

## Chapter 02 The Accounting Information System

### Multiple Choice Questions

1. Which of the following is not part of measuring external transactions?
  - A. Using source documents to analyze accounts affected.
  - B. Recording transactions.
  - C. Making payments on all amounts owed.
  - D. Analyzing transactions for their effect on the accounting equation.
  
2. External events include all of the following *except*:
  - A. Paying employees' salaries.
  - B. Purchasing equipment.
  - C. Using office supplies.
  - D. Collecting an account receivable.
  
3. Which step in the process of measuring external transactions involves assessing the equality of total debits and total credits?
  - A. Use source documents to determine accounts affected by the transaction.
  - B. Prepare a trial balance.
  - C. Analyze the impact of the transaction on the accounting equation.
  - D. Post the transaction to the T-account in the general ledger.
  
4. For each transaction recorded in an accounting system, the basic equation that must be maintained at all times is:
  - A.  $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$ .
  - B.  $\text{Cash Increases} = \text{Cash Decreases}$ .
  - C.  $\text{Revenues} = \text{Expenses} + \text{Dividends}$ .
  - D.  $\text{Assets} = \text{Liabilities}$ .

5. The following amounts are reported in the ledger of Mariah Company:

|                   |          |
|-------------------|----------|
| Assets            | \$80,000 |
| Liabilities       | 36,000   |
| Retained Earnings | 12,000   |

What is the balance in the Common Stock account?

- A. \$44,000.
- B. \$32,000.
- C. \$48,000.
- D. \$42,000.

6. When a company incurs workers' salaries but does not pay them, how will the basic accounting equation be affected?

- A. Stockholders' equity decreases.
- B. Revenues decrease.
- C. Expenses decrease.
- D. Liabilities decrease.

7. When cash payments are made to stockholders, what is the effect on the company's accounts?

- A. Cash decreases and dividends increase.
- B. Cash increases and dividends decrease.
- C. Cash decreases and common stock decreases.
- D. Cash increases and common stock increases.

8. Which of the following is not an asset account?

- A. Supplies.
- B. Accounts Payable.
- C. Equipment.
- D. Accounts Receivable.

9. An account receivable can best be defined as:

- A. A payment to the owners.
- B. A sale of goods and services.
- C. A resource owned by the company.
- D. An amount owed by the company.

10. Receiving assets from customers before services are performed results in:

- A. Prepaid Assets.
- B. Service Revenue.
- C. Unearned Revenues.
- D. Accounts Receivable.

11. When the company pays stockholders a dividend, what is the effect on the accounting equation for that company?

- A. Decrease stockholders' equity and increase assets.
- B. Increase liabilities and increase assets.
- C. Decrease assets and decrease liabilities.
- D. Decrease assets and decrease stockholders' equity.

12. Pumpkin Inc. sold \$500 in pumpkins to a customer on account on January 1. On January 11 Pumpkin collected the cash from that customer. What is the impact on Pumpkin's accounting equation from the collection of cash?

- A. No net effect to the accounting equation.
- B. Decrease assets and increase liabilities.
- C. Increase assets and increase liabilities.
- D. Decrease assets and decrease liabilities.

13. A company receives a \$50,000 cash deposit from a customer on October 15 but will not provide services until November 20. Which of the following statements is true?

- A. The company records service revenue on October 15.
- B. The company records cash collection November 20.
- C. The company records an unearned revenue on October 15.
- D. The company records nothing on October 15.

14. Which of the following would increase assets and increase liabilities?

- A. Provide services to customers on account.
- B. Purchase office supplies on account.
- C. Pay dividends to stockholders.
- D. Received a utility bill but do not pay for it.

15. Receiving cash from an account receivable:

- A. Increases a revenue and decreases an asset.
- B. Decreases a liability and increases an asset.
- C. Increases an asset and increases a revenue.
- D. Increases one asset and decreases another asset.

16. An expense has what effect on the accounting equation?

- A. Decrease liabilities.
- B. Decrease stockholders' equity.
- C. Increase assets.
- D. No effect.

17. A revenue has what effect on the accounting equation?

- A. Increase liabilities.
- B. Decrease assets.
- C. Increase stockholders' equity.
- D. No effect.

18. Investments by stockholders have what effect on the accounting equation?

- A. Assets increase and liabilities increase.
- B. Expenses increase and liabilities increase.
- C. Assets increase and revenues increase.
- D. Assets increase and stockholders' equity increases.

19. Which of the following is not possible when recording a transaction?

- A. Liabilities increase and assets decrease.
- B. Stockholders' equity increases and assets increase.
- C. One asset increases and another asset decreases.
- D. Stockholders' equity decreases and assets decrease.

20. Amounts owed to suppliers for supplies purchased on account are defined as:

- A. Cash.
- B. Accounts Receivable.
- C. Accounts Payable.
- D. Supplies Expense.

21. Purchasing office supplies on account will:

- A. Not change assets.
- B. Increase assets and decrease liabilities.
- C. Increase assets and increase liabilities.
- D. Increase assets and increase stockholders' equity.

22. Providing services and receiving cash will:

- A. Increase assets and increase stockholders' equity.
- B. Increase assets and increase liabilities.
- C. Decrease assets and increase liabilities.
- D. Decrease liabilities and increase stockholders' equity.

23. When a company provides services on account, the accounting equation would be affected as follows:

- A. Assets increase.
- B. Revenues increase.
- C. Assets increase and liabilities decrease.
- D. Assets increase and stockholders' equity increases.

24. If a company provides services on account, which of the following is true?
- A. Expenses increase.
  - B. Liabilities increase.
  - C. Stockholders' equity increases.
  - D. Assets decrease.
25. When a payment is made on an account payable:
- A. Assets and stockholders' equity decrease.
  - B. Assets and liabilities decrease.
  - C. Liabilities and revenues decrease.
  - D. Assets and expenses decrease.
26. Purchasing office equipment on account has what impact on the accounting equation?
- A. Stockholders' equity decreases and assets increase.
  - B. Liabilities increase and assets increase.
  - C. Assets decrease and liabilities decrease.
  - D. Assets increase and stockholders' equity increases.
27. Purchasing supplies for cash has what effect on the accounting equation?
- A. Increase assets.
  - B. Decrease stockholders' equity.
  - C. Decrease liabilities.
  - D. No effect.
28. The Unearned Revenue account is shown in which statement?
- A. Income statement.
  - B. Statement of cash flows.
  - C. Balance sheet.
  - D. Statement of stockholders' equity.

29. On January 1, Brad Inc. sold \$30,000 in products to a customer on account. Then, on January 10, Brad collected the cash on that account. What is the impact on Brad's accounting equation from the collection of cash on January 10?

- A. No net effect to the accounting equation.
- B. Assets increase and liabilities decrease.
- C. Assets decrease and liabilities decrease.
- D. Assets increase and stockholders' equity increases.

30. Consider the following transactions:

- Issued common stock for cash.
- Purchased equipment by signing a note payable.
- Provided services to customers on account.
- Collected cash from customers on account.

How many of these four transactions increased the given company's total liabilities?

- A. One.
- B. Two.
- C. Three.
- D. Four.

31. Consider the following transactions:

- Issued common stock for cash.
- Purchased equipment by signing a note payable.
- Paid rent for the current month.
- Collected cash from customers on account.

How many of these four transactions increased the given company's total assets?

- A. One.
- B. Two.
- C. Three.
- D. Four.

32. Assume that Sallisaw Sideboards, Inc. had a retained earnings balance of \$10,000 on April 1, and that the company had the following transactions during April.

Issued common stock for cash, \$5,000.

Provided services to customers on account, \$2,000.

Provided services to customers in exchange for cash, \$900.

Purchased equipment and paid cash, \$4,300.

Paid April rent, \$800.

Paid workers salaries for April, \$700.

What was Sallisaw's retained earnings balance at the end of April?

A. \$11,400.

B. \$12,100.

C. \$16,400.

D. Some other amount.

33. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January 2012:

1. Issued 10,000 shares of common stock for \$15,000 cash.

2. Purchased land for \$12,000, signing a note payable for the full amount.

3. Purchased office equipment for \$1,200 cash.

4. Received cash of \$14,000 for services provided to customers during the month.

5. Purchased \$300 of office supplies on account.

6. Paid employees \$10,000 for their first month's salaries.

What was the balance of Gotebo's Cash account following these six transactions?

A. \$29,800.

B. \$19,300.

C. \$17,800.

D. \$22,400.



34. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January 2012:

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2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

What was the total amount of Gotebo's liabilities following these six transactions?

- A. \$12,300.
- B. \$27,300.
- C. \$22,600.
- D. \$15,500.

35. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January 2012:

1. Issued 10,000 shares of common stock for \$15,000 cash.
2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

How many of these transactions decreased Gotebo's total assets?

- A. One.
- B. Two.
- C. Three.
- D. Four.

36. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January 2012:

1. Issued 10,000 shares of common stock for \$15,000 cash.
2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

How many of these transactions increased Gotebo's liabilities?

- A. Four.
- B. Three.
- C. Two.
- D. One.

37. Which of the following transactions causes a decrease in stockholders' equity?

- A. Pay dividends to stockholders.
- B. Obtain cash by borrowing from a local bank.
- C. Provide services to customers on account.
- D. Purchase office equipment for cash.

38. How many of the following events would require an expense to be recorded?

Ordering office supplies  
Hiring a receptionist  
Paying employee salaries for the current month  
Receiving but not paying a current utility bill  
Paying for insurance in advance

- A. One.
- B. Two.
- C. Three.
- D. Four.

39. On September 30, MFP Co. paid employee salaries \$7,000, including \$1,000 it owed to its employees last month. What are the effects of this transaction on the accounting equation?

- A. Expenses increased, liabilities increased, and assets increased.
- B. Assets decreased, liabilities decreased, and expenses increased.
- C. Assets decreased, expenses decreased, and liabilities increased.
- D. Expenses decreased, liabilities decreased, and assets decreased.
- E. Assets increased, expenses increased, and liabilities decreased.

40. Which of the following is NOT possible for a business transaction?

- A. Increase assets and decrease revenue.
- B. Decrease assets and increase expense.
- C. Increase liabilities and increase expense.
- D. Decrease liabilities and increase revenue.

41. Which of the following transactions would cause a decrease in both assets and stockholders' equity?

- A. Paying insurance premium for the next two years.
- B. Purchasing office equipment on account.
- C. Paying advertising for the current month.
- D. Providing installation services to customers.

42. When a company issues common stock for cash, what is the effect on the accounting equation for the company?

- A. Assets increase and liabilities increase.
- B. Assets increase and stockholders' equity increases.
- C. Assets decrease and liabilities decrease.
- D. Liabilities decrease and stockholders' equity increases.

43. Which of the following is possible for a particular business transaction?

- A. Increase assets; Decrease liabilities
- B. Decrease assets; Increase assets
- C. Decrease assets; Increase stockholders' equity
- D. Decrease liabilities; Increase expenses

44. Providing services to customers on account would affect the balances reported in which financial statement(s)?

- A. Income statement
- B. Statement of stockholders' equity
- C. Balance sheet
- D. All of the financial statements would be affected

45. If the liabilities of a company increased by \$55,000 during a month and the stockholders' equity decreased by \$21,000 during that same month, did assets increase or decrease and by how much?

- A. \$34,000 increase
- B. \$55,000 increase
- C. \$34,000 decrease
- D. \$76,000 increase

46. Which of the accounts are decreased on the debit side and increased on the credit side?

- A. Liabilities, stockholders' equity, and revenues.
- B. Dividends, liabilities, and assets.
- C. Expenses, dividends, and stockholders' equity.
- D. Assets, dividends, and expenses.

47. Which of the following is/are true about a "debit"?

- I. It is part of the double-entry procedure that keeps the accounting equation in balance.
- II. It represents an increase to assets.
- III. It represents a decrease to liabilities.
- IV. It is on the right side of a T-account.

- A. I and II.
- B. IV only.
- C. I, II, and III.
- D. I, II, III, and IV.

48. Which of the following is/are true about a "credit"?

- I. It is part of the double-entry procedure that keeps the accounting equation in balance.
- II. It represents a decrease to assets.
- III. It represents an increase to liabilities.
- IV. It is on the right side of a T-account.

- A. I and II.
- B. IV only.
- C. I, II, and III.
- D. I, II, III, and IV.

49. Dividends normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.

- A. Debit; Statement of stockholders' equity
- B. Debit; Income statement
- C. Credit; Balance sheet
- D. Debit; Balance Sheet

50. Expenses normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.

- A. Debit; Statement of stockholders' equity
- B. Debit; Income statement
- C. Credit; Balance sheet
- D. Debit; Balance Sheet

51. Liabilities normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.

- A. Debit; Statement of stockholders' equity
- B. Debit; Income statement
- C. Credit; Balance sheet
- D. Debit; Balance Sheet

52. Which of the following accounts has a debit balance?

- A. Accounts Payable.
- B. Unearned Revenue.
- C. Service Revenue.
- D. Salaries Expense.

53. Which of the following accounts would normally have a credit balance?

- A. Accounts Payable, Service Revenue, Common Stock.
- B. Salaries Payable, Unearned Revenue, Delivery Expense.
- C. Income Tax Payable, Service Revenue, Dividends.
- D. Cash, Repairs and Maintenance Expense, Dividends.

54. Which of the following accounts would normally have a debit balance?

- A. Accounts Payable, Service Revenue, Common Stock.
- B. Salaries Payable, Unearned Revenue, Utilities Expense.
- C. Income Tax Payable, Service Revenue, Dividends.
- D. Cash, Delivery expense, Dividends.

55. Which of the following accounts would normally have a debit balance and appear in the balance sheet?

- A. Accounts Receivable.
- B. Unearned Revenue.
- C. Salaries Expense.
- D. Dividends.

56. Which of the following accounts has a credit balance?

- A. Salaries Expense.
- B. Income Tax Payable.
- C. Land.
- D. Prepaid Rent.

57. Which of the accounts are increased with a debit and decreased with a credit?

- A. Liabilities, stockholders' equity, and revenues.
- B. Dividends, liabilities, and assets.
- C. Expenses, dividends, and stockholders' equity.
- D. Assets, dividends, and expenses.

58. Consider the following list of accounts:

|                  |                     |
|------------------|---------------------|
| Cash             | Retained Earnings   |
| Service Revenue  | Utilities Expense   |
| Salaries Expense | Accounts Receivable |
| Accounts Payable | Common Stock        |
| Equipment        | Dividends           |

How many of these accounts have a normal debit balance?

- A. Four.
- B. Five.
- C. Six.
- D. Seven.

59. Consider the following list of accounts:

Accounts Payable  
Cash  
Prepaid Rent  
Common Stock  
Salaries Payable  
Equipment  
Supplies  
Rent Expense

How many of these accounts have a normal credit balance?

- A. Two.
- B. Three.
- C. Four.
- D. Five.

60. Consider the following accounts:

Utilities Expense  
Accounts Payable  
Service Revenue  
Common Stock

How many of these accounts are increased with debits?

- A. One.
- B. Two.
- C. Three.
- D. Four.

61. Consider the following accounts:

Dividends  
Insurance Expense  
Cash  
Service Revenue

How many of these accounts are increased with credits?

- A. One.
- B. Two.
- C. Three.
- D. Four.

62. Which one of the following accounts will have a credit balance?

- A. Dividends
- B. Salary Expense
- C. Supplies
- D. Common Stock



63. The following statements pertain to recording transactions. Which of them are true?

- I. Total debits should equal total credits.
- II. It is possible to have multiple debits or credits in one journal entry.
- III. Assets are always listed first in journal entries.
- IV. Some journal entries will have debits only.

- A. I only.
- B. I and II.
- C. I, II, and IV.
- D. II, III, and IV.

64. Which of the following is not a possible journal entry?

- A. Credit assets; Debit expenses.
- B. Debit assets; Debit stockholders' equity.
- C. Credit revenues; Debit assets.
- D. Debit expenses; Credit liabilities.

65. Providing services on account would be recorded with a:

- A. Debit to Service Revenue.
- B. Credit to Accounts Receivable.
- C. Credit to Accounts Payable.
- D. Debit to Accounts Receivable.

66. Xenon Corporation borrows \$75,000 from First Bank. Xenon Corporation records this transaction with a:

- A. Debit to Investments.
- B. Credit to Retained Earnings.
- C. Credit to Notes Payable.
- D. Credit to Interest Expense.

67. Childers Service Company provides services to customers totaling \$3,000, for which it billed the customers. How would the transaction be recorded?

- A. Debit Cash \$3,000, credit Service Revenue \$3,000.
- B. Debit Accounts Receivable \$3,000, credit Service Revenue \$3,000.
- C. Debit Accounts Receivable \$3,000, credit Cash \$3,000.
- D. Debit Service Revenue \$3,000, credit Accounts Receivable \$3,000.

68. A company received a bill for newspaper advertising services received, \$400. The bill will be paid in 10 days. How would the transaction be recorded today?

- A. Debit Advertising Expense \$400, credit Accounts Payable \$400.
- B. Debit Accounts Payable \$400, credit Advertising Expense \$400.
- C. Debit Accounts Payable \$400, credit Cash \$400.
- D. Debit Advertising Expense \$400, credit Cash \$400.

69. When a company pays utilities of \$1,800 in cash, the transaction is recorded as:

- A. Debit Utilities Expense \$1,800, credit Utilities Payable \$1,800.
- B. Debit Utilities Payable \$1,800, credit Cash \$1,800.
- C. Debit Cash \$1,800, credit Utilities Expense \$1,800.
- D. Debit Utilities Expense \$1,800, credit Cash \$1,800.

70. Assume that cash is paid for rent to cover the next year. The appropriate debit and credit are:

- A. Debit Rent Expense, credit Cash.
- B. Debit Prepaid Rent, credit Rent Expense.
- C. Debit Prepaid Rent, credit Cash.
- D. Debit Cash, credit Prepaid Rent.

71. Summer Leasing received \$12,000 for 24 months rent in advance. How should Summer record this transaction?

- A. Debit Prepaid Rent; credit Rent Expense.
- B. Debit Cash; credit Unearned Revenue.
- C. Debit Cash; credit Service Revenue.
- D. Debit Rent Expense; credit Cash.

72. Styleson Inc. performed cleaning services for its customers for cash. These transactions would be recorded as:

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

73. Assume that \$18,000 cash is paid for insurance to cover the next year. The appropriate debit and credit are:

- A. Debit Insurance Expense \$18,000, credit Prepaid Insurance \$18,000.
- B. Debit Prepaid Insurance \$18,000, credit Insurance Expense \$18,000.
- C. Debit Prepaid Insurance \$18,000, credit Cash \$18,000.
- D. Debit Cash \$18,000, credit Prepaid Insurance \$18,000.

74. Schooner Inc. purchased equipment by signing a note payable. This transaction would be recorded as:

- A. Debit Equipment, credit Cash.
- B. Debit Cash, credit Notes Payable.
- C. Debit Notes Payable, credit Equipment.
- D. Debit Equipment, credit Notes Payable.

75. When a company pays \$2,500 dividends to its stockholders, the transaction should be recorded as:

- A. Debit Cash; credit Dividends.
- B. Debit Retained Earnings; credit Dividends.
- C. Debit Dividends; credit Cash.
- D. Debit Dividends; credit Accounts Payable.

76. Daniel Dino Restaurant owes workers' salaries of \$15,000. This would be recorded as:

- A. Debit Salaries Expense, credit Cash.
- B. Debit Salaries Payable, credit Cash.
- C. Debit Salaries Expense, credit Salaries Payable.
- D. Debit Salaries Payable, credit Salaries Expense.

77. Jerome purchased a building for his business by signing a note to pay the amount due over the next ten years. Which of the following correctly describes how to record this transaction?

- A. Debit assets, credit liabilities.
- B. Debit assets, credit stockholders' equity.
- C. Debit liabilities, credit assets.
- D. Debit expenses, credit liabilities.

78. Incurring an expense for advertising on account would be recorded by:

- A. Debiting liabilities.
- B. Crediting assets.
- C. Debiting an expense.
- D. Debiting assets.

79. Tyler Incorporated receives \$150,000 from investors for issuing them shares of its common stock. Tyler Incorporated records this transaction with a:

- A. Debit to Investments.
- B. Credit to Retained Earnings.
- C. Credit to Common Stock.
- D. Credit to Service Revenue.

80. The owner of an office building should report rent collected in advance as a debit to Cash and a credit to:

- A. A liability.
- B. An asset other than Cash.
- C. A revenue.
- D. An owners' equity.

81. Clement Company paid an account payable related to a previous utility bill of \$1,000. This transaction should be recorded as follows on the payment date:

- A. Debit Accounts Payable \$1,000, credit Cash \$1,000.
- B. Debit Cash \$1,000, credit Accounts Payable \$1,000.
- C. Debit Utilities Expense \$1,000, credit Cash \$1,000.
- D. Debit Cash \$1,000, credit Utilities Expense \$1,000.

82. On July 7, 2012, Saints Inc. received \$10,000 in cash from a customer for services to be provided on October 10, 2012. Which of the following describes how the transaction should be recorded on July 7, 2012?

- A. Debit Cash \$10,000, credit Service Revenue \$10,000.
- B. Debit Accounts Receivable \$10,000, credit Service Revenue \$10,000.
- C. Debit Cash \$10,000, credit Unearned Revenue \$10,000.
- D. Debit Unearned Revenue \$10,000, credit Cash \$10,000.

83. On December 1, 2012, Bears Inc. signed a contract with a retailer to supply maintenance for the next calendar year. How should this transaction be recorded on December 1, 2012?

- A. Debit Cash, credit Service Revenue.
- B. Debit Cash, credit Accounts Receivable.
- C. Debit Accounts Receivable, credit Service Revenue.
- D. No transaction should be recorded on December 1, 2012.

84. On July 31, ALOE Inc. received \$5,000 cash from a customer who previously purchased ALOE's products on account. What should ALOE Inc. record at the time it receives cash?

- A. Debit Accounts Receivable, \$5,000; credit Cash, \$5,000.
- B. Debit Cash, \$5,000; credit Accounts Receivable, \$5,000.
- C. Debit Cash, \$5,000; credit Accounts Payable, \$5,000.
- D. Debit Cash, \$5,000; credit Service Revenue, \$5,000.

85. Tomlin & Company provides music for special occasions. On January 14, the Smith family hired Tomlin for an upcoming family wedding for an agreed upon fee of \$10,000. The wedding was scheduled for May 23. As part of the agreement, the Smiths paid Tomlin half of the fee at the end of April with the remaining amount due by the end of June. How would Tomlin record the receipt of the final payment in June?

- A. Credit to Accounts Receivable.
- B. Credit to Service Revenue.
- C. Credit to Cash.
- D. Debit to Unearned Revenue.

86. Bostel wanted to expand the size of its warehouse in order to generate more profits. The company decided to purchase the building adjacent to its existing warehouse. The company pays for the building by borrowing from the bank. The purchase would be recorded as:

- A. Debit Cash; credit Notes Payable.
- B. Debit Buildings; credit Cash.
- C. Debit Buildings; Credit Notes Payable.
- D. Debit Cash and Buildings; Credit Notes Payable.

87. On July 5, Harris Company purchased supplies from the hardware store for \$600 on account. On July 10, Harris receives a bill from the hardware store as a reminder about the account balance. On July 17, Harris pays the account in full. How does Harris record the transaction on July 17?

- A. 

|                  |     |     |
|------------------|-----|-----|
| Supplies         | 600 |     |
| Accounts Payable |     | 600 |
- B. 

|                  |     |     |
|------------------|-----|-----|
| Accounts Payable | 600 |     |
| Supplies         |     | 600 |
- C. 

|                  |     |     |
|------------------|-----|-----|
| Cash             | 600 |     |
| Accounts Payable |     | 600 |
- D. 

|                  |     |     |
|------------------|-----|-----|
| Accounts Payable | 600 |     |
| Cash             |     | 600 |

88. The Accounts Payable account has a beginning balance of \$12,000 and the company purchased \$50,000 of supplies on account during the month. The ending balance was \$10,000. How much did the company pay to creditors during the month?

- A. \$50,000.
- B. \$52,000.
- C. \$60,000.
- D. \$62,000.

89. On March 3, Cobra Inc. purchased a desk for \$450 on account. On March 22, Cobra purchased another desk for \$500 also on account, and then on March 24, Cobra paid \$400 on account. At the end of March, what amount should Cobra report for desks (assuming these two desks were the only desks they had)?

- A. \$50.
- B. \$450.
- C. \$500.
- D. \$950.

90. Posting is the process of:

- A. Analyzing the impact of the transaction on the accounting equation.
- B. Obtaining information about external transactions from source documents.
- C. Transferring the debit and credit information from the journal to individual accounts in the general ledger.
- D. Listing all accounts and their balances at a particular date.

91. Accounts Receivable account has a beginning balance of \$10,000 and the company provides services of \$50,000 on account during the month. The ending balance was \$12,000. How much did the company receive from customers during the month?

- A. \$50,000.
- B. \$52,000.
- C. \$48,000.
- D. \$62,000.

92. Posting transactions to the T-accounts involve:

- A. Analyzing source documents to determine the effects of transactions on the company's accounts.
- B. Listing all accounts and their balances at a particular date to ensure that debits equal credits.
- C. Preparing a chronological record of all transactions affecting the company.
- D. Transferring debit and credit information from the journal to the accounts in the general ledger.

93. A trial balance can best be explained as a list of:

- A. The income statement accounts used to calculate net income.
- B. Revenue, expense, and dividend accounts used to show the balances of the components of retained earnings.
- C. The balance sheet accounts used to show the equality of the accounting equation.
- D. All accounts and their balances at a particular date.

94. Lithuanian Motors has the following balance sheet accounts:

|                   |           |
|-------------------|-----------|
| Land              | \$170,000 |
| Equipment         | 66,000    |
| Salaries Payable  | ?         |
| Notes Payable     | 88,000    |
| Supplies          | 14,000    |
| Cash              | 26,000    |
| Common Stock      | 100,000   |
| Retained Earnings | 40,000    |
| Accounts Payable  | ?         |
| Prepaid Rent      | 12,000    |

If the company has total assets of \$288,000, what is the balance of the company's Salaries Payable account?

- A. \$15,000.
- B. \$25,000.
- C. \$12,000.
- D. Cannot be determined given the information provided.



95. Finnish Motors has the following balance sheet accounts:

|                   |           |
|-------------------|-----------|
| Land              | \$150,000 |
| Equipment         | 90,000    |
| Salaries Payable  | 12,000    |
| Notes Payable     | 99,000    |
| Supplies          | 10,000    |
| Cash              | 25,000    |
| Common Stock      | 40,000    |
| Retained Earnings | 100,000   |
| Accounts Payable  | ?         |
| Prepaid Rent      | ?         |

If the company has total liabilities and stockholders' equity of \$290,000, what is the balance of the company's Prepaid Rent account?

- A. \$15,000.
- B. \$25,000.
- C. \$12,000.
- D. \$39,000.

96. A trial balance represents the:

- A. Source documents used to determine the effects of transactions on the company's accounts.
- B. List of all accounts and their balances at a particular date to ensure that debits equal credits.
- C. Chronological record of all transactions affecting the company.
- D. Process of transferring debit and credit information from the journal to the accounts in the general ledger.

**True / False Questions**

97. External transactions are transactions the firm conducts with a separate economic entity, such as selling products to a customer, purchasing supplies from a vendor, paying salaries to an employee, and borrowing money from a bank.

True    False

98. Internal transactions are events that affect the financial position of the company but do not include an exchange with a separate economic entity. Examples are using supplies on hand and earning revenues after having received cash in advance from a customer.

True False

99. A list of all account names used to record transactions of a company is referred to as a T-account.

True False

100. After recording each transaction, total assets must equal total liabilities plus stockholders' equity.

True False

101. If a transaction causes total assets of the company to increase by \$2,000, then liabilities plus stockholders' equity also increases by \$2,000.

True False

102. If a transaction causes total assets of the company to increase by \$5,000 and total liabilities to increase by \$3,000, then stockholders' equity increases by \$8,000.

True False

103. Borrowing cash from the bank causes assets to increase and liabilities to increase.

True False

104. Purchasing equipment using cash causes assets to increase.

True False

105. Providing services to customers for cash causes stockholders' equity to increase.

True False

106. Incurring employees' salaries but not paying them causes no change to stockholders' equity.

True False

107. Paying dividends to its stockholders causes a company's stockholders' equity to decrease.

True False

108. Selling common stock for cash causes assets to increase and stockholders' equity to decrease.

True False

109. Purchasing office supplies on account causes assets to increase and liabilities to increase.

True False

110. Providing services to customers on account causes assets to increase and stockholders' equity to increase.

True False

111. Receiving cash in advance from a customer for services to be provided in the future causes assets to increase and stockholders' equity to increase.

True False

112. Paying for one year of rent in advance does not affect the accounting equation.

True False

113. Purchasing supplies on account increases the balance of the Accounts Receivable account.

True False

114. Amounts owed from customers are recorded in the Accounts Receivable account.

True False

115. The two components of stockholders' equity are Debits and Credits.

True False

116. Revenues have the effect of increasing retained earnings.

True False

117. Expenses have the effect of decreasing retained earnings.

True False

118. Receiving cash in advance from customers increases the Service Revenue account.

True False

119. Unearned Revenue is a liability account.

True False

120. Liability accounts increase with a debit and decrease with a credit.  
True False

121. Liability accounts increase with a credit and decrease with a debit.  
True False

122. Common Stock increases with a credit and decreases with a debit.  
True False

123. Revenue accounts increase with a debit and decrease with a credit.  
True False

124. Expense accounts increase with a debit and decrease with a credit.  
True False

125. The Dividends account increases with a credit and decreases with a debit.  
True False

126. A debit to an account balance always results in the balance increasing.  
True False

127. A credit to an account balance always results in the balance decreasing.  
True False

128. A journal provides a chronological record of all transactions affecting a firm.  
True False

129. For each transaction, there must be at least one debit amount and one credit amount.  
True False

130. For each transaction, the total debit amounts must equal the total credit amounts.  
True False

131. Selling common stock for cash is recorded with a debit to common stock.  
True False

132. Borrowing cash from the bank is recorded with a debit to cash.  
True False

133. Purchasing office supplies is recorded with a credit to office supplies.  
True False

134. Paying employees' salaries for the current period is recorded with a debit to Salaries Expense.  
True False

135. Providing services to customers is recorded with a debit to Service Revenue.  
True False

136. The general ledger includes all accounts used to record the company's transactions.  
True False

137. The process of transferring the debit and credit information from the journal to individual accounts in the general ledger is called journalizing.

True False

138. After we've posted transactions to the general ledger accounts, the sum of the accounts with debit balances should equal the sum of the accounts with credit balances.

True False

139. A trial balance is a list of all accounts and their balances at a particular date, showing that assets equal liabilities.

True False

140. If total debits equal total credits in the trial balance, then all balances are correct.

True False

**Matching Questions**

141. Below are the steps in the measurement process of external transactions. Arrange them from first (1) to last (6).

- |  |   |       |
|--|---|-------|
| 1. Analyze the impact of the transaction on the accounting equation.                                 | 5 | _____ |
| 2. Prepare a trial balance.  | 3 | _____ |
| 3. Post the transaction to the T-accounts in the general ledger.                                     | 1 | _____ |
| 4. Record transactions using debits and credits.   | 2 | _____ |
| 5. Assess whether the impact of the transaction results in a debit or credit to the account balance. | 6 | _____ |
| 6. Use source documents to identify accounts affected by external transactions.                      | 4 | _____ |

**Essay Questions**

The following answers point out the key phrases that should appear in students' answers. They are not intended to be examples of complete student responses. It might be helpful to provide detailed instructions to students on how brief or in-depth you want their answers to be.

142. Describe the difference between external events and internal events and give two examples of each.

143. Describe the six steps in the measurement process of external transactions.

144. A company received a utility bill of \$600 but did not pay it. Indicate the amount of increases and decreases in the accounting equation.



145. A company purchases supplies on account for \$1,700. Indicate the amount of increases and decreases in the accounting equation.

146. Using the notion that the accounting equation (Assets = Liabilities + Stockholders' Equity) must remain in balance, indicate whether each of the following transactions is possible.

- (a) Cash decreases; Accounts Payable decreases.
- (b) Salaries Expense increases; Salaries Payable decreases.
- (c) Accounts Receivable decreases; Service Revenue increases.

147. A company provides services to customers on account for \$2,400. Indicate the amount of increases and decreases in the accounting equation.

148. A company pays \$800 dividends to stockholders. Indicate the amount of increases and decreases in the accounting equation.

149. A company pays \$1,300 on account for supplies previously purchased on account. Indicate the amount of increases and decreases in the accounting equation.

150. The following transactions occur for the Hamilton Manufacturers.

- (a) Provide services to customers on account for \$4,500.
- (b) Purchase equipment by signing a note with the bank for \$10,000.
- (c) Pay advertising of \$1,500 for the current month.

Analyze each transaction and indicate the amount of increases and decreases in the accounting equation.

151. Suppose a company has the following balance sheet accounts:

| <b>Accounts</b>   | <b>Balances</b> |
|-------------------|-----------------|
| Land              | \$ 9,000        |
| Building          | ?               |
| Salaries payable  | 3,700           |
| Common stock      | ?               |
| Accounts payable  | 2,600           |
| Cash              | 5,300           |
| Retained earnings | 11,600          |
| Supplies          | 3,200           |
| Equipment         | 4,500           |

Calculate the missing amounts assuming the company has total assets of \$40,000.

152. Explain what it means that external transactions have a dual effect.

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the best term by placing the letter designating the term in the space provided.

- a. Assets
- b. Debit
- c. Journal entry
- d. Liabilities
- e. Revenues
- f. Expenses
- g. Credit
- h. General ledger
- i. Trial balance
- j. Dividends

153. \_\_\_\_ Refers to the right side of an account.

154. \_\_\_\_ Convention used to record transactions of a company.

155. \_\_\_\_ Resources earned by providing goods and services to customers.

156. \_\_\_\_ Resources owned by a company.

157. \_\_\_\_ List of all accounts and their balances after external transactions are recorded.

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the best term by placing the letter designating the term in the space.

- a. Assets
- b. Debit
- c. Journal entry
- d. Liabilities
- e. Revenues
- f. Expenses
- g. Credit
- h. General ledger
- i. Trial balance
- j. Dividends

158. \_\_\_\_ Asset and expense accounts normally have this type of balance.

159. \_\_\_\_ Contains all the accounts of a company.

160. \_\_\_\_ Costs to generate revenues.

161. \_\_\_\_ Resources owed by a company.

162. \_\_\_\_ Payments to stockholders.

163. For each of the following accounts, indicate whether a debit or credit is used to increase (+) or decrease (-) the balance of the account.

| <b>Account</b>        | <b>Debit</b> | <b>Credit</b> |
|-----------------------|--------------|---------------|
| (a) Common Stock      |              |               |
| (b) Liability         |              |               |
| (c) Asset             |              |               |
| (d) Revenue           |              |               |
| (e) Dividend          |              |               |
| (f) Retained Earnings |              |               |
| (g) Expense           |              |               |

164. For each of the following accounts, indicate whether we use a debit or a credit to increase the balance of the account.

- (a) Accounts Receivable
- (b) Accounts Payable
- (c) Salaries Expense
- (d) Service Revenue
- (e) Supplies
- (f) Common Stock
- (g) Advertising Expense
- (h) Dividends

165. For each of the following accounts, indicate whether we use a debit or a credit to decrease the balance of the account.

- (a) Accounts Receivable
- (b) Accounts Payable
- (c) Salaries Expense
- (d) Service Revenue
- (e) Supplies
- (f) Common Stock
- (g) Advertising Expense
- (h) Dividends

166. A company sells common stock for \$20,000 cash. Record the transaction.

167. A company purchases a building for \$100,000, paying \$20,000 cash and signing a note payable for the remainder. Record the transaction.



168. A company purchases machinery for \$15,000 cash. Record the transaction.

169. A company purchases office supplies on account for \$7,500. Record the transaction.

170. A company provides services to customers on account, \$3,500. Record the transaction.

171. A company provides services to customers for \$2,400 cash. Record the transaction.

172. A company incurs employee salaries of \$4,200 but does not pay them. Record the transaction.

173. A company pays \$2,000 dividends to its stockholders. Record the transaction.

174. A company collects \$4,000 cash from customers for services previously provided on account. Record the transaction.

175. A company receives \$6,500 cash in advance from customers for services to be provided next year. Record the transaction.

176. A company pays \$5,400 for maintenance in the current period. Record the transaction.

177. A company pays \$12,000 to purchase a one-year insurance policy. Record the transaction.

178. Record the following transactions for Acme Builders:

- (a) Purchase office supplies on account, \$1,200.
- (b) Provide services to customers for cash, \$2,500.
- (c) Pay \$1,100 in salaries for the current month.

179. Record the following transactions for the Stroud Music Store:

- (a) Provide music lessons to students for \$12,000 on account.
- (b) Purchase music supplies on account, \$1,500.
- (c) Pay rent for the current month, \$2,000.
- (d) Receive \$10,000 cash from students in (a) above.

180. Rite Shoes was involved in the transactions described below. Record each transaction. If an entry is not required, state "No Entry."

- (a) Purchased \$8,200 of supplies on account.
- (b) Paid weekly salaries, \$920.
- (c) Provide services to customers: Cash: \$7,100; On account: \$5,300.
- (d) Paid for supplies purchased in (a) above.
- (e) Placed an order for \$6,200 of supplies.

181. Record the following transactions. If an entry is not required, state "No Entry."

- (a) Started business by issuing 10,000 shares of common stock for \$20,000.
- (b) Hired Rebecca as an administrative assistant, promising to pay her \$2,000 every two week.
- (c) Rented a building for three years at \$500 per month and paid six months' rent in advance.
- (d) Purchased equipment for \$5,400 cash.
- (e) Purchased \$1,800 of supplies on account.
- (f) Provided services to customers for \$7,800 cash.
- (g) Paid employee salaries, \$5,200.
- (h) Paid for supplies purchased in item (e).
- (i) Paid \$800 for current advertising in a local newspaper.
- (j) Paid utility bill of \$1,300 for the current month.

182. Consider the following T-account for Accounts Payable.

| <b>Accounts Payable</b> |        |
|-------------------------|--------|
|                         | 10,200 |
| 8,800                   |        |
|                         | 4,500  |

- 1. Compute the balance of the Accounts Payable account.
- 2. Give an example of a transaction that would have resulted in the \$8,800 posting to the account.
- 3. Give an example of a transaction that would have resulted in the \$4,500 posting to the account.

183. Consider the following transactions for Mittel Corporation:

- a. Sell common stock for \$10,000.
- b. Purchase equipment for \$11,500 cash.
- c. Pay employee salaries of \$3,700.
- d. Provides services to customers for \$6,200 cash.

- 1. Post these transactions to the Cash T-account. Assume the balance of Cash before these transactions is \$4,200.
- 2. Calculate the ending balance of the Cash account.

184. Use the following information to prepare a trial balance.

|                   |         |                     |          |
|-------------------|---------|---------------------|----------|
| Cash              | \$6,200 | Dividends           | \$ 1,200 |
| Unearned revenue  | 1,200   | Salaries expense    | 2,200    |
| Prepaid insurance | 1,200   | Accounts receivable | 3,400    |
| Accounts payable  | 1,900   | Common stock        | 6,200    |
| Retained earnings | 1,600   | Service revenue     | 7,100    |
| Utilities expense | 3,000   | Maintenance expense | 800      |

## Chapter 02 The Accounting Information System **Answer Key**

### Multiple Choice Questions

1. Which of the following is not part of measuring external transactions?

- A. Using source documents to analyze accounts affected.
- B. Recording transactions.
- C. Making payments on all amounts owed.**
- D. Analyzing transactions for their effect on the accounting equation.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

2. External events include all of the following *except*:

- A. Paying employees' salaries.
- B. Purchasing equipment.
- C. Using office supplies.**
- D. Collecting an account receivable.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

3. Which step in the process of measuring external transactions involves assessing the equality of total debits and total credits?

- A. Use source documents to determine accounts affected by the transaction.
- B. Prepare a trial balance.**
- C. Analyze the impact of the transaction on the accounting equation.
- D. Post the transaction to the T-account in the general ledger.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

4. For each transaction recorded in an accounting system, the basic equation that must be maintained at all times is:

- A. Assets = Liabilities + Stockholders' Equity.**
- B. Cash Increases = Cash Decreases.
- C. Revenues = Expenses + Dividends.
- D. Assets = Liabilities.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*



5. The following amounts are reported in the ledger of Mariah Company:

|                   |          |
|-------------------|----------|
| Assets            | \$80,000 |
| Liabilities       | 36,000   |
| Retained Earnings | 12,000   |

What is the balance in the Common Stock account?

- A. \$44,000.
- B.** \$32,000.
- C. \$48,000.
- D. \$42,000.

*AACSB: Analytic*

*AICPA: Measurement*

*Bloom's: Analysis*

*Difficulty: Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

6. When a company incurs workers' salaries but does not pay them, how will the basic accounting equation be affected?

- A.** Stockholders' equity decreases.
- B. Revenues decrease.
- C. Expenses decrease.
- D. Liabilities decrease.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

7. When cash payments are made to stockholders, what is the effect on the company's accounts?

- A.** Cash decreases and dividends increase.
- B. Cash increases and dividends decrease.
- C. Cash decreases and common stock decreases.
- D. Cash increases and common stock increases.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

8. Which of the following is not an asset account?

- A. Supplies.
- B.** Accounts Payable.
- C. Equipment.
- D. Accounts Receivable.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

9. An account receivable can best be defined as:

- A. A payment to the owners.
- B. A sale of goods and services.
- C.** A resource owned by the company.
- D. An amount owed by the company.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

10. Receiving assets from customers before services are performed results in:

- A. Prepaid Assets.
- B. Service Revenue.
- C. Unearned Revenues.**
- D. Accounts Receivable.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

11. When the company pays stockholders a dividend, what is the effect on the accounting equation for that company?

- A. Decrease stockholders' equity and increase assets.
- B. Increase liabilities and increase assets.
- C. Decrease assets and decrease liabilities.
- D. Decrease assets and decrease stockholders' equity.**

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

12. Pumpkin Inc. sold \$500 in pumpkins to a customer on account on January 1. On January 11 Pumpkin collected the cash from that customer. What is the impact on Pumpkin's accounting equation from the collection of cash?

- A. No net effect to the accounting equation.**
- B. Decrease assets and increase liabilities.
- C. Increase assets and increase liabilities.
- D. Decrease assets and decrease liabilities.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

Chapter 02 - The Accounting Information System

13. A company receives a \$50,000 cash deposit from a customer on October 15 but will not provide services until November 20. Which of the following statements is true?

- A. The company records service revenue on October 15.
- B. The company records cash collection November 20.
- C.** The company records an unearned revenue on October 15.
- D. The company records nothing on October 15.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Application*

*Difficulty: Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

14. Which of the following would increase assets and increase liabilities?

- A. Provide services to customers on account.
- B.** Purchase office supplies on account.
- C. Pay dividends to stockholders.
- D. Received a utility bill but do not pay for it.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

15. Receiving cash from an account receivable:

- A. Increases a revenue and decreases an asset.
- B. Decreases a liability and increases an asset.
- C. Increases an asset and increases a revenue.
- D.** Increases one asset and decreases another asset.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

Chapter 02 - The Accounting Information System

16. An expense has what effect on the accounting equation?

- A. Decrease liabilities.
- B. Decrease stockholders' equity.**
- C. Increase assets.
- D. No effect.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

17. A revenue has what effect on the accounting equation?

- A. Increase liabilities.
- B. Decrease assets.
- C. Increase stockholders' equity.**
- D. No effect.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

18. Investments by stockholders have what effect on the accounting equation?

- A. Assets increase and liabilities increase.
- B. Expenses increase and liabilities increase.
- C. Assets increase and revenues increase.
- D. Assets increase and stockholders' equity increases.**

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

Chapter 02 - The Accounting Information System

19. Which of the following is not possible when recording a transaction?

- A. Liabilities increase and assets decrease.
- B. Stockholders' equity increases and assets increase.
- C. One asset increases and another asset decreases.
- D. Stockholders' equity decreases and assets decrease.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

20. Amounts owed to suppliers for supplies purchased on account are defined as:

- A. Cash.
- B. Accounts Receivable.
- C. Accounts Payable.
- D. Supplies Expense.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

21. Purchasing office supplies on account will:

- A. Not change assets.
- B. Increase assets and decrease liabilities.
- C. Increase assets and increase liabilities.
- D. Increase assets and increase stockholders' equity.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

22. Providing services and receiving cash will:
- A.** Increase assets and increase stockholders' equity.
  - B. Increase assets and increase liabilities.
  - C. Decrease assets and increase liabilities.
  - D. Decrease liabilities and increase stockholders' equity.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

23. When a company provides services on account, the accounting equation would be affected as follows:
- A. Assets increase.
  - B. Revenues increase.
  - C. Assets increase and liabilities decrease.
  - D.** Assets increase and stockholders' equity increases.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

24. If a company provides services on account, which of the following is true?
- A. Expenses increase.
  - B. Liabilities increase.
  - C.** Stockholders' equity increases.
  - D. Assets decrease.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

Chapter 02 - The Accounting Information System

25. When a payment is made on an account payable:

- A. Assets and stockholders' equity decrease.
- B. Assets and liabilities decrease.**
- C. Liabilities and revenues decrease.
- D. Assets and expenses decrease.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

26. Purchasing office equipment on account has what impact on the accounting equation?

- A. Stockholders' equity decreases and assets increase.
- B. Liabilities increase and assets increase.**
- C. Assets decrease and liabilities decrease.
- D. Assets increase and stockholders' equity increases.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

27. Purchasing supplies for cash has what effect on the accounting equation?

- A. Increase assets.
- B. Decrease stockholders' equity.
- C. Decrease liabilities.
- D. No effect.**

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*



28. The Unearned Revenue account is shown in which statement?

- A. Income statement.
- B. Statement of cash flows.
- C. Balance sheet.**
- D. Statement of stockholders' equity.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

29. On January 1, Brad Inc. sold \$30,000 in products to a customer on account. Then, on January 10, Brad collected the cash on that account. What is the impact on Brad's accounting equation from the collection of cash on January 10?

- A. No net effect to the accounting equation.**
- B. Assets increase and liabilities decrease.
- C. Assets decrease and liabilities decrease.
- D. Assets increase and stockholders' equity increases.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

30. Consider the following transactions:

- Issued common stock for cash.
- Purchased equipment by signing a note payable.
- Provided services to customers on account.
- Collected cash from customers on account.

How many of these four transactions increased the given company's total liabilities?

- A.** One.
- B. Two.
- C. Three.
- D. Four.

Purchased equipment by signing a note payable.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

31. Consider the following transactions:

- Issued common stock for cash.
- Purchased equipment by signing a note payable.
- Paid rent for the current month.
- Collected cash from customers on account.

How many of these four transactions increased the given company's total assets?

- A. One.
- B.** Two.
- C. Three.
- D. Four.

(1) Issuing stock for cash and (2) Purchasing equipment with a note.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

32. Assume that Sallisaw Sideboards, Inc. had a retained earnings balance of \$10,000 on April 1, and that the company had the following transactions during April.

Issued common stock for cash, \$5,000.

Provided services to customers on account, \$2,000.

Provided services to customers in exchange for cash, \$900.

Purchased equipment and paid cash, \$4,300.

Paid April rent, \$800.

Paid workers salaries for April, \$700.

What was Sallisaw's retained earnings balance at the end of April?

A. \$11,400.

B. \$12,100.

C. \$16,400.

D. Some other amount.

Beginning retained earnings \$10,000 + Net income \$1,400 - Dividends \$0 = Ending retained earnings \$11,400.

Net Income = Revenue (\$2,000 + \$900) - Expenses (\$800 + \$700) = \$1,400.

*AACSB: Analytic*

*AICPA: Measurement*

*Bloom's: Analysis*

*Difficulty: Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

33. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January 2012:

1. Issued 10,000 shares of common stock for \$15,000 cash.
2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

What was the balance of Gotebo's Cash account following these six transactions?

- A. \$29,800.
- B. \$19,300.
- C. \$17,800.**
- D. \$22,400.

$$\text{Cash} = (\$15,000 - \$1,200 + \$14,000 - \$10,000) = \$17,800.$$

*AACSB: Analytic*

*AICPA: Measurement*

*Bloom's: Analysis*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

34. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January 2012:

1. Issued 10,000 shares of common stock for \$15,000 cash.
2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

What was the total amount of Gotebo's liabilities following these six transactions?

- A. \$12,300.
- B. \$27,300.
- C. \$22,600.
- D. \$15,500.

Liabilities =  $(\$12,000 + \$300) = \$12,300$ .

*AACSB: Analytic*

*AICPA: Reporting*

*Bloom's: Analysis*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

35. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January 2012:

1. Issued 10,000 shares of common stock for \$15,000 cash.
2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

How many of these transactions decreased Gotebo's total assets?

- A. One.
- B. Two.
- C. Three.
- D. Four.

Transaction #6.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

36. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January 2012:

1. Issued 10,000 shares of common stock for \$15,000 cash.
2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

How many of these transactions increased Gotebo's liabilities?

- A. Four.
- B. Three.
- C. Two.**
- D. One.

Transactions #2 and #5.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

37. Which of the following transactions causes a decrease in stockholders' equity?

- A. Pay dividends to stockholders.**
- B. Obtain cash by borrowing from a local bank.
- C. Provide services to customers on account.
- D. Purchase office equipment for cash.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

38. How many of the following events would require an expense to be recorded?

- Ordering office supplies
- Hiring a receptionist
- Paying employee salaries for the current month
- Receiving but not paying a current utility bill
- Paying for insurance in advance

- A. One.
- B. Two.**
- C. Three.
- D. Four.

(1) Paying employee salaries for the current month and (2) Receiving but not paying a current utility bill.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

39. On September 30, MFP Co. paid employee salaries \$7,000, including \$1,000 it owed to its employees last month. What are the effects of this transaction on the accounting equation?

- A. Expenses increased, liabilities increased, and assets increased.
- B. Assets decreased, liabilities decreased, and expenses increased.**
- C. Assets decreased, expenses decreased, and liabilities increased.
- D. Expenses decreased, liabilities decreased, and assets decreased.
- E. Assets increased, expenses increased, and liabilities decreased.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*



40. Which of the following is NOT possible for a business transaction?

- A.** Increase assets and decrease revenue.
- B. Decrease assets and increase expense.
- C. Increase liabilities and increase expense.
- D. Decrease liabilities and increase revenue.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

41. Which of the following transactions would cause a decrease in both assets and stockholders' equity?

- A. Paying insurance premium for the next two years.
- B. Purchasing office equipment on account.
- C.** Paying advertising for the current month.
- D. Providing installation services to customers.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

42. When a company issues common stock for cash, what is the effect on the accounting equation for the company?

- A. Assets increase and liabilities increase.
- B.** Assets increase and stockholders' equity increases.
- C. Assets decrease and liabilities decrease.
- D. Liabilities decrease and stockholders' equity increases.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

43. Which of the following is possible for a particular business transaction?

- A. Increase assets; Decrease liabilities
- B. Decrease assets; Increase assets**
- C. Decrease assets; Increase stockholders' equity
- D. Decrease liabilities; Increase expenses

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

44. Providing services to customers on account would affect the balances reported in which financial statement(s)?

- A. Income statement
- B. Statement of stockholders' equity
- C. Balance sheet
- D. All of the financial statements would be affected**

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

45. If the liabilities of a company increased by \$55,000 during a month and the stockholders' equity decreased by \$21,000 during that same month, did assets increase or decrease and by how much?

- A. \$34,000 increase**
- B. \$55,000 increase
- C. \$34,000 decrease
- D. \$76,000 increase

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

46. Which of the accounts are decreased on the debit side and increased on the credit side?

- A.** Liabilities, stockholders' equity, and revenues.
- B. Dividends, liabilities, and assets.
- C. Expenses, dividends, and stockholders' equity.
- D. Assets, dividends, and expenses.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

47. Which of the following is/are true about a "debit"?

- I. It is part of the double-entry procedure that keeps the accounting equation in balance.
- II. It represents an increase to assets.
- III. It represents a decrease to liabilities.
- IV. It is on the right side of a T-account.

- A. I and II.
- B. IV only.
- C.** I, II, and III.
- D. I, II, III, and IV.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

48. Which of the following is/are true about a "credit"?

- I. It is part of the double-entry procedure that keeps the accounting equation in balance.
- II. It represents a decrease to assets.
- III. It represents an increase to liabilities.
- IV. It is on the right side of a T-account.

- A. I and II.
- B. IV only.
- C. I, II, and III.
- D.** I, II, III, and IV.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

49. Dividends normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.

- A.** Debit; Statement of stockholders' equity
- B. Debit; Income statement
- C. Credit; Balance sheet
- D. Debit; Balance Sheet

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

50. Expenses normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.

- A. Debit; Statement of stockholders' equity
- B.** Debit; Income statement
- C. Credit; Balance sheet
- D. Debit; Balance Sheet

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

Chapter 02 - The Accounting Information System

51. Liabilities normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.
- A. Debit; Statement of stockholders' equity
  - B. Debit; Income statement
  - C. Credit; Balance sheet**
  - D. Debit; Balance Sheet

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

52. Which of the following accounts has a debit balance?
- A. Accounts Payable.
  - B. Unearned Revenue.
  - C. Service Revenue.
  - D. Salaries Expense.**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

53. Which of the following accounts would normally have a credit balance?
- A. Accounts Payable, Service Revenue, Common Stock.**
  - B. Salaries Payable, Unearned Revenue, Delivery Expense.
  - C. Income Tax Payable, Service Revenue, Dividends.
  - D. Cash, Repairs and Maintenance Expense, Dividends.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

54. Which of the following accounts would normally have a debit balance?

- A. Accounts Payable, Service Revenue, Common Stock.
- B. Salaries Payable, Unearned Revenue, Utilities Expense.
- C. Income Tax Payable, Service Revenue, Dividends.
- D. Cash, Delivery expense, Dividends.**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

55. Which of the following accounts would normally have a debit balance and appear in the balance sheet?

- A. Accounts Receivable.**
- B. Unearned Revenue.
- C. Salaries Expense.
- D. Dividends.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

56. Which of the following accounts has a credit balance?

- A. Salaries Expense.
- B. Income Tax Payable.**
- C. Land.
- D. Prepaid Rent.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

57. Which of the accounts are increased with a debit and decreased with a credit?

- A. Liabilities, stockholders' equity, and revenues.
- B. Dividends, liabilities, and assets.
- C. Expenses, dividends, and stockholders' equity.
- D. Assets, dividends, and expenses.**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

58. Consider the following list of accounts:

|                  |                     |
|------------------|---------------------|
| Cash             | Retained Earnings   |
| Service Revenue  | Utilities Expense   |
| Salaries Expense | Accounts Receivable |
| Accounts Payable | Common Stock        |
| Equipment        | Dividends           |

How many of these accounts have a normal debit balance?

- A. Four.
- B. Five.
- C. Six.**
- D. Seven.

Cash, Salaries Expense, Equipment, Utilities Expense, Accounts Receivable, Dividends.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

59. Consider the following list of accounts:

Accounts Payable  
Cash  
Prepaid Rent  
Common Stock  
Salaries Payable  
Equipment  
Supplies  
Rent Expense

How many of these accounts have a normal credit balance?

- A. Two.
- B. Three.**
- C. Four.
- D. Five.

Accounts Payable, Common Stock, Salaries Payable.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*



Chapter 02 - The Accounting Information System

60. Consider the following accounts:

Utilities Expense  
Accounts Payable  
Service Revenue  
Common Stock

How many of these accounts are increased with debits?

- A. One.
- B. Two.
- C. Three.
- D. Four.

Utilities Expense.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

61. Consider the following accounts:

Dividends  
Insurance Expense  
Cash  
Service Revenue

How many of these accounts are increased with credits?

- A. One.
- B. Two.
- C. Three.
- D. Four.

Service Revenue.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

62. Which one of the following accounts will have a credit balance?

- A. Dividends
- B. Salary Expense
- C. Supplies
- D. Common Stock**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

63. The following statements pertain to recording transactions. Which of them are true?

- I. Total debits should equal total credits.
- II. It is possible to have multiple debits or credits in one journal entry.
- III. Assets are always listed first in journal entries.
- IV. Some journal entries will have debits only.

- A. I only.
- B. I and II.**
- C. I, II, and IV.
- D. II, III, and IV.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Hard*

*Learning Objective: 02-04 Record transactions using debits and credits.*

64. Which of the following is not a possible journal entry?

- A. Credit assets; Debit expenses.
- B. Debit assets; Debit stockholders' equity.**
- C. Credit revenues; Debit assets.
- D. Debit expenses; Credit liabilities.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

65. Providing services on account would be recorded with a:

- A. Debit to Service Revenue.
- B. Credit to Accounts Receivable.
- C. Credit to Accounts Payable.
- D.** Debit to Accounts Receivable.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

66. Xenon Corporation borrows \$75,000 from First Bank. Xenon Corporation records this transaction with a:

- A. Debit to Investments.
- B. Credit to Retained Earnings.
- C.** Credit to Notes Payable.
- D. Credit to Interest Expense.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

67. Childers Service Company provides services to customers totaling \$3,000, for which it billed the customers. How would the transaction be recorded?

- A. Debit Cash \$3,000, credit Service Revenue \$3,000.
- B.** Debit Accounts Receivable \$3,000, credit Service Revenue \$3,000.
- C. Debit Accounts Receivable \$3,000, credit Cash \$3,000.
- D. Debit Service Revenue \$3,000, credit Accounts Receivable \$3,000.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

68. A company received a bill for newspaper advertising services received, \$400. The bill will be paid in 10 days. How would the transaction be recorded today?

- A. Debit Advertising Expense \$400, credit Accounts Payable \$400.
- B. Debit Accounts Payable \$400, credit Advertising Expense \$400.
- C. Debit Accounts Payable \$400, credit Cash \$400.
- D. Debit Advertising Expense \$400, credit Cash \$400.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

69. When a company pays utilities of \$1,800 in cash, the transaction is recorded as:

- A. Debit Utilities Expense \$1,800, credit Utilities Payable \$1,800.
- B. Debit Utilities Payable \$1,800, credit Cash \$1,800.
- C. Debit Cash \$1,800, credit Utilities Expense \$1,800.
- D. Debit Utilities Expense \$1,800, credit Cash \$1,800.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

70. Assume that cash is paid for rent to cover the next year. The appropriate debit and credit are:

- A. Debit Rent Expense, credit Cash.
- B. Debit Prepaid Rent, credit Rent Expense.
- C. Debit Prepaid Rent, credit Cash.
- D. Debit Cash, credit Prepaid Rent.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

71. Summer Leasing received \$12,000 for 24 months rent in advance. How should Summer record this transaction?

- A. Debit Prepaid Rent; credit Rent Expense.
- B. Debit Cash; credit Unearned Revenue.**
- C. Debit Cash; credit Service Revenue.
- D. Debit Rent Expense; credit Cash.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

72. Styleson Inc. performed cleaning services for its customers for cash. These transactions would be recorded as:

- A. Debit Service Revenue, credit Cash.
- B. Debit Cash, credit Service Revenue.**
- C. Debit Cash, credit Accounts Receivable.
- D. Debit Accounts Receivable, credit Service Revenue.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

73. Assume that \$18,000 cash is paid for insurance to cover the next year. The appropriate debit and credit are:

- A. Debit Insurance Expense \$18,000, credit Prepaid Insurance \$18,000.
- B. Debit Prepaid Insurance \$18,000, credit Insurance Expense \$18,000.
- C. Debit Prepaid Insurance \$18,000, credit Cash \$18,000.**
- D. Debit Cash \$18,000, credit Prepaid Insurance \$18,000.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

74. Schooner Inc. purchased equipment by signing a note payable. This transaction would be recorded as:

- A. Debit Equipment, credit Cash.
- B. Debit Cash, credit Notes Payable.
- C. Debit Notes Payable, credit Equipment.
- D.** Debit Equipment, credit Notes Payable.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

75. When a company pays \$2,500 dividends to its stockholders, the transaction should be recorded as:

- A. Debit Cash; credit Dividends.
- B. Debit Retained Earnings; credit Dividends.
- C.** Debit Dividends; credit Cash.
- D. Debit Dividends; credit Accounts Payable.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

76. Daniel Dino Restaurant owes workers' salaries of \$15,000. This would be recorded as:

- A. Debit Salaries Expense, credit Cash.
- B. Debit Salaries Payable, credit Cash.
- C.** Debit Salaries Expense, credit Salaries Payable.
- D. Debit Salaries Payable, credit Salaries Expense.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

77. Jerome purchased a building for his business by signing a note to pay the amount due over the next ten years. Which of the following correctly describes how to record this transaction?

- A. Debit assets, credit liabilities.
- B. Debit assets, credit stockholders' equity.
- C. Debit liabilities, credit assets.
- D. Debit expenses, credit liabilities.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

78. Incurring an expense for advertising on account would be recorded by:

- A. Debiting liabilities.
- B. Crediting assets.
- C. Debiting an expense.
- D. Debiting assets.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-04 Record transactions using debits and credits.*

79. Tyler Incorporated receives \$150,000 from investors for issuing them shares of its common stock. Tyler Incorporated records this transaction with a:

- A. Debit to Investments.
- B. Credit to Retained Earnings.
- C. Credit to Common Stock.
- D. Credit to Service Revenue.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

80. The owner of an office building should report rent collected in advance as a debit to Cash and a credit to:

- A. A liability.
- B. An asset other than Cash.
- C. A revenue.
- D. An owners' equity.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

81. Clement Company paid an account payable related to a previous utility bill of \$1,000. This transaction should be recorded as follows on the payment date:

- A. Debit Accounts Payable \$1,000, credit Cash \$1,000.
- B. Debit Cash \$1,000, credit Accounts Payable \$1,000.
- C. Debit Utilities Expense \$1,000, credit Cash \$1,000.
- D. Debit Cash \$1,000, credit Utilities Expense \$1,000.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

82. On July 7, 2012, Saints Inc. received \$10,000 in cash from a customer for services to be provided on October 10, 2012. Which of the following describes how the transaction should be recorded on July 7, 2012?

- A. Debit Cash \$10,000, credit Service Revenue \$10,000.
- B. Debit Accounts Receivable \$10,000, credit Service Revenue \$10,000.
- C. Debit Cash \$10,000, credit Unearned Revenue \$10,000.
- D. Debit Unearned Revenue \$10,000, credit Cash \$10,000.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*



83. On December 1, 2012, Bears Inc. signed a contract with a retailer to supply maintenance for the next calendar year. How should this transaction be recorded on December 1, 2012?

- A. Debit Cash, credit Service Revenue.
- B. Debit Cash, credit Accounts Receivable.
- C. Debit Accounts Receivable, credit Service Revenue.
- D.** No transaction should be recorded on December 1, 2012.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Hard*

*Learning Objective: 02-04 Record transactions using debits and credits.*

84. On July 31, ALOE Inc. received \$5,000 cash from a customer who previously purchased ALOE's products on account. What should ALOE Inc. record at the time it receives cash?

- A. Debit Accounts Receivable, \$5,000; credit Cash, \$5,000.
- B.** Debit Cash, \$5,000; credit Accounts Receivable, \$5,000.
- C. Debit Cash, \$5,000; credit Accounts Payable, \$5,000.
- D. Debit Cash, \$5,000; credit Service Revenue, \$5,000.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Hard*

*Learning Objective: 02-04 Record transactions using debits and credits.*

85. Tomlin & Company provides music for special occasions. On January 14, the Smith family hired Tomlin for an upcoming family wedding for an agreed upon fee of \$10,000. The wedding was scheduled for May 23. As part of the agreement, the Smiths paid Tomlin half of the fee at the end of April with the remaining amount due by the end of June. How would Tomlin record the receipt of the final payment in June?

- A.** Credit to Accounts Receivable.
- B. Credit to Service Revenue.
- C. Credit to Cash.
- D. Debit to Unearned Revenue.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Hard*

*Learning Objective: 02-04 Record transactions using debits and credits.*

86. Bostel wanted to expand the size of its warehouse in order to generate more profits. The company decided to purchase the building adjacent to its existing warehouse. The company pays for the building by borrowing from the bank. The purchase would be recorded as:

- A. Debit Cash; credit Notes Payable.
- B. Debit Buildings; credit Cash.
- C. Debit Buildings; Credit Notes Payable.**
- D. Debit Cash and Buildings; Credit Notes Payable.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

87. On July 5, Harris Company purchased supplies from the hardware store for \$600 on account. On July 10, Harris receives a bill from the hardware store as a reminder about the account balance. On July 17, Harris pays the account in full. How does Harris record the transaction on July 17?

- |           |                  |     |  |
|-----------|------------------|-----|--|
|           | Supplies         | 600 |  |
| A.        | Accounts Payable | 600 |  |
|           | Accounts Payable | 600 |  |
| B.        | Supplies         | 600 |  |
|           | Cash             | 600 |  |
| C.        | Accounts Payable | 600 |  |
|           | Accounts Payable | 600 |  |
| <b>D.</b> | Cash             | 600 |  |

*AACSB: Analytic*

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*AICPA: Reporting*

*Bloom's: Application*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

88. The Accounts Payable account has a beginning balance of \$12,000 and the company purchased \$50,000 of supplies on account during the month. The ending balance was \$10,000. How much did the company pay to creditors during the month?

- A. \$50,000.
- B. \$52,000.**
- C. \$60,000.
- D. \$62,000.

$$\$12,000 + \$50,000 - \$10,000 = \$52,000.$$

*AACSB: Analytic*

*AICPA: Measurement*

*Bloom's: Analysis*

*Difficulty: Hard*

*Learning Objective: 02-05 Post transactions to T-accounts in the general ledger.*

89. On March 3, Cobra Inc. purchased a desk for \$450 on account. On March 22, Cobra purchased another desk for \$500 also on account, and then on March 24, Cobra paid \$400 on account. At the end of March, what amount should Cobra report for desks (assuming these two desks were the only desks they had)?

- A. \$50.
- B. \$450.
- C. \$500.
- D. \$950.**

*AACSB: Analytic*

*AICPA: Reporting*

*Bloom's: Analysis*

*Difficulty: Medium*

*Learning Objective: 02-05 Post transactions to T-accounts in the general ledger.*

90. Posting is the process of:

- A. Analyzing the impact of the transaction on the accounting equation.
- B. Obtaining information about external transactions from source documents.
- C.** Transferring the debit and credit information from the journal to individual accounts in the general ledger.
- D. Listing all accounts and their balances at a particular date.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-05 Post transactions to T-accounts in the general ledger.*

91. Accounts Receivable account has a beginning balance of \$10,000 and the company provides services of \$50,000 on account during the month. The ending balance was \$12,000. How much did the company receive from customers during the month?

- A. \$50,000.
- B. \$52,000.
- C.** \$48,000.
- D. \$62,000.

$$\$10,000 + \$50,000 - \$12,000 = \$48,000.$$

*AACSB: Analytic*

*AICPA: Measurement*

*Bloom's: Analysis*

*Difficulty: Hard*

*Learning Objective: 02-05 Post transactions to T-accounts in the general ledger.*

92. Posting transactions to the T-accounts involve:

- A. Analyzing source documents to determine the effects of transactions on the company's accounts.
- B. Listing all accounts and their balances at a particular date to ensure that debits equal credits.
- C. Preparing a chronological record of all transactions affecting the company.
- D.** Transferring debit and credit information from the journal to the accounts in the general ledger.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Hard*

*Learning Objective: 02-05 Post transactions to T-accounts in the general ledger.*

93. A trial balance can best be explained as a list of:

- A. The income statement accounts used to calculate net income.
- B. Revenue, expense, and dividend accounts used to show the balances of the components of retained earnings.
- C. The balance sheet accounts used to show the equality of the accounting equation.
- D.** All accounts and their balances at a particular date.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-06 Prepare a trial balance.*

94. Lithuanian Motors has the following balance sheet accounts:

|                   |           |
|-------------------|-----------|
| Land              | \$170,000 |
| Equipment         | 66,000    |
| Salaries Payable  | ?         |
| Notes Payable     | 88,000    |
| Supplies          | 14,000    |
| Cash              | 26,000    |
| Common Stock      | 100,000   |
| Retained Earnings | 40,000    |
| Accounts Payable  | ?         |
| Prepaid Rent      | 12,000    |

If the company has total assets of \$288,000, what is the balance of the company's Salaries Payable account?

- A. \$15,000.
- B. \$25,000.
- C. \$12,000.
- D.** Cannot be determined given the information provided.

Total liabilities + Stockholders' equity = (\$288,000) = Accounts Payable (?) + Salaries Payable (?) + Notes Payable (\$88,000) + Common Stock (\$100,000) + Retained Earnings (\$40,000); therefore, with two unknowns there is not enough information to solve the problem.

*AACSB: Analytic*  
*AICPA: Measurement*  
*Bloom's: Analysis*  
*Difficulty: Hard*  
*Learning Objective: 02-06 Prepare a trial balance.*

95. Finnish Motors has the following balance sheet accounts:

|                   |           |
|-------------------|-----------|
| Land              | \$150,000 |
| Equipment         | 90,000    |
| Salaries Payable  | 12,000    |
| Notes Payable     | 99,000    |
| Supplies          | 10,000    |
| Cash              | 25,000    |
| Common Stock      | 40,000    |
| Retained Earnings | 100,000   |
| Accounts Payable  | ?         |
| Prepaid Rent      | ?         |

If the company has total liabilities and stockholders' equity of \$290,000, what is the balance of the company's Prepaid Rent account?

- A. \$15,000.
- B. \$25,000.
- C. \$12,000.
- D. \$39,000.

Total assets (\$290,000) = Land (\$150,000) + Equipment (\$90,000) + Supplies (\$10,000) + Cash (\$25,000) + Prepaid Rent (?); therefore, Prepaid Rent = \$15,000.

*AACSB: Analytic*  
*AICPA: Measurement*  
*Bloom's: Analysis*  
*Difficulty: Hard*  
*Learning Objective: 02-06 Prepare a trial balance.*

96. A trial balance represents the:

- A. Source documents used to determine the effects of transactions on the company's accounts.
- B. List of all accounts and their balances at a particular date to ensure that debits equal credits.
- C. Chronological record of all transactions affecting the company.
- D. Process of transferring debit and credit information from the journal to the accounts in the general ledger.

*AACSB: Reflective Thinking*  
*AICPA: Critical Thinking*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-06 Prepare a trial balance.*

**True / False Questions**

97. External transactions are transactions the firm conducts with a separate economic entity, such as selling products to a customer, purchasing supplies from a vendor, paying salaries to an employee, and borrowing money from a bank.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

98. Internal transactions are events that affect the financial position of the company but do not include an exchange with a separate economic entity. Examples are using supplies on hand and earning revenues after having received cash in advance from a customer.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

99. A list of all account names used to record transactions of a company is referred to as a T-account.

**FALSE**

This is referred to as a chart of accounts.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*



Chapter 02 - The Accounting Information System

100. After recording each transaction, total assets must equal total liabilities plus stockholders' equity.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

101. If a transaction causes total assets of the company to increase by \$2,000, then liabilities plus stockholders' equity also increases by \$2,000.

**TRUE**

*AACSB: Analytic*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

102. If a transaction causes total assets of the company to increase by \$5,000 and total liabilities to increase by \$3,000, then stockholders' equity increases by \$8,000.

**FALSE**

Assets (\$5,000) = Liabilities (\$3,000) + Stockholders' Equity (\$2,000).

*AACSB: Analytic*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

103. Borrowing cash from the bank causes assets to increase and liabilities to increase.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

104. Purchasing equipment using cash causes assets to increase.

**FALSE**

There is no change to total assets.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

105. Providing services to customers for cash causes stockholders' equity to increase.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

106. Incurring employees' salaries but not paying them causes no change to stockholders' equity.

**FALSE**

The salaries expense would reduce stockholders' equity.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

107. Paying dividends to its stockholders causes a company's stockholders' equity to decrease.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

108. Selling common stock for cash causes assets to increase and stockholders' equity to decrease.

**FALSE**

Stockholders' equity increases.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

109. Purchasing office supplies on account causes assets to increase and liabilities to increase.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

110. Providing services to customers on account causes assets to increase and stockholders' equity to increase.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

111. Receiving cash in advance from a customer for services to be provided in the future causes assets to increase and stockholders' equity to increase.

**FALSE**

Assets increase and liabilities increase.

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

112. Paying for one year of rent in advance does not affect the accounting equation.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

113. Purchasing supplies on account increases the balance of the Accounts Receivable account.

**FALSE**

The balance of Accounts Payable increases.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Application*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

114. Amounts owed from customers are recorded in the Accounts Receivable account.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

115. The two components of stockholders' equity are Debits and Credits.

**FALSE**

The two components of stockholders' equity are Common Stock and Retained Earnings.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

116. Revenues have the effect of increasing retained earnings.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Application*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

117. Expenses have the effect of decreasing retained earnings.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Application*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

118. Receiving cash in advance from customers increases the Service Revenue account.

**FALSE**

Receiving cash in advance from customers increases the Unearned Revenue account.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

119. Unearned Revenue is a liability account.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

120. Liability accounts increase with a debit and decrease with a credit.

**FALSE**

Liability accounts increase with a credit and decrease with a debit.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

121. Liability accounts increase with a credit and decrease with a debit.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

122. Common Stock increases with a credit and decreases with a debit.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

123. Revenue accounts increase with a debit and decrease with a credit.

**FALSE**

Revenue accounts increase with a credit and decrease with a debit.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

124. Expense accounts increase with a debit and decrease with a credit.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

125. The Dividends account increases with a credit and decreases with a debit.

**FALSE**

The Dividends account increases with a debit and decreases with a credit.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

126. A debit to an account balance always results in the balance increasing.

**FALSE**

A debit increases assets, dividends, and expenses, but decreases liabilities, stockholders' equity, and revenues.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

127. A credit to an account balance always results in the balance decreasing.

**FALSE**

A credit decreases assets, dividends, and expense, but increases liabilities, stockholders' equity, and revenues.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

128. A journal provides a chronological record of all transactions affecting a firm.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-04 Record transactions using debits and credits.*

129. For each transaction, there must be at least one debit amount and one credit amount.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-04 Record transactions using debits and credits.*



130. For each transaction, the total debit amounts must equal the total credit amounts.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-04 Record transactions using debits and credits.*

131. Selling common stock for cash is recorded with a debit to common stock.

**FALSE**

Selling common stock for cash is recorded with a credit to common stock.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-04 Record transactions using debits and credits.*

132. Borrowing cash from the bank is recorded with a debit to cash.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-04 Record transactions using debits and credits.*

133. Purchasing office supplies is recorded with a credit to office supplies.

**FALSE**

Purchasing office supplies is recorded with a debit to office supplies.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-04 Record transactions using debits and credits.*

134. Paying employees' salaries for the current period is recorded with a debit to Salaries Expense.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-04 Record transactions using debits and credits.*

135. Providing services to customers is recorded with a debit to Service Revenue.

**FALSE**

Providing services to customers is recorded with a credit to Service Revenue.

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-04 Record transactions using debits and credits.*

136. The general ledger includes all accounts used to record the company's transactions.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-05 Post transactions to T-accounts in the general ledger.*

137. The process of transferring the debit and credit information from the journal to individual accounts in the general ledger is called journalizing.

**FALSE**

The process is called posting.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-05 Post transactions to T-accounts in the general ledger.*

138. After we've posted transactions to the general ledger accounts, the sum of the accounts with debit balances should equal the sum of the accounts with credit balances.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA: Critical Thinking*  
*Bloom's: Comprehension*  
*Difficulty: Easy*  
*Learning Objective: 02-06 Prepare a trial balance.*

139. A trial balance is a list of all accounts and their balances at a particular date, showing that assets equal liabilities.

**FALSE**

The trial balance shows that total debits equal total credits.

*AACSB: Reflective Thinking*  
*AICPA: Critical Thinking*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-06 Prepare a trial balance.*

140. If total debits equal total credits in the trial balance, then all balances are correct.

**FALSE**

A trial balance could contain offsetting errors where the balance of one account is misstated in one direction but the balance of another account (with the same type of debit or credit balance) is misstated in the other direction.

*AACSB: Reflective Thinking*  
*AICPA: Critical Thinking*  
*AICPA: Measurement*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-06 Prepare a trial balance.*

**Matching Questions**

141. Below are the steps in the measurement process of external transactions. Arrange them from first (1) to last (6).

- |  |   |          |
|--|---|----------|
| 1. Analyze the impact of the transaction on the accounting equation.                                 | 5 | <u>3</u> |
| 2. Prepare a trial balance.  | 3 | <u>5</u> |
| 3. Post the transaction to the T-accounts in the general ledger.                                     | 1 | <u>6</u> |
| 4. Record transactions using debits and credits.   | 2 | <u>1</u> |
| 5. Assess whether the impact of the transaction results in a debit or credit to the account balance. | 6 | <u>2</u> |
| 6. Use source documents to identify accounts affected by external transactions.                      | 4 | <u>4</u> |

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

**Essay Questions**

The following answers point out the key phrases that should appear in students' answers. They are not intended to be examples of complete student responses. It might be helpful to provide detailed instructions to students on how brief or in-depth you want their answers to be.

142. Describe the difference between external events and internal events and give two examples of each.

External events involve an exchange between the company and a separate economic entity. Examples include purchasing office supplies on account or borrowing money from a bank. Internal events directly affect the financial position of the company but do not involve exchange transactions with another entity. Examples include depreciation of equipment or use of supplies.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

143. Describe the six steps in the measurement process of external transactions.

The six steps include: (1) Use source documents to identify accounts affected by external transactions, (2) analyze the impact of the transaction on the accounting equation, (3) assess whether the impact of the transaction results in a debit or credit to the account balance, (4) record transactions using debits and credits, (5) post the transaction to the T-accounts in the general ledger, and (6) prepare a trial balance.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

144. A company received a utility bill of \$600 but did not pay it. Indicate the amount of increases and decreases in the accounting equation.

|               |   |                    |   |                             |
|---------------|---|--------------------|---|-----------------------------|
| <b>Assets</b> | = | <b>Liabilities</b> | + | <b>Stockholders' Equity</b> |
| \$0           | = | \$600              | + | -\$600                      |

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

145. A company purchases supplies on account for \$1,700. Indicate the amount of increases and decreases in the accounting equation.

|                |   |                    |   |                             |
|----------------|---|--------------------|---|-----------------------------|
| <b>Assets</b>  | = | <b>Liabilities</b> | + | <b>Stockholders' Equity</b> |
| <b>\$1,700</b> | = | <b>\$1,700</b>     | + | <b>\$0</b>                  |

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

146. Using the notion that the accounting equation (Assets = Liabilities + Stockholders' Equity) must remain in balance, indicate whether each of the following transactions is possible.

- (a) Cash decreases; Accounts Payable decreases.
- (b) Salaries Expense increases; Salaries Payable decreases.
- (c) Accounts Receivable decreases; Service Revenue increases.

(a) Yes; (b) No; (c) No

*AACSB: Reflective Thinking*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

147. A company provides services to customers on account for \$2,400. Indicate the amount of increases and decreases in the accounting equation.

|                |   |                    |   |                             |
|----------------|---|--------------------|---|-----------------------------|
| <b>Assets</b>  | = | <b>Liabilities</b> | + | <b>Stockholders' Equity</b> |
| <b>\$2,400</b> | = | <b>\$0</b>         | + | <b>\$2,400</b>              |

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

148. A company pays \$800 dividends to stockholders. Indicate the amount of increases and decreases in the accounting equation.

|               |   |                    |   |                             |
|---------------|---|--------------------|---|-----------------------------|
| <b>Assets</b> | = | <b>Liabilities</b> | + | <b>Stockholders' Equity</b> |
| -\$800        | = | \$0                | + | -\$800                      |

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

149. A company pays \$1,300 on account for supplies previously purchased on account. Indicate the amount of increases and decreases in the accounting equation.

|               |   |                    |   |                             |
|---------------|---|--------------------|---|-----------------------------|
| <b>Assets</b> | = | <b>Liabilities</b> | + | <b>Stockholders' Equity</b> |
| -\$1,300      | = | -\$1,300           | + | \$0                         |

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

150. The following transactions occur for the Hamilton Manufacturers.

- (a) Provide services to customers on account for \$4,500.
- (b) Purchase equipment by signing a note with the bank for \$10,000.
- (c) Pay advertising of \$1,500 for the current month.

Analyze each transaction and indicate the amount of increases and decreases in the accounting equation.

|            | <u>Assets</u>    | = | <u>Liabilities</u> | + | <u>Stockholders' Equity</u> |
|------------|------------------|---|--------------------|---|-----------------------------|
| <b>(a)</b> | <b>+\$4,500</b>  | = | <b>\$0</b>         | + | <b>+\$4,500</b>             |
| <b>(b)</b> | <b>+\$10,000</b> | = | <b>+\$10,000</b>   | + | <b>\$0</b>                  |
| <b>(c)</b> | <b>-\$1,500</b>  | = | <b>\$0</b>         | + | <b>-\$1,500</b>             |

*AACSB: Reflective Thinking*

*AICPA: Reporting*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*



151. Suppose a company has the following balance sheet accounts:

| <b>Accounts</b>   | <b>Balances</b> |
|-------------------|-----------------|
| Land              | \$ 9,000        |
| Building          | ?               |
| Salaries payable  | 3,700           |
| Common stock      | ?               |
| Accounts payable  | 2,600           |
| Cash              | 5,300           |
| Retained earnings | 11,600          |
| Supplies          | 3,200           |
| Equipment         | 4,500           |

Calculate the missing amounts assuming the company has total assets of \$40,000.

Building = \$18,000; Common stock = \$22,100.

Feedback:  $\$40,000 = \text{Land } (\$9,000) + \text{Building } (?) + \text{Cash } (\$5,300) + \text{Supplies } (\$3,200) + \text{Equipment } (\$4,500)$ ; therefore, Building = \$18,000.  $\$40,000 = \text{Salaries Payable } (\$3,700) + \text{Common Stock } (?) + \text{Accounts Payable } (\$2,600) + \text{Retained Earnings } (\$11,600)$ ; therefore, Common Stock = \$22,100

*AACSB: Analytic*

*AICPA: Measurement*

*Bloom's: Analysis*

*Difficulty: Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

152. Explain what it means that external transactions have a dual effect.

Dual effect refers to each transaction having at least two effects on the accounting equation. Either an economic event increases (decreases) one side of the equation and also increases (decreases) the other side of the equation by the same amount, or the economic event increases one element and decreases another element by an equal amount, both on the same side of the accounting equation.

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

Chapter 02 - The Accounting Information System

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the best term by placing the letter designating the term in the space provided.

- a. Assets
- b. Debit
- c. Journal entry
- d. Liabilities
- e. Revenues
- f. Expenses
- g. Credit
- h. General ledger
- i. Trial balance
- j. Dividends

153. \_\_\_\_ Refers to the right side of an account.

g

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Learning Objective: 02-04 Record transactions using debits and credits.*

*Learning Objective: 02-06 Prepare a trial balance.*

154. \_\_\_\_ Convention used to record transactions of a company.

c

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Learning Objective: 02-04 Record transactions using debits and credits.*

*Learning Objective: 02-06 Prepare a trial balance.*

Chapter 02 - The Accounting Information System

155. \_\_\_\_ Resources earned by providing goods and services to customers.

e

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Learning Objective: 02-04 Record transactions using debits and credits.*

*Learning Objective: 02-06 Prepare a trial balance.*

156. \_\_\_\_ Resources owned by a company.

a

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Learning Objective: 02-04 Record transactions using debits and credits.*

*Learning Objective: 02-06 Prepare a trial balance.*

157. \_\_\_\_ List of all accounts and their balances after external transactions are recorded.

i

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Learning Objective: 02-04 Record transactions using debits and credits.*

*Learning Objective: 02-06 Prepare a trial balance.*

Chapter 02 - The Accounting Information System

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the best term by placing the letter designating the term in the space.

- a. Assets
- b. Debit
- c. Journal entry
- d. Liabilities
- e. Revenues
- f. Expenses
- g. Credit
- h. General ledger
- i. Trial balance
- j. Dividends

158. \_\_\_\_ Asset and expense accounts normally have this type of balance.

b

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Learning Objective: 02-05 Post transactions to T-accounts in the general ledger.*

159. \_\_\_\_ Contains all the accounts of a company.

h

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Learning Objective: 02-05 Post transactions to T-accounts in the general ledger.*

Chapter 02 - The Accounting Information System

160. \_\_\_\_ Costs to generate revenues.

f

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Learning Objective: 02-05 Post transactions to T-accounts in the general ledger.*

161. \_\_\_\_ Resources owed by a company.

d

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Learning Objective: 02-05 Post transactions to T-accounts in the general ledger.*

162. \_\_\_\_ Payments to stockholders.

j

*AACSB: Reflective Thinking*

*AICPA: Critical Thinking*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Learning Objective: 02-05 Post transactions to T-accounts in the general ledger.*

163. For each of the following accounts, indicate whether a debit or credit is used to increase (+) or decrease (-) the balance of the account.

| <b>Account</b>        | <b>Debit</b> | <b>Credit</b> |
|-----------------------|--------------|---------------|
| (a) Common Stock      |              |               |
| (b) Liability         |              |               |
| (c) Asset             |              |               |
| (d) Revenue           |              |               |
| (e) Dividend          |              |               |
| (f) Retained Earnings |              |               |
| (g) Expense           |              |               |

(a) -,+; (b) -,+; (c) +,-; (d) -,+; (e) +,-; (f) -,+; (g) +,-

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

164. For each of the following accounts, indicate whether we use a debit or a credit to increase the balance of the account.

- (a) Accounts Receivable
- (b) Accounts Payable
- (c) Salaries Expense
- (d) Service Revenue
- (e) Supplies
- (f) Common Stock
- (g) Advertising Expense
- (h) Dividends

(a) debit; (b) credit; (c) debit; (d) credit; (e) debit; (f) credit; (g) debit; (h) debit

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

165. For each of the following accounts, indicate whether we use a debit or a credit to decrease the balance of the account.

- (a) Accounts Receivable
- (b) Accounts Payable
- (c) Salaries Expense
- (d) Service Revenue
- (e) Supplies
- (f) Common Stock
- (g) Advertising Expense
- (h) Dividends

(a) credit; (b) debit; (c) credit; (d) debit; (e) credit; (f) debit; (g) credit; (h) credit

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

166. A company sells common stock for \$20,000 cash. Record the transaction.

|             |                     |               |               |
|-------------|---------------------|---------------|---------------|
| <b>Cash</b> |                     | <b>20,000</b> |               |
|             | <b>Common Stock</b> |               | <b>20,000</b> |

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-04 Record transactions using debits and credits.*

Chapter 02 - The Accounting Information System

167. A company purchases a building for \$100,000, paying \$20,000 cash and signing a note payable for the remainder. Record the transaction.

|                      |                |               |
|----------------------|----------------|---------------|
| <b>Building</b>      | <b>100,000</b> |               |
| <b>Cash</b>          |                | <b>20,000</b> |
| <b>Notes Payable</b> |                | <b>80,000</b> |

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-04 Record transactions using debits and credits.*

168. A company purchases machinery for \$15,000 cash. Record the transaction.

|                  |               |               |
|------------------|---------------|---------------|
| <b>Equipment</b> | <b>15,000</b> |               |
| <b>Cash</b>      |               | <b>15,000</b> |

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Comprehension*  
*Difficulty: Easy*  
*Learning Objective: 02-04 Record transactions using debits and credits.*

169. A company purchases office supplies on account for \$7,500. Record the transaction.

|                         |              |              |
|-------------------------|--------------|--------------|
| <b>Office Supplies</b>  | <b>7,500</b> |              |
| <b>Accounts Payable</b> |              | <b>7,500</b> |

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Comprehension*  
*Difficulty: Easy*  
*Learning Objective: 02-04 Record transactions using debits and credits.*



Chapter 02 - The Accounting Information System

170. A company provides services to customers on account, \$3,500. Record the transaction.

|                            |              |              |
|----------------------------|--------------|--------------|
| <b>Accounts Receivable</b> | <b>3,500</b> |              |
| <b>Service Revenue</b>     |              | <b>3,500</b> |

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-04 Record transactions using debits and credits.*

171. A company provides services to customers for \$2,400 cash. Record the transaction.

|                        |              |              |
|------------------------|--------------|--------------|
| <b>Cash</b>            | <b>2,400</b> |              |
| <b>Service Revenue</b> |              | <b>2,400</b> |

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-04 Record transactions using debits and credits.*

172. A company incurs employee salaries of \$4,200 but does not pay them. Record the transaction.

|                         |              |              |
|-------------------------|--------------|--------------|
| <b>Salaries Expense</b> | <b>4,200</b> |              |
| <b>Salaries Payable</b> |              | <b>4,200</b> |

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

Chapter 02 - The Accounting Information System

173. A company pays \$2,000 dividends to its stockholders. Record the transaction.

|                  |              |              |
|------------------|--------------|--------------|
| <b>Dividends</b> | <b>2,000</b> |              |
| <b>Cash</b>      |              | <b>2,000</b> |

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Comprehension*  
*Difficulty: Easy*  
*Learning Objective: 02-04 Record transactions using debits and credits.*

174. A company collects \$4,000 cash from customers for services previously provided on account. Record the transaction.

|                            |              |              |
|----------------------------|--------------|--------------|
| <b>Cash</b>                | <b>4,000</b> |              |
| <b>Accounts Receivable</b> |              | <b>4,000</b> |

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-04 Record transactions using debits and credits.*

175. A company receives \$6,500 cash in advance from customers for services to be provided next year. Record the transaction.

|                         |              |              |
|-------------------------|--------------|--------------|
| <b>Cash</b>             | <b>6,500</b> |              |
| <b>Unearned Revenue</b> |              | <b>6,500</b> |

*AACSB: Reflective Thinking*  
*AICPA: Measurement*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-04 Record transactions using debits and credits.*

176. A company pays \$5,400 for maintenance in the current period. Record the transaction.

|  |              |              |
|--|--------------|--------------|
| <b>Repairs and Maintenance Expense</b> | <b>5,400</b> |              |
| <b>Cash</b>                            |              | <b>5,400</b> |

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Easy*

*Learning Objective: 02-04 Record transactions using debits and credits.*

177. A company pays \$12,000 to purchase a one-year insurance policy. Record the transaction.

|                          |               |               |
|--------------------------|---------------|---------------|
| <b>Prepaid Insurance</b> | <b>12,000</b> |               |
| <b>Cash</b>              |               | <b>12,000</b> |

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

178. Record the following transactions for Acme Builders:

- (a) Purchase office supplies on account, \$1,200.
- (b) Provide services to customers for cash, \$2,500.
- (c) Pay \$1,100 in salaries for the current month.

|                  |       |       |  |
|------------------|-------|-------|--|
| (a)              |       |       |  |
| Supplies         | 1,200 |       |  |
| Accounts Payable |       | 1,200 |  |
| (b)              |       |       |  |
| Cash             | 2,500 |       |  |
| Service Revenue  |       | 2,500 |  |
| (c)              |       |       |  |
| Salaries Expense | 1,100 |       |  |
| Cash             |       | 1,100 |  |

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

179. Record the following transactions for the Stroud Music Store:

- (a) Provide music lessons to students for \$12,000 on account.
- (b) Purchase music supplies on account, \$1,500.
- (c) Pay rent for the current month, \$2,000.
- (d) Receive \$10,000 cash from students in (a) above.

|                     |        |        |  |
|---------------------|--------|--------|--|
| (a)                 |        |        |  |
| Accounts Receivable | 12,000 |        |  |
| Service Revenue     |        | 12,000 |  |
| (b)                 |        |        |  |
| Supplies            | 1,500  |        |  |
| Accounts Payable    |        | 1,500  |  |
| (c)                 |        |        |  |
| Rent Expense        | 2,000  |        |  |
| Cash                |        | 2,000  |  |
| (d)                 |        |        |  |
| Cash                | 10,000 |        |  |
| Accounts Receivable |        | 10,000 |  |

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-04 Record transactions using debits and credits.*

180. Rite Shoes was involved in the transactions described below. Record each transaction. If an entry is not required, state "No Entry."

- (a) Purchased \$8,200 of supplies on account.
- (b) Paid weekly salaries, \$920.
- (c) Provide services to customers: Cash: \$7,100; On account: \$5,300.
- (d) Paid for supplies purchased in (a) above.
- (e) Placed an order for \$6,200 of supplies.

|      |                     |       |        |
|------|---------------------|-------|--------|
| (a)  | Supplies            | 8,200 |        |
|      | Accounts Payable    |       | 8,200  |
| <br> |                     |       |        |
| (b)  | Salaries expense    | 920   |        |
|      | Cash                |       | 920    |
| <br> |                     |       |        |
| (c)  | Cash                | 7,100 |        |
|      | Accounts Receivable | 5,300 |        |
|      | Service Revenue     |       | 12,400 |
| <br> |                     |       |        |
| (d)  | Accounts Payable    | 8,200 |        |
|      | Cash                |       | 8,200  |
| <br> |                     |       |        |
| (e)  | No Entry.           |       |        |

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Hard*

*Learning Objective: 02-04 Record transactions using debits and credits.*

181. Record the following transactions. If an entry is not required, state "No Entry."

- (a) Started business by issuing 10,000 shares of common stock for \$20,000.
- (b) Hired Rebecca as an administrative assistant, promising to pay her \$2,000 every two week.
- (c) Rented a building for three years at \$500 per month and paid six months' rent in advance.
- (d) Purchased equipment for \$5,400 cash.
- (e) Purchased \$1,800 of supplies on account.
- (f) Provided services to customers for \$7,800 cash.
- (g) Paid employee salaries, \$5,200.
- (h) Paid for supplies purchased in item (e).
- (i) Paid \$800 for current advertising in a local newspaper.
- (j) Paid utility bill of \$1,300 for the current month.

|     |                     |        |        |
|-----|---------------------|--------|--------|
| (a) | Cash                | 20,000 |        |
|     | Common Stock        |        | 20,000 |
| (b) | No Entry.           |        |        |
| (c) | Prepaid Rent        | 3,000  |        |
|     | Cash                |        | 3,000  |
| (d) | Equipment           | 5,400  |        |
|     | Cash                |        | 5,400  |
| (e) | Supplies            | 1,800  |        |
|     | Accounts Payable    |        | 1,800  |
| (f) | Cash                | 7,800  |        |
|     | Service Revenue     |        | 7,800  |
| (g) | Salaries Expense    | 5,200  |        |
|     | Cash                |        | 5,200  |
| (h) | Accounts Payable    | 1,800  |        |
|     | Cash                |        | 1,800  |
| (i) | Advertising Expense | 800    |        |
|     | Cash                |        | 800    |
| (j) | Utilities Expense   | 1,300  |        |
|     | Cash                |        | 1,300  |

*AACSB: Reflective Thinking*

*AICPA: Measurement*

*Bloom's: Comprehension*

*Difficulty: Hard*

*Learning Objective: 02-04 Record transactions using debits and credits.*

182. Consider the following T-account for Accounts Payable.

| <b>Accounts Payable</b> |        |
|-------------------------|--------|
| 8,800                   | 10,200 |
|                         | 4,500  |

1. Compute the balance of the Accounts Payable account.
2. Give an example of a transaction that would have resulted in the \$8,800 posting to the account.
3. Give an example of a transaction that would have resulted in the \$4,500 posting to the account.

1.  $\$10,200 - \$8,800 + \$4,500 = \$5,900$ .
2. Postings on the left side (or debit side) of the Accounts Payable T-account represent decreases to accounts payable, such as making a payment on the account.
3. Postings on the right side (or credit side) of the Accounts Payable T-account represent increases to accounts payable, such as purchasing office supplies on account.

*AACSB: Analytic*

*AICPA: Measurement*

*Bloom's: Analysis*

*Difficulty: Hard*

*Learning Objective: 02-05 Post transactions to T-accounts in the general ledger.*



183. Consider the following transactions for Mittel Corporation:

- a. Sell common stock for \$10,000.
- b. Purchase equipment for \$11,500 cash.
- c. Pay employee salaries of \$3,700.
- d. Provides services to customers for \$6,200 cash.

- 1. Post these transactions to the Cash T-account. Assume the balance of Cash before these transactions is \$4,200.
- 2. Calculate the ending balance of the Cash account.

| <b>Cash</b> |        |
|-------------|--------|
| 4,200       |        |
| 10,000      | 11,500 |
| 6,200       | 3,700  |
| 5,200       |        |

*AACSB: Analytic*  
*AICPA: Measurement*  
*Bloom's: Analysis*  
*Difficulty: Medium*  
*Learning Objective: 02-05 Post transactions to T-accounts in the general ledger.*

## Chapter 02 - The Accounting Information System

184. Use the following information to prepare a trial balance.

|                   |         |                     |          |
|-------------------|---------|---------------------|----------|
| Cash              | \$6,200 | Dividends           | \$ 1,200 |
| Unearned revenue  | 1,200   | Salaries expense    | 2,200    |
| Prepaid insurance | 1,200   | Accounts receivable | 3,400    |
| Accounts payable  | 1,900   | Common stock        | 6,200    |
| Retained earnings | 1,600   | Service revenue     | 7,100    |
| Utilities expense | 3,000   | Maintenance expense | 800      |

| <b>Trial Balance</b> |                 |                 |
|----------------------|-----------------|-----------------|
|                      | <u>Debit</u>    | <u>Credit</u>   |
| Cash                 | \$6,200         |                 |
| Accounts receivable  | 3,400           |                 |
| Prepaid insurance    | 1,200           |                 |
| Accounts payable     |                 | \$1,900         |
| Unearned revenue     |                 | 1,200           |
| Common stock         |                 | 6,200           |
| Retained earnings    |                 | 1,600           |
| Dividends            | 1,200           |                 |
| Service revenue      |                 | 7,100           |
| Salaries expense     | 2,200           |                 |
| Utilities expense    | 3,000           |                 |
| Maintenance expense  | 800             |                 |
| <b>Total</b>         | <u>\$18,000</u> | <u>\$18,000</u> |

AACSB: Analytic

AICPA: Measurement

Bloom's: Analysis

Difficulty: Hard

Learning Objective: 02-06 Prepare a trial balance.