounts only
- C) Totals for all accounts listed in the ledger
- D) Totals for all asset and liability accounts only

Answer: C

Diff: 1

LO: 2-6

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

28) Which of the following is a correct statement about a chart of accounts?

- A) It is used only by service corporations.
- B) It can be used to determine the balance in an account.
- C) It is a tool used by accountants to help prepare the financial statements.
- D) It lists the asset accounts first.

Answer: D

Diff: 2

LO: 2-6

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

29) When setting up the numbering system for a company's chart of accounts:

- A) the account numbers generally have four or more digits.
- B) asset accounts will begin with the number 5.
- C) revenue accounts will begin with the number 4.
- D) there cannot be a gap between account numbers.

Answer: C

Diff: 2

LO: 2-6

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

30) A trial balance has total debits of \$720,000 and total credits of \$850,000, with a debit balance of \$65,000 for notes payable. This situation indicates:

- A) a slide.
- B) an incorrect posting.
- C) a transposition.
- D) that none of the above are correct.

Answer: B

Diff: 2

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

31) Which of the following is a correct numbering system for a chart of accounts?

- A) Accounts payable is numbered 153.
- B) Utilities expense is numbered 487.
- C) Accounts receivable is numbered 104.
- D) Sales revenue is numbered 809.

Answer: C

Diff: 2

LO: 2-6

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

32) Which account has a normal debit balance?

- A) Salaries payable
- B) Common Stock
- C) Advertising Expense
- D) Service revenue

Answer: C

Diff: 2

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

33) The normal balance of the Accounts Payable account is a \_\_\_\_\_ because it is a(n) \_\_\_\_\_ account.

- A) credit; liability
- B) debit; stockholders' equity
- C) credit; expense
- D) debit; asset

Answer: A

Diff: 2

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

34) Which of the following is a correct numbering system for a chart of accounts?

- A) Office supplies is numbered 0145.
- B) Notes payable is numbered 20.
- C) Advertising expense is numbered 877.
- D) Interest revenue is not given an account number because it is not used on a monthly basis.

Answer: B

Diff: 2

LO: 2-6

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

35) When using a four-column ledger account format, the pair of columns on the far right is used to show the:

- A) names of the accounts being debited and credited.
- B) transaction dates and journal reference.
- C) account balance.
- D) debit and credit amounts posted from journal entries.

Answer: C

Diff: 2

LO: 2-6

AICPA Bus Persp: Legal/Regulatory

AICPA Functional: Measurement

36) Aurora Company had a cash balance On May 1 of \$17,000. At the end of May, the cash balance had increased to \$28,000. During the month of May, Aurora received cash of \$26,000 from various sources. Based on this information, cash payments for the month of May:

- A) were \$11,000.
- B) were \$15,000.
- C) were \$19,000.
- D) cannot be determined from the information given.

Answer: B

Explanation: B)  $17,000 + 26,000 - 28,000 = 15,000$

Diff: 3

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

37) Golden Company had a balance of \$40,000 in Accounts Payable at the beginning of June, and purchased \$30,000 of merchandise on account during the month At the end of June, Golden's Account Payable balance was \$28,000. What amount did Golden pay on account during June?

- A) \$38,000
- B) \$42,000
- C) \$108,000
- D) The amount cannot be determined from the information given.

Answer: B

Explanation: B)  $40,000 + 30,000 - 28,000 = 42,000$

Diff: 3

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

38) The Accounts Receivable account for Rusty's Mechanic Shop had a beginning balance of \$12,000. During the month, Rusty received payments of \$7,000 on account and made sales on account of \$16,000. The ending balance in the Accounts Receivable account is:

- A) \$3,000.
- B) \$9,000.
- C) \$21,000.
- D) \$35,000.

Answer: C

Explanation: C)  $12,000 - 7,000 + 16,000 = 21,000$

Diff: 3

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

39) The Diamond Store began business on June 1. During the month of June, it had cash payments of \$9,000. At the end of June, it had a \$14,000 balance in cash. Based on this information, the cash receipts for the month of June:

- A) were \$5,000.
- B) were \$16,000.
- C) were \$23,000.
- D) cannot be determined.

Answer: D

Explanation: D)  $0 - 9,000 - 14,000 = -23,000$

Diff: 3

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

40) ABC Company began the month with a balance of \$70,000 in Accounts Receivable. An analysis of the account determined that sales on account for the month totaled \$110,000. At the end of the month, the balance in Accounts Receivable was \$85,000. From this information, it can be determined that the ABC Company had collections from customers on account of:

- A) \$15,000.
- B) \$45,000.
- C) \$95,000.
- D) \$115,000.

Answer: C

Explanation: C)  $70,000 + 110,000 - 85,000 = 95,000$

Diff: 3

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

41) Indicate whether the trial balance will be out of balance for each of the following errors, and if so, by what dollar amount.

- A) Did not record a utility bill payment for \$500.
- B) Posted a \$2,000 debit to Cash as \$200.
- C) Recorded a \$1,000 cash payment by debiting accounts receivable. The credit entry was correct.
- D) Omitted the service revenue account for \$2,500 from the trial balance.
- E) Listed \$1,500 of equipment on the trial balance when the correct account balance was \$5,100.
- F) Posted a debit to rent expense and a debit to cash for a \$250 rent payment.

Answer:

- A. No - The debit and credit were omitted, so the trial balance will still balance.
- B. Yes - The trial balance will be out of balance by \$1,800.
- C. No - The wrong account was debited, but the entry still balanced.
- D. Yes - The trial balance will be out of balance by \$2,500.
- E. Yes - The trial balance will be out of balance by \$3,600.
- F. Yes - The trial balance will be out of balance by \$500.

Diff: 3

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

42) Put an "X" in the appropriate box to indicate if the normal balance of an account is a Debit or a Credit balance. The first account has been completed for you as an example.

	NORMAL BALANCE	NORMAL BALANCE
ACCOUNT	IS A DEBIT	IS A CREDIT
Cash	X	
Fees earned		
Accounts Receivable		
Accounts Payable		
Rent Expense		
Common Stock		
Notes Payable		
Office Equipment		
Retained Earnings		
Dividends		

Answer:

	NORMAL BALANCE	NORMAL BALANCE
ACCOUNT	IS A DEBIT	IS A CREDIT
Cash	X	
Fees earned		X
Accounts Receivable	X	
Accounts Payable		X
Rent Expense	X	
Common Stock		X
Notes Payable		X
Office Equipment	X	
Retained Earnings		X
Dividends	X	

Diff: 2

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

43) The accounts of Amy's Pencil Shop, Inc., follow with their normal balances at May 31, 2012. The accounts are listed in alphabetical order.

<b>Account</b>	<b>Balance</b>	<b>Account</b>	<b>Balance</b>
Accounts payable	\$22,500	Insurance expense	\$2,100
Accounts receivable	15,600	Office supplies	500
Cash	48,000	Retained earnings	25,800
Common stock	12,000	Salary expense	1,100
Dividends	1,000	Sales Revenue	8,000

REQUIRED:

Prepare the company's trial balance at May 31, 2012, listing accounts in proper sequence.

Answer:

Amy's Pencil Shop, Inc.  
Trial Balance  
May, 31, 2012

Account	Debit	Credit
Cash	48,000	
Accounts receivable	15,600	
Office supplies	500	
Equipment		
Accounts payable		22,500
Taxes Payable		
Common Stock		12,000
Dividends	1,000	
Retained earnings		25,800
Sales Revenue		8,000
Insurance Expense	2,100	
Salary Expense	1,100	
Totals	<u>68,300</u>	<u>68,300</u>

Diff: 2

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

44) Below is the trial balance for Puff Toys.

Puff Toys  
Trial Balance  
December, 31, 2012

Account	Debit	Credit
Cash	5,000	
Accounts Receivable	2,000	
Equipment		4,000
Accounts Payable		3,000
Taxes Payable	2,000	
Common Stock		3,000
Sales Revenue		7,000
Rent Expense	2,000	
Salary Expense	3,000	
Totals	14,000	17,000

When trying to determine why the trial balance does not balance, it was discovered that:

1. Several of the accounts listed in the trial balance are in the wrong column. All accounts have normal balances.
2. The accountant forgot to record a credit to sales revenue of \$1,000.
3. A transaction to record the payment of rent of \$1,000 for the month was not recorded at all.

Required:

Prepare a corrected trial balance in good form.



Answer:

Puff Toys  
Trial Balance  
December, 31, 2012

Account	Debit	Credit
Cash	4,000	
Accounts Receivable	2,000	
Equipment	4,000	
Accounts Payable		3,000
Taxes Payable		2,000
Common Stock		3,000
Sales Revenue		8,000
Rent Expense	3,000	
Salary Expense	3,000	
Totals	16,000	16,000

Calculations: Cash:  $5,000 - 1,000$  rent = 4,000 debit balance  
Equipment should be a listed in the debit column  
Taxes payable should be a listed in the credit column  
Sales Revenue:  $7,000 + 1,000 = 8,000$   
Rent expense:  $2,000 + 1,000 = 3,000$

Diff: 3

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement

45) Missy's Exotic Vacations, Inc., had the following transactions during its first month of operations:

- June 1 The company received cash of \$35,000 and a building valued at \$60,000. The corporation issued common stock to the shareholders.
- 2 Borrowed \$20,000 from the bank and signed a note payable.
- 8 Purchased equipment on account for \$6,000.
- 9 Received cash of \$2,000 for services.
- 10 Performed services for a client on account, \$8,500.
- 12 Paid office salaries of \$2,000.
- 15 Paid for the equipment purchased June 8 on account.
- 22 Purchased office supplies and paid cash of \$700.
- 30 Paid auto expense of \$400.
- 30 Paid the monthly rent of \$2,200.

**REQUIRED:**

1. Journalize the entries. Omit the explanations.
2. Post the entries to the T-accounts.
3. Prepare a trial balance at the end of the month.

Answer: Part 1.

June 1	Cash	35,000	
	Building	60,000	
	Common Stock		95,000
June 2	Cash	20,000	
	Note Payable		20,000
June 8	Equipment	6,000	
	Accounts Payable		6,000
June 9	Cash	2,000	
	Services		2,000
June 10	Accounts Receivable	8,500	
	Services		8,500
June 12	Salary Expense	2,000	
	Cash		2,000
June 15	Accounts Payable	6,000	
	Cash		6,000
June 22	Office Supplies	700	
	Cash		700
June 30	Auto Expense	400	
	Cash		400
June 30	Rent Expense	2,200	
	Cash		2,200

Part 2.

Cash			
(1)	35,000	(12)	2,000
(2)	20,000		
(9)	2,000		
		(15)	6,000
		(22)	700
		(30)	400
		(30)	2,200
Bal.	<u>45,700</u>		

Accounts Payable			
(15)	6,000	(8)	6,000
		Bal.	0
Common Stock			
		(1)	95,000

Accounts Receivable	
(10)	8,500

Service Revenue	
(9)	2,000
(10)	<u>8,500</u>
Bal.	10,500

Office Supplies	
(22)	700

Salary Expense	
(12)	2,000

Building	
(1)	60,000

Rent Expense	
(30)	2,200

Equipment	
(8)	6,000

Automobile Expense	
(o)	400

Note Payable	
	(2) 20,000

Part 3.

Missy's Exotic Vacations, Inc  
 Trial Balance  
 June 30, current year

Account	Debit	Credit
Cash	45,700	
Accounts Receivable	8,500	
Office Supplies	700	
Building	60,000	
Equipment	6,000	
Accounts Payable		0
Notes Payable		20,000
Common Stock		95,000
Service Revenue		<u>10,500</u>
Salary Expense	2,000	
Rent Expense	2,200	
Automobile Expense	400	
	<u>125,500</u>	<u>125,500</u>

Diff: 2

LO: 2-6

AASCB: Analytical Skills

AICPA Bus Persp: Strategic/Critical Thinking

AICPA Functional: Measurement