

## Chapter 02 Accounting for Transactions

### True / False Questions

[Question]

1. Accounting records are also referred to as the books.

Answer: TRUE

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Accounting Records*

[Question]

2. The first step in the analyzing and recording process is to analyze each transaction and event from source documents.

Answer: TRUE

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Source Documents*  
*Topic: Accounting Records*

[Question]

3. Preparation of a trial balance is the first step in the analyzing and recording process.

Answer: FALSE

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Accounting Records*

[Question]

4. Items such as sales slips, invoices, checks, and purchase orders are source documents.

Answer: TRUE

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C1*  
*Topic: Source Documents*

[Question]

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

Answer: TRUE

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Account*

[Question]

6. According to the seller, a customer's promise to pay is called an account payable.

Answer: FALSE

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C2*  
*Topic: Account Receivable*  
*Topic: Account Payable*  
*Topic: Account*

[Question]

7. Dividends are a type of business expense.

Answer: FALSE

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Dividends*  
*Topic: Account*

[Question]

8. As prepaid expenses are used up, the costs of these assets become expenses.

Answer: TRUE

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C2*  
*Topic: Prepaid Expenses*  
*Topic: Account*

[Question]

9. Land and buildings are generally recorded in the same ledger account.

Answer: FALSE

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C2*  
*Topic: Land*  
*Topic: Building*  
*Topic: Account*

[Question]

10. It is not necessary to keep separate accounts for all items of importance for business decisions.

Answer: FALSE

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C2*  
*Topic: Account*

[Question]

11. Unearned revenues are classified as liabilities.

Answer: TRUE

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Unearned Revenue*

[Question]

12. Cash dividends should be treated as an expense to the business.

Answer: FALSE

*Blooms Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-C2*

*Topic: Dividends*

[Question]

13. When a company provides services for which cash will not be received until some future date, the company should record unearned revenue for the amount charged to the customer.

Answer: FALSE

*Blooms Taxonomy: Apply*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 3 Hard*

*Learning Objective: 02-C2*

*Topic: Account*

*Topic: Unearned Revenue*

*Topic: Revenue Recognition*

[Question]

14. The chart of accounts is a list of all the accounts used by a company and a corresponding identification number.

Answer: TRUE

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C3*  
*Topic: Chart of Accounts*

[Question]

15. An account balance is the difference between the debits and credits for an account including any beginning balance.

Answer: TRUE

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Account Balance*

[Question]

16. Debit means the right-hand side of any account.

Answer: FALSE

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Debit*

[Question]

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

Answer: TRUE

*Blooms Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-C4*

*Topic: Double Entry Accounting System*

*Topic: Debit*

*Topic: Credit*

[Question]

18. Increases in liability accounts are recorded as debits.

Answer: FALSE

*Blooms Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-C4*

*Topic: Debit*

*Topic: Liabilities*

[Question]

19. Debits increase both asset and expense accounts.

Answer: TRUE

*Blooms Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-C4*

*Topic: Debit*

*Topic: Assets*

*Topic: Expenses*

[Question]

20. Double-entry accounting requires that the impact of each transaction be recorded in at least two accounts.

Answer: TRUE

*Blooms Taxonomy: Understand*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 2 Medium*

*Learning Objective: 02-C4*

*Topic: Double Entry Accounting System*



[Question]

21. A revenue account normally has a debit balance.

Answer: FALSE

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debit*  
*Topic: Revenue*

[Question]

22. Accounts are normally decreased by debits.

Answer: FALSE

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debit*

[Question]

23. The dividends account normally has a credit balance since it is an equity account.

Answer: FALSE

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Credit*  
*Topic: Dividends*

[Question]

24. Asset accounts normally have credit balances and expense accounts normally have debit balances.

Answer: FALSE

*Blooms Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-C4*

*Topic: Credit*

*Topic: Debit*

*Topic: Assets*

*Topic: Expenses*

[Question]

25. Common Stock normally has a debit balance.

Answer: FALSE

*Blooms Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-C4*

*Topic: Debit*

*Topic: Common Stock*

[Question]

26. A debit entry is always favorable.

Answer: FALSE

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debit*

[Question]

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

Answer: TRUE

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-C4*  
*Topic: Assets*  
*Topic: Liabilities*  
*Topic: Accounting Equation*

[Question]

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

Answer: TRUE

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-C4*  
*Topic: Assets*  
*Topic: Liabilities*  
*Topic: Accounting Equation*

[Question]

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

Answer: TRUE

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Assets*  
*Topic: Prepaid Expenses*  
*Topic: Transaction Analysis*

[Question]

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

Answer: TRUE

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Assets*  
*Topic: Liabilities*  
*Topic: Transaction Analysis*  
*Topic: Debit*  
*Topic: Credit*

[Question]

31. If a company pays cash to purchase land, the journal entry to record this transaction will include a debit to Cash.

Answer: FALSE

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Assets*

[Question]

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

Answer: FALSE

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Assets*

[Question]

33. When a company bills a customer for \$600 for services rendered, the journal entry to record this transaction will include a \$600 debit to Services Revenue.

Answer: FALSE

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*  
*Topic: Unearned Revenue*  
*Topic: Debit*  
*Topic: Credit*

[Question]

34. The debt ratio reflects the risk of a company to both its owners and creditors.

Answer: TRUE

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

[Question]

35. The higher the debt ratio, the higher risk of a company not being able to meet its obligations.

Answer: TRUE

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

[Question]

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

Answer: FALSE

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

[Question]

37. 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 Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*  
*Topic: Financial Leverage*

[Question]

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

Answer: FALSE

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*  
*Topic: Financial Leverage*



[Question]

39. Hamilton Industries has total liabilities of \$105 million and total assets of \$350 million. Its debt ratio is 333.3%.

Answer: FALSE

Feedback:  $\$105 \text{ million} / \$350 \text{ million} = 30\%$

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

[Question]

40. High financial leverage is always bad for a company's owners.

Answer: FALSE

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

[Question]

41. A compound journal entry affects no more than two accounts.

Answer: FALSE

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Compound Entry*

[Question]

42. Posting is the transfer of the information from each journal entry to the ledger.

Answer: TRUE

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Posting*

[Question]

43. Transactions are first recorded in the ledger.

Answer: FALSE

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Learning Objective: 02-P1*  
*Topic: Ledger*  
*Topic: Accounting Cycle*

[Question]

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

Answer: TRUE

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Journal*

[Question]

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

Answer: TRUE

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Journal*

[Question]

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

Answer: FALSE

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Journal*

[Question]

47. A trial balance that balances is not proof of complete accuracy in recording transactions.

Answer: TRUE

*Blooms Taxonomy: Understand*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 2 Medium*

*Learning Objective: 02-P2*

*Topic: Trial Balance*

[Question]

48. IFRS requires that companies report four financial statements with explanatory notes: balance sheet; income statement; statement of changes in equity, and statement of cash flows.

Answer: TRUE

*Blooms Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Global*

*AICPA BB: Industry*

*AICPA BB: Legal*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-P3*

*Topic: International Financial Reporting Standards*

*Topic: Financial Statements*

[Question]

49. Generally, the ordering of accounts in a trial balance typically follows their identification number from the chart of accounts: assets, liabilities, equity, revenues, and expenses.

Answer: TRUE

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P2*  
*Topic: Chart of Accounts*

[Question]

50. The trial balance can serve as a replacement for the balance sheet, since debits must balance with credits.

Answer: FALSE

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P2*  
*Learning Objective: 02-P3*  
*Topic: Trial Balance*  
*Topic: Financial Statements*  
*Topic: Debit*  
*Topic: Credit*

[Question]

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

Answer: FALSE

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*  
*Topic: Errors*

[Question]

52. If cash was incorrectly debited for \$100 instead of correctly credited for \$100, the cash account is out of balance by \$100.

Answer: FALSE

Feedback: Cash is increased with the debit. It takes \$100 credit to reverse the debit and another \$100 credit to reduce the account as should have been done in the first place.

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P2*  
*Topic: Errors*  
*Topic: Trial Balance*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Cash*

[Question]

53. The balance sheet provides a link between beginning and ending income statements.

Answer: FALSE

*Blooms Taxonomy: Understand*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 2 Medium*

*Learning Objective: 02-P3*

*Topic: Balance Sheet*

*Topic: Income Statements*

[Question]

54. The heading on each financial statement lists the three W's - Who (the name of the organization), What (the name of the statement), and Where (the organization's address)

Answer: FALSE

*Blooms Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-P3*

*Topic: Heading*

*Topic: Financial Statements*

[Question]

55. Other names for the income statement are earnings statement, statement of operations, or profit and loss statement.

Answer: TRUE

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Income Statement*

[Question]

56. Another name for the balance sheet is the statement of financial position.

Answer: TRUE

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Balance Sheet*



## Multiple Choice Questions

[Question]

57. The accounting process begins with:

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

Answer: A

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Accounting Cycle*

[Question]

58. Which of the following list of events properly reflects the early steps taken in the accounting process?

- A. Record relevant transactions, post journal information to ledger accounts, analyze each transaction, and prepare and analyze the trial balance.
- B. Post journal information to ledger accounts, analyze each transaction, post journal information to ledger accounts, and prepare and analyze the trial balance.
- C. Prepare and analyze the trial balance, analyze each transaction, post journal information to ledger accounts, record relevant transactions.
- D. Analyze each transaction, post journal information to ledger accounts, record relevant transactions, and prepare and analyze the trial balance.
- E. Analyze each transaction, record relevant transactions, post journal information to ledger accounts, and prepare and analyze the trial balance.

Answer: E

## Chapter 02 – Accounting for Transactions

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Accounting Cycle*

### [Question]

59. A sales invoice:

- A. Is a type of use document.
- B. Is a source document.
- C. Is not needed by buyers.
- D. Gives rise to an entry in the accounting process.
- E. Is not necessary in accounting.

Answer: B

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C1*  
*Topic: Source Documents*

[Question]

60. Source documents include all of the following *except*:

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

Answer: B

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C1*  
*Topic: Source Documents*

[Question]

61. Source documents:

- A. Include the ledger.
- B. Are the origins of accounting information.
- C. Must be in electronic form.
- D. Are based on accounting entries.
- E. Include the chart of accounts.

Answer: B

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Source Documents*

[Question]

62. For what reason do most sellers require customers to have their receipts in order to exchange or return purchased items?

- A. The receipt contains coded information that the seller needs to prepare and analyze the trial balance.
- B. Sellers wish to ensure that the sale in question was rung up on the register in the first place.
- C. This is a legal requirement mandated by a federal law.
- D. The receipt is serving as a promissory note.
- E. To create an environment in which customers do not want to return items.

Answer: B

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-C1*  
*Topic: Source Documents*

[Question]

63. A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense is a(n):

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

Answer: D

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Account*

[Question]

64. An account used to record the owners' investments in the business is called:

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

Answer: B

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Common Stock*  
*Topic: Account*

[Question]

65. The account used to record the transfers of assets from a business to its stockholders is:

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

Answer: B

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Dividends*  
*Topic: Account*

[Question]

66. Which of the following statements 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 are called accounts payable.
- C. Increases and decreases in cash are always recorded in the retained earnings 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. Liabilities include accounts receivable.

Answer: B

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-C2*  
*Topic: Prepaid Expenses*  
*Topic: Accounts Payable*  
*Topic: Retained Earnings*  
*Topic: Cash*  
*Topic: Land*  
*Topic: Buildings*  
*Topic: Accounts Receivable*  
*Topic: Liabilities*  
*Topic: Account*

[Question]

67. Unearned revenues are:

- 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 retained earnings.

Answer: C

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Unearned Revenue*  
*Topic: Account*

[Question]

68. Prepaid expenses are:

- A. Payments made for products and services that do not ever expire.
- B. Classified as liabilities on the balance sheet.
- C. Decreases in retained earnings.
- D. Assets that represent prepayments of future expenses.
- E. Promises of payments by customers.

Answer: D

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Prepaid Expenses*  
*Topic: Account*

[Question]

69. A written promise to pay a definite sum of money on a specific future date is a(n):

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

Answer: D

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Note Payable*  
*Topic: Account*

[Question]

70. A collection of all accounts (with account balances) used by a business is called a:

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

Answer: E

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Ledger*



[Question]

71. A ledger is:

- A. A record containing all accounts (with amounts) for a business.
- B. A journal in which transactions are first recorded.
- C. A collection of documents that describe transactions and events during the accounting process.
- D. A list of all accounts with their debit balances at a point in time.
- E. A list of all accounts a company uses and includes an identification number assigned to each account.

Answer: A

*Blooms Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-C2*

*Topic: Ledger*

[Question]

72. Which of the following statements about the Cash account are true?

- A. Because most companies earn their fees in cash, the Cash account is categorized as revenue.
- B. For any given transaction, Accounts Receivable and Cash can be used interchangeably because both accounts are measured in terms of cash.
- C. The Cash account includes the value of any medium of exchange that a bank accepts for deposit.
- D. Cash is the same thing as Retained Earnings.
- E. Cash is a liability account.

Answer: C

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-C2*  
*Topic: Cash*  
*Topic: Revenue*  
*Topic: Accounts Receivable*  
*Topic: Retained Earnings*  
*Topic: Liabilities*  
*Topic: Account*

[Question]

73. A list of all accounts used by a company and the identification number assigned to each account is called a:

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

Answer: D

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C3*  
*Topic: Chart of Accounts*

[Question]

74. The general ledger of a business

- A. Is a collection of all accounts used in a company's information system.
- B. Must be kept in a computer file.
- C. Is also called the book of original entry.
- D. Is not affected by a company's size and diversity.
- E. Is one of the four financial statements.

Answer: A

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-C3*  
*Topic: Ledger*  
*Topic: Financial Statements*

[Question]

75. A debit is:

- A. An increase in an account.
- B. The right-hand side of a T-account.
- C. A decrease in an account.
- D. The left-hand side of a T-account.
- E. An increase to a liability account.

Answer: D

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Debit*

[Question]

76. The right side of a T-account is a(n):

- A. Debit
- B. Increase
- C. Credit
- D. Decrease
- E. Account balance

Answer: C

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Debit*  
*Topic: Credit*

[Question]

77. Which of the following statements 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 common stock is a credit.

Answer: D

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-C4*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Accounts Receivable*  
*Topic: Dividends*  
*Topic: Unearned Revenue*  
*Topic: Expenses*  
*Topic: Common Stock*

[Question]

78. A credit is used to record:

- A. An increase in an expense account.
- B. An increase in an asset account.
- C. An increase in an unearned revenue account.
- D. A decrease in a revenue account.
- E. A decrease to retained earnings.

Answer: C

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-C4*  
*Topic: Credit*  
*Topic: Expenses*  
*Topic: Unearned Revenue*  
*Topic: Revenue*  
*Topic: Retained Earnings*

[Question]

79. A simple account form widely used in accounting to illustrate how debits and credits work is called a:

- A. Dividend account
- B. Common stock account
- C. Drawing account
- D. T-account
- E. Balance column sheet

Answer: D

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: T Account*

[Question]

80. Which of the following statements 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 Taxonomy: Apply*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 3 Hard*

*Learning Objective: 02-C4*

*Topic: T Account*

*Topic: Credit*

*Topic: Debit*

*Topic: Assets*

*Topic: Expenses*

*Topic: Liabilities*

*Topic: Equity*

*Topic: Double Entry Accounting System*

[Question]

81. 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.  $\text{Assets} = \text{Liabilities} + \text{Equity}$
- E. Always a credit.

Answer: C

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Account Balance*  
*Topic: Debit*  
*Topic: Credit*

[Question]

82. Of the following accounts, the one that normally has a credit balance is:

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

Answer: C

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-C4*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Cash*  
*Topic: Office Equipment*  
*Topic: Payables*  
*Topic: Dividends*  
*Topic: Expenses*



[Question]

83. A debit is used to record:

- 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 balance of common stock.
- E. A decrease in the balance of retained earnings.

Answer: E

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-C4*  
*Topic: Debit*  
*Topic: Assets*  
*Topic: Expenses*  
*Topic: Revenue*  
*Topic: Common Stock*  
*Topic: Retained Earnings*

[Question]

84. 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 Taxonomy: Understand*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 3 Hard*

*Learning Objective: 02-C4*

*Topic: Assets*

*Topic: Expenses*

*Topic: Liabilities*

*Topic: Common Stock*

*Topic: Revenue*

*Topic: T Account*

*Topic: Credit*

[Question]

85. Double-entry accounting 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 the impact of each transaction is checked twice to ensure there are no errors.
- D. That may only be used if T-accounts are used.
- E. That records the effects of transactions on at least two financial statements.

Answer: B

*Blooms Taxonomy: Apply*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 3 Hard*

*Learning Objective: 02-C4*

*Topic: Double Entry Accounting System*

*Topic: Debit*

*Topic: Credit*

*Topic: Common Stock*

*Topic: Retained Earnings*

*Topic: T Account*

*Topic: Financial Statements*

*Topic: Transaction Analysis*

[Question]

86. Which of the following is a true statement regarding debits and credits?

- A. If a company earned a profit, debits will not equal credits.
- B. For a business, debits are better than credits.
- C. A company's books are not in balance if they have a current period loss.
- D. Assets and expenses are both increased with a debit.
- E. Liabilities and equity are both increased with a debit.

Answer: D

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-C4*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Net Income*  
*Topic: Net Loss*

[Question]

87. During the month of February, Hoffer Company had cash receipts of \$7,500 and cash disbursements of \$8,600. The February 28 cash balance was \$1,800. What was the January 31 beginning cash balance?

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

Answer: C

Feedback:

Beginning balance + \$7,500 - \$8,600 = \$1,800

Beginning balance = \$2,900

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic Transaction Analysis*  
*Topic: Cash*

[Question]

88. The following transactions occurred during July:

- a. Received \$900 cash for services provided to a customer during July.
- b. Received \$2,200 cash investment from Barbara Hanson, the owner of the business.
- c. Received \$750 from a customer in partial payment of his account receivable, which arose from sales in June.
- d. Provided services to a customer on credit, \$375.
- e. Signed a promissory note for a \$6,000 bank loan.
- f. 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

Feedback:  $900 + 375 = 1,275$

## Chapter 02 – Accounting for Transactions

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Revenue Recognition*  
*Topic Transaction Analysis*

### [Question]

89. These transactions were completed by the art gallery opened by Zed Bennett.
- Bennett started the gallery, Artery, by investing \$40,000 cash and equipment valued at \$18,000 in exchange for common stock.
  - Purchased \$70 of office supplies on credit.
  - Paid \$1,200 cash for the receptionist's salary.
  - Sold a painting for an artist and collected a \$4,500 cash commission on the sale.
  - Completed an art appraisal and billed the client \$200.

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

- \$12,230
- \$12,430
- \$43,300
- \$43,430
- \$61,430

**Answer: C**

**Feedback:**  $\$40,000 - \$1,200 + \$4,500 = \$43,300$

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Transaction Analysis*  
*Topic: Cash*

[Question]

90. The debt ratio is used:

- A. To measure the amount of equity relative to the expenses.
- B. To reflect the risk associated with a company's debts.
- 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 who a company owes.

Answer: B

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

[Question]

91. Which of the following formulas can be 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 Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

[Question]

92. Which of the following statements 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 Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A2*  
*Topic: Financial Leverage*  
*Topic: Risk*

[Question]

93. Stride Rite 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

Feedback:  $\$110/\$425 = \underline{25.9\%}$

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Financial Leverage*



[Question]

94. A company has total liabilities of \$550 million and total equity of \$300 million. Calculate this company's debt ratio.

- A. 64.7%
- B. 100%
- C. 54.5%
- D. 1.83 to 1
- E. The debt ratio cannot be determined without additional information.

Answer: A

Feedback:  $\$550/(\$550 + \$300) = \underline{64.7\%}$

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A2*  
*Topic: Financial Leverage*

[Question]

95. Which of the following statements is *false* with regard to the debt ratio?

- 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 the 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 Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

[Question]

96. Rocky Industries received its telephone bill in the amount of \$300 and immediately paid it. Rocky's 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

## Chapter 02 – Accounting for Transactions

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic Transaction Analysis*  
*Topic: Cash*  
*Topic: Expenses*

### [Question]

97. Management Services, Inc. provides services to clients. On May 1, a client prepaid Management Services \$60,000 for a six-month contract in advance. Management Services' 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 Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic Transaction Analysis*  
*Topic: Cash*  
*Topic: Unearned Revenue*

[Question]

98. Wisconsin Rentals purchased office supplies on credit. The journal entry made by Wisconsin Rentals to record this transaction 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 Retained Earnings.

Answer: D

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic Transaction Analysis*  
*Topic: Accounts Payable*  
*Topic: Accounts Receivable*  
*Topic: Cash*  
*Topic: Retained Earnings*

[Question]

99. An asset created by prepayment of an expense is:

- A. Recorded as a debit to an unearned revenue account.
- B. Recorded as a debit to a prepaid expense account.
- C. Recorded as a credit to an unearned revenue account.
- D. Recorded as a credit to a prepaid expense account.
- E. Not recorded in the accounting records until the earnings process is complete.

Answer: B

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic Transaction Analysis*  
*Topic: Unearned Revenue*  
*Topic: Prepaid Expenses*

[Question]

100. Robert Haddon contributed \$70,000 in cash and some land worth \$130,000 to open a new business, RH Consulting. Which of the following general journal entries will RH Consulting make to record this transaction?

A.

Assets	200,000	
Common Stock		200,000

B.

Cash and Land	200,000	
Common Stock		200,000

C.

Cash	70,000	
Land	130,000	
Common Stock		200,000

D.

Common Stock	200,000	
Cash		70,000
Land		130,000

E.

Common Stock	200,000	
Assets		200,000

Answer: C

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic Transaction Analysis*  
*Topic: Cash*  
*Topic: Land*  
*Topic: Stock*

[Question]

101. A liability created by the receipt of cash from customers in payment for products or services that have not yet been delivered to the customers is:

- A. Recorded as a debit to an unearned revenue account.
- B. Recorded as a debit to a prepaid expense account.
- C. Recorded as a credit to an unearned revenue account.
- D. Recorded as a credit to a prepaid expense account.
- E. Not recorded in the accounting records until the earnings process is complete.

Answer: C

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic Transaction Analysis*  
*Topic: Unearned Revenue*  
*Topic: Prepaid Expenses*

[Question]

102. On September 30, the Cash account of Value Company had a normal balance of \$5,000. During September, 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 September?

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

Answer: B

Feedback: Normal balance = debit

Beginning balance + \$12,200 - \$11,500 = \$5,000

Beginning balance = \$4,300 debit

*Blooms Taxonomy: Analyze*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 3 Hard*

*Learning Objective: 02-P1*

*Topic: Debit*

*Topic: Credit*

*Topic Transaction Analysis*

*Topic: Cash*



[Question]

103. On October 31, a company's Cash account had a normal balance of \$7,000. During October, the account was debited for a total of \$4,250 and credited for a total of \$5,340. What was the balance in the Cash account at the beginning of October?

- A. \$0 balance
- B. \$1,090 debit balance
- C. \$2,590 credit balance
- D. \$8,090 debit balance
- E. \$9,590 credit balance

Answer: D

Feedback: Normal balance = debit

Beginning Balance + \$4,250 - \$5,340 = \$7,000

Beginning Balance = \$8,090 debit

*Blooms Taxonomy: Analyze*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 3 Hard*

*Learning Objective: 02-P1*

*Topic: Debit*

*Topic: Credit*

*Topic Transaction Analysis*

*Topic: Cash*

[Question]

104. On April 30, Holden Company 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

Feedback: Normal balance = debit

$\$18,000 - \$52,000 + \text{credit sales} = \$13,000$

Credit sales = \$47,000

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic Transaction Analysis*  
*Topic: Accounts Receivable*

[Question]

105. On November 30, a company had an Accounts Receivable balance of \$5,100. During the month of December, total credits to Accounts Receivable were \$76,000 from customer payments. The December 31 Accounts Receivable balance was \$43,000. What was the amount of credit sales during December?

- A. \$8,100
- B. \$27,900
- C. \$70,900
- D. \$76,000
- E. \$113,900

Answer: E

Feedback: Normal balance = debit

$\$5,100 - \$76,000 + \text{credit sales} = \$43,000$

Credit sales =  $\$113,900$

*Blooms Taxonomy: Analyze*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 3 Hard*

*Learning Objective: 02-P1*

*Topic: Debit*

*Topic: Credit*

*Topic Transaction Analysis*

*Topic: Accounts Receivable*

[Question]

106. The Fireside Country Inn is a very popular destination for tourists. The Inn requires guests to make reservations at least two months in advance of their stay. A 20 percent down payment is required at the time the reservation is made. When should this inn recognize room rental revenue?

- A. On the date the reservation is received.
- B. On the date the money for the reservation is received.
- C. On the date the guests stay in the inn.
- D. On the date the guests pay the remaining 80 percent due.
- E. Once all cash has been received.

Answer: C

*Blooms Taxonomy: Apply*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 3 Hard*

*Learning Objective: 02-P1*

*Topic Transaction Analysis*

*Topic: Revenue Recognition Principle*

[Question]

107. Jones Hardware, Inc. paid a cash dividend of \$6,000. What is the necessary entry to record this transaction?

- A. Debit Cash, credit Retained Earnings.
- B. Debit Dividends, credit Cash.
- C. Debit Common Stock, credit Cash.
- D. Debit Cash, credit Common Stock.
- E. Debit Cash, credit Dividend Income.

Answer: B

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Transaction Analysis*  
*Topic: Dividends*

[Question]

108. The process of transferring general journal information to the ledger is:

- A. Double-entry accounting.
- B. Posting.
- C. Balancing an account.
- D. Journalizing.
- E. Not required unless debits do not equal credits.

Answer: B

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Posting*  
*Topic: Debit*  
*Topic: Credit*

[Question]

109. A column in journal and ledger accounts 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 Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Posting*

[Question]

110. The record in which business transactions are first recorded is the:

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

Answer: C

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Journal*

[Question]

111. What is another name for the general journal?

- A. The book.
- B. The ledger.
- C. The book of original entry.
- D. The record.
- E. The account book.

Answer: C

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Journal*

[Question]

112. A balance column account is:

- A. An account entered on the balance sheet.
- B. An account with debit and credit columns for posting entries and another column for showing the balance of the account after each entry is posted.
- C. An alternate name for the retained earnings account.
- D. An account used to record the transfers of assets from a business to its stockholders.
- E. A simple form of account that is widely used in accounting to illustrate the debits and credits required in recording a transaction.

Answer: B

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Balance Column Account*  
*Topic: Debit*  
*Topic: Credit*

[Question]

113. 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 each transaction in the place 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 Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Ledger*

[Question]

114. Listed below are two pieces of information. Where is the best place to locate this information, in the journal or the ledger?

1. Details of a transaction that took place on October 3.
  2. All of the sales activity that took place during the current month.
- A. 1. Journal 2. Journal  
B. 1. Journal 2. Ledger  
C. 1. Ledger 2. Ledger  
D. 1. Ledger 2. Journal  
E. This information is only available on the financial statements.

Answer: B

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Journal*  
*Topic: Ledger*

[Question]

115. Which of the following is the appropriate journal entry if a company performs a service and then bills the customer?

- A. Debit to Cash, debit to Service Revenue.  
B. Debit to Cash, credit to Service Revenue.  
C. Debit to Accounts Receivable, credit to Cash.  
D. Debit to Service Revenue, credit to Accounts Receivable.  
E. Debit to Accounts Receivable, credit to Service Revenue.

Answer: E



## Chapter 02 – Accounting for Transactions

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Transaction Analysis*

### [Question]

116. Which of the following is the appropriate journal entry if a company performs a service and is paid immediately?

- A. Debit to Cash, debit to Service Revenue.
- B. Debit to Cash, credit to Service Revenue.
- C. Debit to Accounts Receivable, credit to Cash.
- D. Debit to Service Revenue, credit to Accounts Receivable.
- E. Debit to Accounts Receivable, credit to Service Revenue.

Answer: B

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Transaction Analysis*

[Question]

117. Which of the following is the appropriate journal entry if a company hires a new employee?

- A. Debit to Cash, credit to Wages Revenue.
- B. No entry should be made.
- C. Debit to Wages Expense, credit to Cash.
- D. Debit to Cash, credit to Wages Expense.
- E. Debit to Wages Payable, credit to Wages Expense.

Answer: B

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Transaction Analysis*

[Question]

118. Which of the following is the appropriate journal entry if a company purchases equipment costing \$100,000 by paying cash of \$10,000?

- A. Debit to Cash, debit to Equipment, credit to Notes Payable.
- B. No entry should be made.
- C. Debit to Equipment, credit to Notes Payable, credit to Cash.
- D. Debit to Cash, debit to Notes Payable, credit to Equipment.
- E. Debit to Equipment, debit to Notes Payable, credit to Cash.

Answer: C

Chapter 02 – Accounting for Transactions

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Transaction Analysis*  
*Topic: Compound Entry*

[Question]

119. What would be the account balance in the Cash account after the following transactions, assuming a zero beginning balance?

Owner invested cash.	\$100,000
Purchased supplies with cash.	\$20,000
Received bill for one month of rent.	\$2,200
Paid wages.	\$800
Billed customer for services performed services	\$1,250

- A. \$124,250
- B. \$80,150
- C. \$78,250
- D. \$79,200
- E. \$80,450

Answer: D

Feedback:  $\$100,000 - \$20,000 - \$800 = \$79,200$

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Transaction Analysis*

[Question]

120. What would be the account balance in Accounts Receivable after the following transactions, assuming a zero beginning balance?

Performed services and left a bill.	\$4,200
Performed services and collected immediately.	\$3,500
Performed services and billed customer.	\$2,200
Performed services on account.	\$6,000
Received partial payment on account.	\$1,500

- A. \$17,400
- B. \$10,900
- C. \$14,400
- D. \$ 4,500
- E. \$ 2,000

Answer: B

Feedback:  $\$4,200 + \$2,200 + \$6,000 - \$1,500 = \$10,900$

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Transaction Analysis*

[Question]

121. What would be the account balance in the Service Revenue account after the following transactions, assuming a zero beginning balance?

Performed services and left a bill.	\$4,200
Performed services and collected immediately.	\$3,500
Performed services and billed customer.	\$2,200
Performed services on account.	\$6,000
Received partial payment on account.	\$1,500

- A. \$17,400
- B. \$10,900
- C. \$14,400
- D. \$ 9,000
- E. \$15,900

Answer: E

Feedback:  $\$4,200 + \$3,500 + \$2,200 + \$6,000 = \$15,900$

*Blooms Taxonomy: Apply*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 3 Hard*

*Learning Objective: 02-P1*

*Topic: Transaction Analysis*

*Topic: Revenue Recognition Principle*

[Question]

122. What would be the account balance in the Service Revenue account after the following transactions, assuming a zero beginning balance??

Performed services and left a bill.	\$4,200
Performed services and collected immediately.	\$3,500
Performed services and billed customer.	\$2,200
Performed services on account.	\$6,000
Received partial payment on account.	\$1,500

- A. \$17,400 credit
- B. \$14,400 credit
- C. \$14,400 debit
- D. \$15,900 credit
- E. \$15,900 debit

Answer: D

Feedback:  $\$4,200 + \$3,500 + \$2,200 + \$6,000 = \$15,900$  credit normal balance

*Blooms Taxonomy: Apply*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 3 Hard*

*Learning Objective: 02-P1*

*Topic: Transaction Analysis*

*Topic: Revenue Recognition Principle*

*Topic: Debit*

*Topic: Credit*

[Question]

123. A company had the following account balances at year-end:

Cash.....	\$30,000
Accounts receivable.....	32,000
Accounts payable.....	20,000
Fees earned.....	65,000
Rent expense.....	15,000
Insurance expense.....	4,800
Supplies.....	5,000
Common stock.....	5,000
Retained earnings.....	14,800
Dividends.....	18,000

If all of the accounts have normal balances, what are the total debits on the trial balance?

- A. \$45,200
- B. \$67,000
- C. \$104,800
- D. \$209,600
- E. \$186,600

Answer: C

Feedback:

Debits		Credits	
Cash	\$ 30,000	Accounts payable	\$ 20,000
Accounts receivable	32,000	Fees earned	65,000
Rent expense	15,000	Common stock	5,000
Insurance expense	4,800	Retained earnings	14,800
Supplies	5,000		\$104,800
Dividends	18,000		
	<u>\$104,800</u>		

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Trial Balance*

[Question]

124. A report that lists 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 Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*

[Question]

125. Which of the following statements are *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 trial balance is 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 Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*



[Question]

126. A company failed to post a \$50 debit to the Office Supplies account. The effect of this error will be that:

- A. The Office Supplies 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 trial balance will be in balance.

Answer: B

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*  
*Topic: Errors*

[Question]

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

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

Answer: B

Feedback: What should have been posted [\$15] - Amount posted [\$150] = \$135 too much

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P2*  
*Topic: Errors*

[Question]

128. A trial balance taken at year-end showed total credits exceeding total debits by \$4,950.

This discrepancy 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

Feedback:

- A. Total debits and credits are still in balance.
- B. Net income or net loss will not cause an error in the trial balance.
- C. Correct amount [\$49,500] – Amount entered [\$4,950] = \$44,550 error.
- D. Correct amount [\$5,500] – Amount entered [\$550] = \$4,950 error.
- E. Correct amount [\$4,950 credit] – Amount entered [\$4,950 debit] = \$9,900 error.

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Errors*  
*Topic: Trial Balance*  
*Topic: Debit*  
*Topic: Credit*

[Question]

129. In which of the following situations would the trial balance 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 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 Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Errors*  
*Topic: Trial Balance*  
*Topic: Debit*  
*Topic: Credit*

[Question]

130. The credit purchase of a delivery truck for \$4,700 was posted to Delivery Trucks 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

Feedback:

Accounts Payable correct post [\$4,700 credit] – actual post [\$4,700 debit] = \$9,400 too few credits

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Errors*  
*Topic: Trial Balance*  
*Topic: Debit*  
*Topic: Credit*

[Question]

131. If the Debit and Credit column totals of a trial balance 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. The total debit entries and total credit entries are equal.
- E. The balance sheet would be correct.

Answer: D

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*  
*Topic: Debit*  
*Topic: Credit*

[Question]

132. Accountants at Amalgamated Corporation incorrectly journalized a \$50,000 equipment purchase as a debit to Buildings. This error was not discovered before the journal entry was posted. What is the correcting entry?

- A. Debit Buildings and credit Equipment for \$50,000 each.
- B. Debit Equipment and credit Buildings for \$50,000 each.
- C. Debit Buildings and credit Equipment for \$100,000 each.
- D. Debit Equipment and credit Buildings for \$100,000 each.
- E. Debit Equipment for \$100,000 and credit Buildings for \$50,000.

Answer: B

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Errors*  
*Topic: Trial Balance*  
*Topic: Debit*  
*Topic: Credit*

[Question]

133. A \$72,000 receipt of cash from a customer paying on their account was recorded as a \$72,000 debit to Accounts Receivable. Assuming this journal entry was posted, what correcting entry (if any) is needed?

- A. Debit Cash and credit Accounts Receivable for \$72,000 each.
- B. Debit Cash and credit Accounts Receivable for \$144,000 each.
- C. Credit Cash and debit Accounts Receivable for \$72,000 each.
- D. Credit Cash and debit Accounts Receivable for \$144,000 each.
- E. No correcting entry is needed for this transaction.

Answer: B

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Errors*  
*Topic: Trial Balance*  
*Topic: Debit*  
*Topic: Credit*

[Question]

134. Of the following errors, which one 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 his 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 his 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 Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Errors*  
*Topic: Trial Balance*  
*Topic: Debit*  
*Topic: Credit*

[Question]

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

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

Answer: C

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Errors*  
*Topic: Trial Balance*  
*Topic: Debit*  
*Topic: Credit*

[Question]

136. Which of the following accounts is a balance sheet account?

- A. Wages Payable
- B. Operating Activities
- C. Revenues
- D. Dividends
- E. Expenses

Answer: A

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P3*  
*Topic: Balance Sheet*



[Question]

137. Which of the following is a TRUE statement concerning a company's financial statements?

- A. Balance sheet and income statement data combined contain the complete financial picture of a given company.
- B. A trial balance is another name for a balance sheet.
- C. Another name for the income statement is the earnings statement.
- D. Dividends paid to a company's shareholders are shown on the income statement.
- E. The balance sheet shows the financial position of a company for a period of time.

Answer: C

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Financial Statements*  
*Topic: Income Statement*  
*Topic: Balance Sheet*  
*Topic: Trial Balance*  
*Topic: Dividends*

[Question]

138. According to IFRS, comparative information on financial statements is:

- A. Not required.
- B. Required for publicly traded companies only.
- C. Required for the preceding period only.
- D. Required for the last five years.
- E. Not required, but considered a hallmark for companies of excellence.

Answer: C

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Global*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: International Financial Reporting Standards*  
*Topic: Comparative Information*

[Question]

139. What are the total assets shown on the trial balance below?

Common stock.....	\$120,000	Accounts payable.....	\$25,000
Cash.....	\$116,640	Accounts receivable..	\$22,450
Supplies.....	\$ 1,500	Office equipment.....	\$23,300
Prepaid rent.....	\$ 3,200	Unearned revenue....	\$ 4,152
Service revenue.....	\$ 20,000	Utilities expense.....	\$ 422
Retained earnings...	\$ 30,000	Shaving equipment...	\$31,640

- A. \$291,340
- B. \$106,962
- C. \$198,730
- D. \$218,730
- E. \$221,580

Answer: C

Feedback:  $\$116,640 + \$1,500 + \$3,200 + \$22,450 + \$23,300 + \$31,640 = \$198,730$

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Assets*

[Question]

140. Given the trial balance amounts below, compute ending retained earnings.

Common stock.....	\$120,000	Accounts payable.....	\$25,000
Cash.....	\$116,640	Accounts receivable.....	\$22,450
Supplies.....	\$ 1,500	Office equipment.....	\$23,300
Prepaid rent.....	\$ 3,200	Unearned revenue.....	\$ 4,152
Service revenue.....	\$ 20,000	Utilities expense.....	\$ 422
Beginning retained earnings..	\$ 30,000	Shaving equipment...	\$31,640

- A. \$19,578
- B. \$29,578
- C. \$23,728
- D. \$49,578
- E. \$45,000

Answer: D

Feedback:  $\$30,000 + \$20,000 - \$422 = \$49,578$

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Accounting Equation*  
*Topic: Retained Earnings*

[Question]

141. Given the trial balance amounts below, compute net income.

Common stock.....	\$120,000	Accounts payable.....	\$25,000
Cash.....	\$116,640	Accounts receivable..	\$22,450
Supplies.....	\$ 1,500	Office equipment.....	\$23,300
Prepaid rent.....	\$ 3,200	Unearned revenue....	\$ 4,152
Service revenue.....	\$ 20,000	Utilities expense.....	\$ 422
Beginning retained earnings.	\$ 30,000	Shaving equipment...	\$31,640

- A. \$19,578
- B. \$20,528
- C. \$23,728
- D. \$49,578
- E. \$24,578

Answer: A

Feedback:  $\$20,000 - \$422 = \$19,578$

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Net Income*

[Question]

142. What is total debits on this trial balance?

Common stock.....	\$120,000	Accounts payable.....	\$25,000
Cash.....	\$116,640	Accounts receivable..	\$22,450
Supplies.....	\$ 1,500	Office equipment.....	\$23,300
Prepaid rent.....	\$ 3,200	Unearned revenue....	\$ 4,152
Service revenue.....	\$ 20,000	Utilities expense.....	\$ 422
Beginning retained earnings.	\$ 30,000	Shaving equipment...	\$31,640

- A. \$291,340
- B. \$106,964
- C. \$199,152
- D. \$193,390
- E. \$203.152

Answer: C

Feedback:  $\$116,640 + \$1,500 + \$3,200 + \$22,450 + \$23,300 + \$422 + \$31,640 = \$199,152$

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Debit*

[Question]

143. Compute net income for May based on the following transactions:

- May 1 paid \$2,200 for May's rent.
- May 14 paid \$1,200 for two weeks wages.
- May 15 performed \$5,200 in consulting services on account.
- May 17 billed a customer \$1,500 for services performed May 16.
- May 20 received \$5,200 in payment for May 15 transaction.
- May 22 performed services and immediately collected \$2,000.
- May 31 paid \$500 for advertising in the local paper to take place in June.

- A. \$10,200
- B. \$ 5,300
- C. \$ 8,700
- D. \$13,900
- E. \$ 7,000

Answer: B

Feedback:  $\$5,200 + \$1,500 + \$2,000 - \$2,200 - \$1,200 = \$5,300$

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Net Income*  
*Topic: Revenue Recognition*  
*Topic: Prepaid Expenses*

[Question]

144. What would be the appropriate entry for the following transaction?

Bill Co. performed \$5,200 in consulting services on account.

- A. Credit to Cash, debit to Accounts Receivable.
- B. Debit to Service Revenue, debit to Cash.
- C. Debit to Accounts Receivable, credit to Cash.
- D. Debit to Service Revenue, credit to Cash.
- E. Debit to Accounts Receivable, credit to Service Revenue.

Answer: E

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Revenue Recognition*

[Question]

145. Which of the following items would appear on the income statement?

Common stock.....	\$120,000	Accounts payable.....	\$25,000
Cash.....	\$116,640	Accounts receivable..	\$22,450
Supplies.....	\$ 1,500	Office equipment.....	\$23,300
Prepaid rent.....	\$ 3,200	Unearned revenue....	\$ 4,152
Service revenue.....	\$ 20,000	Utilities expense.....	\$ 422
Retained earnings...	\$ 30,000	Shaving equipment...	\$31,640

- A. Common stock, service revenue, retained earnings, accounts payable, and unearned revenue.
- B. Cash, supplies, prepaid rent, accounts receivable, office equipment, utilities expense, and shaving equipment.
- C. Common stock, cash, supplies, prepaid rent, retained earnings, accounts payable, accounts receivable, office equipment, unearned revenue, and shaving equipment.
- D. Service revenue and utilities expense.
- E. Service revenue, unearned revenue, and utilities expense.

Answer: D

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P3*  
*Topic: Income Statement*

[Question]

146. Which of the following items would appear on the balance sheet?

Common stock.....	\$120,000	Accounts payable.....	\$25,000
Cash.....	\$116,640	Accounts receivable..	\$22,450
Supplies.....	\$ 1,500	Office equipment.....	\$23,300
Prepaid rent.....	\$ 3,200	Unearned revenue....	\$ 4,152
Service revenue....	\$ 20,000	Utilities expense.....	\$ 422
Retained earnings...	\$ 30,000	Shaving equipment...	\$31,640

- A. Common stock, service revenue, retained earnings, accounts payable, and unearned revenue.
- B. Cash, supplies, prepaid rent, accounts receivable, office equipment, utilities expense, and shaving equipment.
- C. Common stock, cash, supplies, prepaid rent, retained earnings, accounts payable, accounts receivable, office equipment, unearned revenue, and shaving equipment.
- D. Service revenue and utilities expense.
- E. Service revenue, unearned revenue, and utilities expense.

Answer: C

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P3*  
*Topic: Balance Sheet*



147. Which financial statements are prepared for a period of time?

- A. Income statement, statement of retained earnings, balance sheet and statement of cash flows.
- B. Balance sheet.
- C. Income statement, statement of retained earnings, and statement of cash flows.
- D. Income statement and balance sheet.
- E. Statement of retained earnings and statement of cash flows.

Answer: C

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Balance Sheet*

## Matching Questions

[Question]

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

- |                             |   |           |
|-----------------------------|---|-----------|
| 1. Credit                   | The sources of accounting information.  | <u>5</u>  |
| 2. Journal                  | An increase in an asset, dividend and expense account and decrease in a liability, common stock, and revenue account; recorded on the left side of a T-account. | <u>7</u>  |
| 3. Account                  | The process of transferring journal entry information to the ledger.  | <u>9</u>  |
| 4. Ledger                   | An accounting system where the impact of each transaction is recorded in at least two accounts; the sum of the debits for each entry must equal its credits.    | <u>10</u> |
| 5. Source documents         | A file containing all accounts of a company and their balances.   | <u>4</u>  |
| 6. Accounting records       | A company's record of all transactions in one place that shows debits and credits for each transaction.   | <u>2</u>  |
| 7. Debit                    | A record of the increases and decreases in a specific asset, liability, equity, revenue or expense account.   | <u>3</u>  |
| 8. T-account                | 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.    | <u>1</u>  |
| 9. Posting                  | A simple account form used as a helpful tool in showing the effects of transactions and events on specific accounts.  | <u>8</u>  |
| 10. Double-entry accounting | Another name for the accounting books or simply the books.  | <u>6</u>  |

*Blooms Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-C1*

*Learning Objective: 02-C2*

*Learning Objective: 02-C3*

*Learning Objective: 02-C4*

*Topic: Credit*

*Topic: Debit*

*Topic: Journal*

*Topic: Ledger*

*Topic: Account*

*Topic: Source Documents*

*Topic: Accounting Records*

*Topic: T Account*

*Topic: Posting*

*Topic: Double Entry Accounting System*

[Question]

149. Match the following definitions and terms by placing the number that identifies the best definition in the blank space next to the term:

1. Balance column account	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.	<u>10</u>
2. Debt ratio	A written promise to pay a definite sum of money on a specified future date.	<u>7</u>
3. Account balance	A file containing all accounts of a company and their balances.	<u>5</u>
4. Chart of accounts	A complete record of all transactions in one place that shows debits and credits for each transaction.	<u>6</u>
5. Ledger	The ratio of total liabilities to total assets; used to reflect the risk associated with the company's debts.	<u>2</u>
6. Journal	A list of all accounts used by a company and the identification number assigned to each account.	<u>4</u>
7. Note payable	A list of accounts and their balances at a point in time; the total debit balances should equal the total credit balances.	<u>8</u>
8. Trial balance	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.	<u>9</u>
9. Credit	The difference between total debits and total credits for an account including the beginning balance.	<u>3</u>
10. Debit	An account with debit and credit columns for recording entries and a third column for showing the balance of the account after each entry.	<u>1</u>

## Chapter 02 – Accounting for Transactions

*Blooms Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-A2*

*Learning Objective: 02-C1*

*Learning Objective: 02-C2*

*Learning Objective: 02-C4*

*Learning Objective: 02-P1*

*Learning Objective: 02-P2*

*Topic: Balance Column Account*

*Topic: Debt Ratio*

*Topic: Account Balance*

*Topic: Chart of Accounts*

*Topic: Ledger*

*Topic: Journal*

*Topic: Note Payable*

*Topic: Trial Balance*

*Topic: Credit*

*Topic: Debit*

[Question]

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

- |                             |   |           |
|-----------------------------|---|-----------|
| 1. Unearned revenues        | The most flexible type of journal, it can be used to record any kind of transaction.  | <u>10</u> |
| 2. Chart of accounts        | A list of all accounts used by a company and the identification number assigned to each account.  | <u>2</u>  |
| 3. Note receivable          | A written promise from a customer to pay a definite sum of money on a specified future date.  | <u>3</u>  |
| 4. Posting reference column | A simple form used as a helpful tool in understanding the effect of transactions and events on specific accounts.                           | <u>9</u>  |
| 5. Posting                  | Liabilities created when customers pay in advance for products or services; satisfied by delivering the products or services in the future. | <u>1</u>  |
| 6. Trial Balance            | A journal entry that affects at least three accounts.   | <u>7</u>  |
| 7. Compound journal entry   | A column in journals where individual account numbers are entered when entries are posted to ledger accounts.                               | <u>4</u>  |
| 8. Account                  | The process of transferring journal entry information to the ledger.  | <u>5</u>  |
| 9. T-account                | A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense account.                                | <u>8</u>  |
| 10. General journal         | A list of accounts and their balances at a point in time; the total debit balances should equal the total credit balances.                  | <u>6</u>  |

*Blooms Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-C1*

*Learning Objective: 02-C4*

*Learning Objective: 02-P*

*Topic: Unearned Revenue*

*Topic: Chart of Accounts*

*Topic: Note Receivable*

*Topic: Unearned Revenue*

*Topic: Posting*

*Topic: Trial Balance*

*Topic: Compound Journal Entry*

*Topic: Account*

*Topic: T account*

*Topic: Journal*

[Question]

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

1. Salary Expense	1. <u>E</u>
2. Accounts Payable	2. <u>L</u>
3. Prepaid Insurance	3. <u>A</u>
4. Unearned Fee Revenue	4. <u>L</u>
5. Fees Revenue	5. <u>R</u>
6. Accounts Receivable	6. <u>A</u>
7. Common Stock	7. <u>OE</u>
8. Supplies	8. <u>A</u>
9. Retained Earnings	9. <u>OE</u>
10. Cash	10. <u>A</u>
11. Equipment	11. <u>A</u>
12. Dividends	12. <u>OE</u>

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C2*  
*Topic: Assets*  
*Topic: Liabilities*  
*Topic: Equity*  
*Topic: Revenue*  
*Topic: Expenses*

[Question]

152. The following accounts appear on either the income statement (IS) or balance sheet (BS). In the space provided next to each account write the letters IS or BS that identify the statement on which the account appears.

1. Accounts Payable	1. <b><u>BS</u></b>
2. Unearned Fees Revenues	2. <b><u>BS</u></b>
3. Office Equipment	3. <b><u>BS</u></b>
4. Rent Expense	4. <b><u>IS</u></b>
5. Fees Revenue	5. <b><u>IS</u></b>
6. Wages Payable	6. <b><u>BS</u></b>
7. Rent Expense	7. <b><u>IS</u></b>
8. Cash	8. <b><u>BS</u></b>
9. Common Stock	9. <b><u>BS</u></b>
10. Notes Receivable	10. <b><u>BS</u></b>

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Balance Sheet*  
*Topic: Income Statement*

**Essay Questions**

[Question]

153. Vicki Lake is a computer consultant. Shown below are (a) several accounts in her ledger with each account preceded by an identification number and (b) several transactions completed by Lake. 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 Consulting Fees
3.	Cash	9.	Common Stock
4.	Consulting Fees Earned	10.	Dividends
5.	Office Supplies	11.	Insurance Expense
6.	Office Supplies Expense	12.	Prepaid Insurance

		Debit	Credit
	Example		
	Completed consulting work for a client who will pay at a later date	2	4
A	Received cash in advance from a customer for designing a software package.		
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 three-year insurance policy.		



Answer:

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

*Blooms Taxonomy: Apply*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 3 Hard*

*Learning Objective: 02-P1*

*Topic: Transaction Analysis*

*Topic: Debit*

*Topic: Credit*

[Question]

154. David Roberts is a real estate appraiser. Shown below are (a) several accounts in his ledger with each account preceded by an identification number and (b) several transactions completed by Roberts. 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		Debit	Credit
Completed an appraisal for a client who promised to pay at a later date.		2	3
A.	Received cash in advance for appraising an office building.		
B.	Purchased office supplies on credit.		
C.	Paid a cash dividend.		
D.	Received the telephone bill of the business and immediately paid it.		
E.	Paid the salary of the office assistant.		
F.	Paid for the supplies purchased in transaction B.		
G.	Completed an appraisal for a client and immediately collected cash for the work 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 Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Transaction Analysis*  
*Topic: Debit*  
*Topic: Credit*

[Question]

155. 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 in the general ledger and a trial balance is prepared. The final step is the preparation of financial statements and reports for decision makers.

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Accounting Cycle*

[Question]

156. Describe source documents and their purpose.

Answer: Source documents are the basis of information that identify and describe transactions and events. 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 Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-C1*

*Topic: Source Documents*

[Question]

157. Explain how accounts are used in recording information about transactions.

Answer: Accounts are classified into three general categories: assets, liabilities, and equity. Accounts are records of increases and decreases of specific items in these categories. The accounts serve as the information resource for financial statements and reports.

*Blooms Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-C2*

*Topic: Account*

[Question]

158. 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 in the ledger that includes an identification number for the accounts.

*Blooms Taxonomy: Understand*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 2 Medium*

*Learning Objective: 02-C3*

*Topic: Chart of Accounts*

*Topic: Ledger*

[Question]

159. Explain debits and credits and their role in the accounting system.

Answer: Debit refers to the left side of an account and credit refers to the right side of an account, both 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 that states that  $\text{Assets} = \text{Liabilities} + \text{Equity}$ . Assets, expenses, and dividends have normal debit balances and liabilities, common stock, and revenues have normal credit balances.

*Blooms Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-C4*

*Topic: Debit*

*Topic: Credit*

[Question]

160. 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 with interest.

*Blooms Taxonomy: Understand*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 2 Medium*

*Learning Objective: 02-A2*

*Topic: Debt Ratio*

[Question]

161. 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 general ledger.

*Blooms Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-P1*

*Topic: Posting*

*Topic: Accounting Cycle*

[Question]

162. 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. The list is organized by debit and credit balances. 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, then the trial balance is out of balance, which 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 Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P2*  
*Topic: Trial Balance*

[Question]

163. Misa Chien and Jennifer Green founded Nom Nom Truck. What are some accounting challenges they faced when starting their business?

Answer: They had to account for many activities such as product expenses, trucking expenses, supplier payments, and other expenses such as salaries, rent, and insurance.

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C1*  
*Topic: Accounting Cycle*

**Short Answer Questions**

[Question]

164. Identify which of the following items would likely serve as a source document by marking an X in the appropriate column. 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.	Electric power 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.	Electric power bill	X	
h.	Employee earnings record	X	

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: Medium*  
*Learning Objective: 02-C1*  
*Topic: Source Documents*



[Question]

165. Indicate whether a debit or credit entry would be made 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 Retained Earnings.

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

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debit*  
*Topic: Credit*

[Question]

166. The following is a list of accounts and identification letters A through J for Shannon Management Co.:

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

Use the form below to identify the type of account and its normal balance. The first item is filled in as an example.

	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	

## Chapter 02 – Accounting for Transactions

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Account Balance*

[Question]

167. Dolly Barton began Barton Office Services in October and during the month completed the following transactions:

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

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

Answer:

a.

Cash	10,000	
Computer Equipment	15,000	
Common Stock		25,000

b.

Prepaid Insurance	500	
Cash		500

c.

Cash	1,000	
Office Services Revenue		1,000

d.

Office Supplies	200	
Cash		200

e.

Rent Expense	2,000	
Cash		2,000

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Transaction Analysis*

[Question]

168. A company sends a \$1,500 bill to a customer for delivery services rendered. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.



Answer:

Accounts Receivable		Delivery Fees Earned	
1,500			1,500

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: T Account*  
*Topic: Ledger*  
*Topic: Transaction Analysis*

[Question]

169. A company paid \$2,500 cash to satisfy a previously recorded account payable, the only liability on the books. Assume the company had a \$4,000 balance in Cash immediately prior to this transaction. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts. Show ending account balances.



Answer:

Accounts Payable		Cash	
	2,500 Beg bal	Beg bal 4,000	
2,500			2,500
	0 End bal	End bal 1,500	

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: T Account*  
*Topic: Ledger*  
*Topic: Transaction Analysis*

[Question]

170. A business paid a \$100 cash dividend. Assume the company had a \$2,000 balance in cash immediately prior to this transaction and that this was the first time dividends had ever been paid. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts. Show ending account balances.



Answer:

Dividends	Cash
100	Beg bal 2,000
End bal 100	100
	End bal 1,900

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02- P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: T Account*  
*Topic: Ledger*  
*Topic: Transaction Analysis*

[Question]

171. On December 3, the Matador Company paid \$5,400 cash in salaries to office personnel. Prepare the general journal entry to record this transaction.

Answer:

12/3	Office Salaries Expense	5,400	
	Cash		5,400

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02- P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: T Account*  
*Topic: Ledger*  
*Topic: Transaction Analysis*

[Question]

172. On February 5, Textron Stores purchased a van that had a cost of \$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	Van	35,000	
	Cash		5,000
	Note Payable		30,000

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02- P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Transaction Analysis*

[Question]



173. On October 1, 2011, Smith invested \$20,000 cash, office equipment costing \$15,000, and drafting equipment costing \$12,000 into the company in exchange for common stock. Show the general journal entry to record this transaction.

Answer:

10/1/2011	Cash		20,000	
	Office Equipment		15,000	
	Drafting Equipment		12,000	
	Common Stock			47,000

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02- P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Transaction Analysis*

[Question]

174. Krenz Car Care, which is owned and operated by Karl Krenz, began business as a corporation in September of the current year. Karl, a master mechanic, had no experience with keeping a set of books. As a result, Karl entered all of September's transactions directly to the ledger accounts. When he tried to locate a particular entry he found it to be confusing and time consuming. He has hired you to improve his accounting procedures. The accounts in his general ledger are as follows:

Cash				Equipment			
9/01	(a) 4,200	9/4 (b)	550	9/1	(a) 800		
9/11	(d) 150			9/4	(b) 2,550		
9/15	(e) 190						

Common Stock				Notes Payable			
		9/1	(a) 5,000			9/4	(b) 2,000

Accounts Receivable				Repair Revenue			
9/9	(c)	275	9/15 (c)	190		9/9 (c)	275
						9/11 (e)	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:

a.

Sept. 1	Cash	4,200	
	Equipment	800	
	Common Stock		5,000
	<i>To record initial investment.</i>		

b.

4	Equipment	2,550	
	Cash		550
	Notes Payable		2000
	<i>To record purchase of equipment, paying \$550 in cash and signing a \$2,000 note payable for the balance due.</i>		

c.

9	Accounts Receivable	275	
	Repair Revenue		275
	<i>To record credit sale of services.</i>		

d.

11	Cash	150	
	Repair Revenue		150
	<i>To record cash sale of services.</i>		

e.

15	Cash	190	
	Accounts Receivable		190
	<i>To record collection from customer.</i>		

## Chapter 02 – Accounting for Transactions

*Blooms Taxonomy: Create*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Transaction Analysis*  
*Topic: Ledger*

### [Question]

175. Flora Accounting 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 accounting 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	
Accounting Services Revenue		500

c.

Accounts Payable	300	
Cash		300

d.

Cash	800	
Accounting Services Revenue		800

e.

Cash	500	
Accounts Receivable		500

f.

Cash	1,000	
Unearned Accounting Service Revenue		500

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02- P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Transaction Analysis*

[Question]

176. Leonard Matson 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 Acme Loan Co. on credit. \$1,700
	10	Paid for the supplies purchased on December 3.
	14	Paid for the annual \$960 premium on an insurance policy.
	18	Received payment in full from Acme Loan Co. for the work completed on December 8.
	27	Paid a \$650 cash dividend.
	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>Owner invested in business.</i>		
2	Office Equipment	1,200	
	Accounts Payable		1,200
	<i>Purchased office equipment on credit.</i>		
3	Office Supplies	300	
	Accounts Payable		300
	<i>Purchased office supplies on credit.</i>		
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>Cash dividend paid.</i>		
30	Utility Expense	175	
	Cash		175
	<i>Paid utility bills.</i>		
30	Cash	2,000	
	Unearned Fees		2,000

Chapter 02 – Accounting for Transactions

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Transaction Analysis*

[Question]

177. Maria Sanchez began business as Sanchez 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. Sanchez 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 Johnson Bros. on credit.
- c. Completed legal work for a client and received \$1,500 cash in full payment.
- d. Paid Johnson Bros. \$3,500 cash in partial settlement of the amount owed.
- e. Completed \$4,000 of legal work for a client on credit.
- f. Paid a \$2,000 cash dividend.
- 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		Office Equipment		Dividends	
(a) 15,000	(d) 3,500	(b) <u>7,500</u>		(f) <u>2,000</u>	
(c) 1,500	(f) 2,000				
(g) 2,500	(h) 2,500				
<u>11,000</u>					

Accounts Receivable		Accounts Payable		Legal Fees Earned	
(e) 4,000	(g) 2,500	(d) 3,500	(b) 7,500		(c) 1,500
<u>1,500</u>			<u>4,000</u>		(e) 4,000
					<u>5,500</u>

Law Library		Common Stock		Salaries Expense	
(a) <u>6,000</u>			(a) <u>21,000</u>	(h) <u>2,500</u>	



SANCHEZ 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	<u>2,500</u>	
Totals	<u>\$30,500</u>	<u>\$30,500</u>

*Blooms Taxonomy: Create*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P1*  
*Learning Objective: 02-P2*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Transaction Analysis*  
*Topic: Trial Balance*

[Question]

178. Josephine's Bakery 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 the owners made no investments in the business and no dividends were paid during the year, what was the amount of net income earned by Josephine's Bakery during the current year?

Answer:

Beginning owner's equity = \$114,000 - \$68,000 = \$46,000

Ending owner's equity = \$135,000 - \$73,000 = \$62,000

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

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

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Accounting Equation*  
*Topic: Equity*

[Question]

179. Josephine's Bakery 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 the owners invested an additional \$12,000 in the business during the year, but no dividends were paid, what was the amount of net income earned by Josephine's Bakery during the current year?

Answer:

Beginning owner's equity = \$114,000 - \$68,000 = \$46,000

Ending owner's equity = \$135,000 - \$73,000 = \$62,000

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

Net income = \$16,000 - \$12,000 = \$4,000

*Blooms Taxonomy: Analyze*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 3 Hard*

*Learning Objective: 02-A1*

*Topic: Accounting Equation*

*Topic: Net Income*

[Question]

180. Josephine's Bakery 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 the owners made no investments and dividends of \$5,000 were paid during the year, what was the amount of net income earned by Josephine's Bakery during the current year?

Answer:

Beginning owner's equity = \$114,000 - \$68,000 = \$46,000

Ending owner's equity = \$135,000 - \$73,000 = \$62,000

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

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

*Blooms Taxonomy: Analyze*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 3 Hard*

*Learning Objective: 02-A1*

*Topic: Accounting Equation*

*Topic: Net Income*

*Topic: Dividends*

[Question]

181. Josephine's Bakery 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 the owners invested an additional \$12,000 in the business and dividends of \$5,000 were paid during the year, what was the amount of net income earned by Josephine's Bakery during the current year?

Answer:

Beginning owner's equity = \$114,000 - \$68,000 = \$46,000

Ending owner's equity = \$135,000 - \$73,000 = \$62,000

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

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

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-A1*  
*Topic: Accounting Equation*  
*Topic: Net Income*  
*Topic: Dividends*  
*Topic: Common Stock*

[Question]

182. A company had total assets of \$350,000; total liabilities of \$101,500; and total equity of \$248,500. Calculate its debt ratio.

Answer:

$$\$101,500/\$350,000 = \underline{29\%}$$

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

[Question]

183. Montgomery Marketing Co. had assets of \$475,000; liabilities of \$275,500; and equity of \$199,500. Calculate its debt ratio.

Answer:  $\$275,500/\$475,000 = 58\%$

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

[Question]

184. List all the necessary steps for recording transactions.

Answer:

1. Analyze transactions and source documents.
2. Apply double-entry accounting.
3. Record the journal entry.
4. Post entry to ledger.

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Accounting Cycle*

[Question]

185. For 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 Having Larger Total
a.	\$100	Debit
b.	\$1,710	Debit
c.	0	N/A
d.	\$562.50	Credit
e.	\$520	Debit

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Errors*  
*Topic: Debit*  
*Topic: Credit*



[Question]

186. After preparing an (unadjusted) trial balance at year-end, G. Chu of Chu Design Company discovered the following errors:

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

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

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

Answer:

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

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P2*  
*Topic: Error*

[Question]

187. The balances for the accounts of Mike's Maintenance, Inc. for the year ended December 31 are shown below. Each account shown had a normal balance.

Accounts payable	\$ 6,500	Wages expense	\$36,000
Accounts receivable	7,000	Rent expense	6,000
Cash	?	Retained earnings	68,700
Maintenance supplies	1,200		
Building	125,000	Land	50,000
Supplies expense	21,500	Unearned maintenance fees	4,000
Common stock	50,000		
Maintenance revenue	175,000	Dividends	48,000

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

Answer:

MIKE’S MAINTENANCE, INC. Trial Balance For the year ended December 31		
Cash*	\$9,500	
Accounts receivable	7,000	
Maintenance supplies	1,200	
Land	50,000	
Building	125,000	
Accounts payable		\$6,500
Unearned maintenance fees		4,000
Common stock	48,000	50,000
Retained earnings		68,700
Dividends	36,000	
Maintenance revenue	6,000	175,000
Wage expense	21,500	
Rent expense		
Supplies expense		
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 Taxonomy: Create*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P2*  
*Topic: Debit*  
*Topic: Credit*  
*Topic: Trial Balance*  
*Topic: Account Balance*

[Question]

188. The balances for the accounts of Lance’s Consulting Firm, Inc. for the year ended December 31 are shown below. Each account shown had a normal balance.

Accounts payable	\$ 6,400	Wages expense	\$35,000
Accounts receivable	7,000	Rent expense	5,000
Cash	10,000	Retained earnings	68,700
Office supplies	1,000	Land	53,000
Building	99,000	Unearned revenue	7,000
Supplies expense	15,000	Dividends	20,000
Consulting revenue	150,000	Common stock	12,900

Calculate net income.

Answer:  $\$150,000 - 15,000 - 35,000 - 5,000 = \$95,000$  Net income

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P3*  
*Topic: Net Income*  
*Topic: Income Statement*  
*Topic: Account Balance*

[Question]

189. The balances for the accounts of Lance’s Consulting Firm, Inc. for the year ended December 31 are shown below. Each account shown had a normal balance.

Accounts payable	\$ 6,400	Wages expense	\$35,000
Accounts receivable	7,000	Rent expense	5,000
Cash	10,000	Retained earnings	68,700
Office supplies	1,000	Land	53,000
Building	99,000	Unearned revenue	7,000
Supplies expense	15,000	Dividends	20,000
Consulting revenue	150,000	Common stock	12,900

Calculate ending retained earnings.

Answer:  $\$68,700 + 95,000 - 20,000 = \$143,700$

## Chapter 02 – Accounting for Transactions

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P3*  
*Topic: Equity*  
*Topic: Statement of Retained Earnings*  
*Topic: Account Balance*

### [Question]

190. The balances for the accounts of Lance’s Consulting Firm, Inc. for the year ended December 31 are shown below. Each account shown had a normal balance.

Accounts payable	\$ 6,400	Wages expense	\$35,000
Accounts receivable	7,000	Rent expense	5,000
Cash	10,000	Retained earnings	68,700
Office supplies	1,000	Land	53,000
Building	99,000	Unearned revenue	7,000
Supplies expense	15,000	Dividends	20,000
Consulting revenue	150,000	Common stock	12,900

Calculate total assets.

Answer:  $\$7,000 + 10,000 + 1,000 + 99,000 + 53,000 = \$170,000$

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P3*  
*Topic: Account Balance*  
*Topic: Assets*  
*Topic: Balance Sheet*

[Question]

191. The balances for the accounts of Lance’s Consulting Firm, Inc. for the year ended December 31 are shown below. Each account shown had a normal balance.

Accounts payable	\$ 6,400	Wages expense	\$35,000
Accounts receivable	7,000	Rent expense	5,000
Cash	10,000	Retained earnings	68,700
Office supplies	1,000	Land	53,000
Building	99,000	Unearned revenue	7,000
Supplies expense	15,000	Dividends	20,000
Consulting revenue	150,000	Common stock	12,900

Calculate the debt ratio.

Answer:  $\$13,400/\$170,000 = .0788$ : 7.9%

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Account Balance*  
*Topic: Debt Ratio*

192. At year-end, Harris Cleaning 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 truck purchase for cash was recorded as a \$24,090 debit to Vehicles 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 Del Harris 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. A 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 Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Account Balance*  
*Topic: Trial Balance*  
*Topic: Errors*



[Question]

193. The following trial balance was prepared from the general ledger of Hal's Auto Repair.

HAL'S AUTO REPAIR Trial Balance October 31		
	<u>Debit</u>	<u>Credit</u>
Cash	\$ 975	
Accounts receivable	3,800	
Supplies	500	
Repair equipment	13,000	
Office equipment	6,600	
Accounts payable		\$ 4,510
Common stock		10,000
Retained earnings		13,000
Dividends	4,200	
Repair fees earned		10,875
Supplies expense	<u>8,600</u>	
Totals	<u>\$37,675</u>	<u>\$38,385</u>

Since 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 owner 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 Repair Equipment account.
6. One entire entry was not posted to the general ledger. The transaction involved the receipt of \$125 cash at the time repair services were performed.

Prepare a corrected trial balance for the Hal's Auto Repair as of October 31.

Answer:

HAL'S AUTO REPAIR Trial Balance October 31		
	<u>Debit</u>	<u>Credit</u>
Cash <sup>a</sup>	\$ 2,100	
Accounts receivable <sup>b</sup>	4,400	
Supplies	500	
Repair equipment <sup>c</sup>	12,200	
Office equipment <sup>d</sup>	7,400	
Accounts payable <sup>e</sup>		\$ 5,000
Common stock <sup>f</sup>		11,000
Retained earnings		13,000
Dividends <sup>g</sup>	4,800	
Repair fees earned <sup>h</sup>		11,000
Supplies expense	8,600	
Totals	<u>\$40,000</u>	<u>\$40,000</u>

- a. Cash: Balance \$975 + \$1,000 (2) + 125 (6) = \$2,100  
 b. Accounts receivable: Bal. \$3,800 + 600 (3) = \$4,400  
 c. Repair equipment: Bal. \$13,000 - 800 (5) = \$12,200  
 d. Office equipment: Bal. \$6,600 + 800 (5) = \$7,400  
 e. Accounts payable: Bal \$4,510 + 490 (1) = \$5,000  
 f. Common stock = Bal. \$10,000 + 1,000 (2) = \$11,000  
 g. Dividends: Bal. \$4,200 + 600 (4) = \$4,800  
 h. Repair fees earned: Bal \$10,875 + 125 (6) = \$11,000

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P2*  
*Topic: Account Balance*  
*Topic: Trial Balance*  
*Topic: Errors*

[Question]

194. The following are all of the accounts of Flaherty Company that have a balance at the end of August. 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	20,000
		Retained earnings	58,100

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

Answer:

a.

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

b.

\$58,100		Retained earnings (beginning)
36,400		Net income
<u>(24,000)</u>		Dividends
<u>\$70,500</u>		Retained earnings

*Blooms Taxonomy: Analyze*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 2 Medium*

*Learning Objective: 02-P3*

*Topic: Account Balance*

*Topic: Net Income*

*Topic: Income Statement*

*Topic: Equity*

*Topic: Statement of Retained Earnings*

[Question]

195. Based on the following trial balance for Sal's Beauty Shop, prepare an income statement, statement of retained earnings and a balance sheet. Sal made no additional investments in the company during the year.

SAL'S BEAUTY SHOP Trial Balance December 31		
Cash	\$ 6,500	
Accounts receivable	475	
Beauty supplies	2,500	
Beauty shop equipment	17,000	
Accounts payable		\$ 745
Common stock		10,000
Retained earnings		11,155
Dividends	36,000	
Revenue earned		72,000
Beauty supplies expense	3,425	
Rent expense	6,000	
Wages expense	<u>22,000</u>	
Totals	<u>\$93,900</u>	<u>\$93,900</u>

Answer:

SAL'S BEAUTY SHOP Income Statement For the year ended December 31		
Revenue earned		\$72,000
Expenses:		
Beauty supplies expense	\$ 3,425	
Rent expense	6,000	
Wages expense	<u>22,000</u>	
Total expenses		<u>31,425</u>
Net income		<u>\$40,575</u>

SAL'S BEAUTY SHOP Statement of Retained Earnings For the year ended December 31	
Retained earnings, January 1	\$11,155
Add: Net income	40,575
Less: Dividends	(36,000)
Retained earnings, December 31	<u>\$15,730</u>

SAL'S BEAUTY SHOP 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	\$10,000
		Retained earnings	15,730
		Total equity	<u>25,730</u>
Total assets	<u>\$26,475</u>	Total liabilities and equity	<u>\$26,475</u>

*Blooms Taxonomy: Create*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 3 Hard*  
*Learning Objective: 02-P3*  
*Topic: Balance Sheet*  
*Topic: Income Statement*  
*Topic: Statement of Retained Earnings*

## Fill in the Blank Questions

[Question]

196. The second step in the analyzing and recording process is to record the transactions and events in the \_\_\_\_\_.

Answer: journal

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Accounting Cycle*  
*Topic: Journal*

[Question]

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

Answer: the general ledger (or ledger)

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Accounting Cycle*  
*Topic: Ledger*  
*Topic: Posting*

[Question]

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

Answer: Source documents

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C1*  
*Topic: Source Documents*

[Question]

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

Answer: equity

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Revenue*  
*Topic: Expenses*  
*Topic: Equity*

[Question]

200. The \_\_\_\_\_ is a record containing all accounts (with balances) used by a company.

Answer: general ledger (or ledger)

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Ledger*

[Question]

201. The three general categories of accounts in a general ledger are \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_.

Answer: assets, liabilities, equity

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Assets*  
*Topic: Liabilities*  
*Topic: Equity*

[Question]

202. \_\_\_\_\_ is a promise of payment from customers to sellers.

Answer: Accounts receivable

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Accounts Receivable*

[Question]

203. Unearned revenue is classified as \_\_\_\_\_ that is satisfied by delivering products or services in the future.

Answer: a liability

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C2*  
*Topic: Unearned Revenue*  
*Topic: Liabilities*



[Question]

204. The four categories of equity accounts are \_\_\_\_\_,  
\_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_.

Answer: common stock; dividends; revenues; expenses

*Blooms Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-C2*

*Topic: Equity*

*Topic: Common Stock*

*Topic: Dividends*

*Topic: Revenue*

*Topic: Expenses*

[Question]

205. A \_\_\_\_\_ is a list of all the accounts used by a company and their identification codes.

Answer: chart of accounts

*Blooms Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-C3*

*Topic: Chart of Accounts*

[Question]

206. A \_\_\_\_\_ is a record containing all accounts for a company along with their balances.

Answer: general ledger (or ledger)

*Blooms Taxonomy: Remember*

*AACSB: Analytic*

*AACSB: Communication*

*AICPA BB: Critical Thinking*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*AICPA FN: Reporting*

*Difficulty: 1 Easy*

*Learning Objective: 02-C4*

*Topic: Ledger*

[Question]

207. \_\_\_\_\_ requires that the impact of each transaction 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 Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Double Entry Accounting System*

[Question]

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

Answer: account balance

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Account Balance*

[Question]

209. Increases in assets are \_\_\_\_\_, while increases in liabilities are \_\_\_\_\_.

Answer: debited, credited

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-C4*  
*Topic: Debit*  
*Topic: Credit*

[Question]

210. FastForward 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

*Blooms Taxonomy: Apply*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-C4*  
*Topic: Debit*  
*Topic: Credit*

[Question]

211. Stride Rite had total liabilities of \$130 million and total assets of \$375 million. Its debt ratio was \_\_\_\_\_.

Answer: \$130 million/\$375 million = 34.7%

*Blooms Taxonomy: Analyze*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-A2*  
*Topic: Debt Ratio*

[Question]

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

Answer: Posting

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Posting*

Chapter 02 – Accounting for Transactions

[Question]

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

Answer: general journal (or journal)

*Blooms Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-P1*  
*Topic: Journal*

[Question]

214. An account 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 Taxonomy: Remember*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P1*  
*Topic: Balance Column Account*

[Question]

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

Answer: journal; ledger

*Blooms Taxonomy: Understand*  
*AACSB: Analytic*  
*AACSB: Communication*  
*AICPA BB: Critical Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*AICPA FN: Reporting*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-P1*  
*Topic: Posting*  
*Topic: Journal*  
*Topic: Ledger*