

## Chapter 2: Measurement Concepts: Recording Business Transactions

Student: \_\_\_\_\_

1. The valuation issue deals with how the components of a transaction should be categorized.

True False

2. Business transactions are economic events that should be recorded in the accounting records.

True False

3. In accounting, to *recognize* means to record a transaction or event.

True False

4. Generally accepted accounting principles state that all business transactions should be valued at fair value both when they occur and at all subsequent reporting dates.

True False

5. Fair value is the exchange price of an actual or potential business transaction between market participants.

True False

6. Normally, the value of an asset remains at its initial fair value or cost until the asset is sold, expires, or is consumed.

True False

7. A credit to an asset account means that asset account has been increased.

True False

8. A debit has an unfavorable effect on an account.

True False

9. For a T account, an account balance is the difference in total dollars between total debit footings and total credit footings.

True False

10. A decrease in a liability is recorded by a credit.

True False

11. The double-entry system is possible because all business transactions have at least two equal and opposite aspects.

True False

12. A decrease in the Retained Earnings account is recorded with a debit.

True False

13. A transaction that increases expenses will decrease stockholders' equity.

True False

14. The Common Stock account represents the stockholders' claim against specific assets of the company, while the Retained Earnings account represents the stockholders' claim against the general assets of the company.

True False

15. The first step in the accounting cycle is to post the journal entries to the ledger and prepare a trial balance.

True False

16. The normal balance of an account is the side (debit or credit) used to decrease the account.

True False

17. The general ledger is the basic storage unit for accounting data and is used to accumulate amounts from similar transactions.

True False

18. One of the general rules of the double-entry system is that total debits must always be equal to total credits.

True False

19. Dividends are shown on both the income statement and the statement of retained earnings.

True False

20. Dividends are deductions from stockholders' claims on retained earnings and are shown on the statement of retained earnings.

True False

21. A journal entry is a notation that records a single transaction in the chronological accounting record known as the book of original entry.

True False

22. A journal entry shows the date, credit account, and credit amount shown on one line, and the debit account (indented) and debit amount shown on the next line.

True False

23. Liabilities are established with credits and eliminated with debits.

True False

24. Generally, before Accounts Receivable is debited, it is credited.

True False

25. A journal entry is a notation that consists of either a single debit or a single credit that is recorded in the general ledger.

True False

26. A compound journal entry involves at least two debit accounts and two credit accounts.

True False

27. When a company records the purchase of 1 month of prepaid expense the transaction does not affect the totals of assets or liabilities and stockholders' equity.

True False

28. In a trial balance, all debits are listed before all credits.

True False

29. A trial balance is normally prepared at the end of each business day.

True False

30. When the columns of the trial balance equal each other, it is still possible that errors may have occurred in recording and posting the transactions.

True False

31. A transposition error will cause the trial balance to be out of balance by an amount that is evenly divisible by two.

True False

32. Recording an account with a debit balance as a credit, or an account with a credit balance as a debit, will cause the trial balance to be out of balance by an amount that is evenly divisible by two.

True False

33. When a transaction results in an account with a balance that isn't "normal," the "abnormal" balance should be corrected to the "normal" balance before copying the balance into the trial balance.

True False

34. A trial balance may be prepared at any point in time.

True False

35. The general journal is a chronological record of all transactions.

True False

36. Entering transactions into the journal is called *posting*.

True False

37. A ledger account is an abbreviated version of a T account.

True False

38. In a journal entry, debits are always indented.

True False

39. In a journal entry, the Post. Ref. column is left blank until the entry has been posted.

True False

40. The final step of the transaction analysis is the preparation of the trial balance.

True False

41. One might see "J5" correctly placed in the Post. Ref. column of the Accounts Payable account.

True False

42. Journal entries are typically posted to the ledger only at the end of the year.

True False

43. Another name for the *ledger* is the book of *original entry*.

True False

44. In the general journal, the year appears on the first line of the first column, the month on the next line of the first column, and the day in the second column opposite the month.

True False

45. The general ledger is used to record the details of each transaction. The general journal is used to update each account.

True False

46. When a company receives a product previously ordered, a recordable transaction has occurred.

True False

47. When a business hires a new employee, a recordable transaction has occurred.

True False

48. A transaction should be recorded when title to merchandise passes from the supplier to the purchaser and creates an obligation to pay.

True False

49. Purchase requests and purchase orders are economic events, and as such they affect a company's financial position, and are recognized in the accounting records.

True False

50. When a company pays an employee for work performed, it is considered an economic event that is recorded as a transaction.

True False

51. A purchase should usually not be recognized (recorded) before the title is transferred because, until that point, the vendor has not fulfilled its contractual obligation and the buyer has no liability.

True False

52. The timing of cash flows is critical to a company's ability to maintain adequate liquidity so that it can pay its bills on time.

True False

53. All sales transactions generate immediate cash.

True False

54. In order to manage a company's liquidity, managers and other users of financial information must understand the difference between transactions that generate immediate cash and those that do not.

True False

55. One way a company can manage its expenditures is to rely on its creditors to give it time to pay for purchases.

True False

56. All expenses incurred by a business are paid immediately in cash.

True False

57. Purchasing office supplies on account is an example of one way a company can take advantage of deferring a cash payment.

True False

58. When a business reports an asset at an inflated dollar amount, it has violated the measurement issue of

A. recognition.

B. valuation.

C. classification.

D. realization.

59. Which of the following is *not* a measurement issue in accounting?

A. When to record a business transaction.

B. How to classify the items of a business transaction.

C. When to classify the items of a business transaction.

D. Where to record a business transaction.

60. The issue of deciding when to record a transaction is solved by

A. properly classifying the transaction.

B. deciding on a point of recognition.

C. assigning historical cost to the transaction.

D. analyzing the intent of management.

61. The cost principle relates most closely to the

A. recognition point.

B. recognition issue.

C. valuation issue.

D. classification issue.

62. Which of the following is *not* a measurement issue in accounting?

- A. Valuation.
- B. Recognition.
- C. Evaluation.
- D. Classification.

63. Which of the following is an illustration of the classification issue?

- A. At what amount should land be shown on the balance sheet?
- B. At what point should the payment of salaries to employees be recorded?
- C. Should supplies be recorded as an asset or as an expense?
- D. At what point should a bill be paid for the purchase of an item?

64. When a business erroneously records expenses as assets, it has violated the measurement issue of

- A. communication.
- B. classification.
- C. valuation.
- D. realization.

65. *After* initially recording an asset at cost, fair value is

- A. the price at which an asset could be sold in a current transaction between independent parties.
- B. the actual, or historical, price at which the asset was acquired.
- C. the easiest value used to measure and record assets.
- D. verifiable at all future dates by referring to the invoice price paid for the asset.

66. Proper \_\_\_\_\_ depends on correctly analyzing the effect of each transaction and on maintaining a system of accounts that reflects that effect.

- A. classification
- B. valuation
- C. recognition
- D. realization

67. Which of the following accounts is increased with a debit?

- A. Common Stock
- B. Rent Payable
- C. Service Revenue
- D. Prepaid Insurance



68. Which of the following accounts is increased with a credit?

- A. Office Supplies
- B. Unearned Revenue
- C. Land
- D. Prepaid Insurance

69. Which pair of accounts follows the rules of debit and credit in the same manner?

- A. Service Revenue and Equipment
- B. Land and Dividends
- C. Notes Payable and Buildings
- D. Wages Expense and Service Revenue

70. Which pair of accounts follows the rules of debit and credit in the opposite manner?

- A. Prepaid Insurance and Dividends
- B. Advertising Expense and Land
- C. Dividends and Service Revenue
- D. Interest Payable and Common Stock

71. The double-entry system

- A. requires that each transaction be recorded with at least one debit and one credit.
- B. requires that the total amount of the debits must always equal the total amount of the credits.
- C. is based on the principle of duality.
- D. All of these choices.

72. Which of the following does not impact the Statement of Retained Earnings?

- A. Common Stock
- B. Revenues
- C. Expenses
- D. Dividends

73. Which of the following is the final step in the accounting cycle?

- A. Prepare financial statements.
- B. Close the accounts.
- C. Prepare an adjusted trial balance.
- D. Post the journal entries to the ledger.

74. Which of the following is the first step in the accounting cycle?

- A. Prepare financial statements.
- B. Analyze business transactions from source documents.
- C. Prepare an adjusted trial balance.
- D. Post the journal entries to the ledger.

75. The declaration of dividends will

- A. decrease net income.
- B. increase liabilities.
- C. not affect total assets.
- D. increase stockholders' equity.

76. A company records a transaction in which six months' rent is paid in advance. Which of the following journal entries records the transaction?

- A. Prepaid Rent – Debit; Cash – Credit
- B. Rent Receivable – Debit; Cash – Credit
- C. Rent Revenue – Debit; Cash – Credit
- D. Rent Expense – Debit; Cash – Credit.

77. Receiving cash from a customer for settlement of an Accounts Receivable will

- A. decrease Stockholders' Equity.
- B. increase net income.
- C. increase total assets.
- D. not affect total assets.

78. Which of the following events does *not* require a journal entry?

- A. Purchase of a one-year insurance policy.
- B. Agreement to perform a service at a future date.
- C. Payment for a service performed previously.
- D. All of these choices.

79. When a company has performed a service but has not yet received payment, what is the required journal entry to be recorded?

- A. Accounts Receivable – Debit; Service Revenue – Credit
- B. Service Revenue – Debit; Accounts Payable – Credit.
- C. Service Revenue – Debit; Accounts Receivable – Credit
- D. No entry is required until the cash is received.

80. When a service has been performed, but no cash has been received, which of the following statements is *true*?

- A. The entry would include a debit to Accounts Receivable.
- B. The entry would include a debit to Accounts Payable.
- C. The entry would include a credit to Unearned Revenue.
- D. No entry is required until the cash is received.

81. The controller for Tires and More, Inc. has recorded the following transactions during the month: the purchase of equipment for \$8,500 cash; payment of \$6,300 for 3 months of rent; and, collection of \$2,400 from a customer for services performed. At the beginning of the month the company was established by selling 10,000 shares of stock to the public for \$15,000 cash. What is the balance in the Cash account at the end of the month, and is the balance a debit or a credit?

- A. \$2,600 debit.
- B. \$2,600 credit.
- C. \$6,800 debit.
- D. \$15,200 debit.

82. The controller for Tires and More, Inc. has recorded the following transactions during the month: the purchase of supplies on credit, \$4,200; receipt of a bill for utilities for the month which is due on the 15th of the next month, \$1,200; and, partial payment on the balance due for supplies, \$800. What is the balance in the Accounts Payable account at the end of the month assuming a beginning balance of \$0, and is the balance a debit or a credit?

- A. \$4,600 debit.
- B. \$4,600 credit.
- C. \$3,400 credit.
- D. \$5,400 credit.

83. The controller for Tires and More, Inc. has recorded the following transactions during the month: the company was established by selling 10,000 shares of stock to the public for \$20,000 on the 1st of the month; the company recorded \$36,000 of revenue for tires and services provided during the month; and expenses of \$22,000 were recorded for the month. What is the balance of Stockholders' Equity at the end of the month, and is the balance a debit or a credit?

- A. \$34,000 debit.
- B. \$34,000 credit.
- C. \$20,000 credit.
- D. \$6,000 debit.

84. The controller for Tires and More, Inc. has recorded the following transactions during the month: the company was established by selling 10,000 shares of stock to the public for \$20,000 on the 1st of the month; the company recorded \$36,000 of revenue for tires and services provided during the month; and expenses of \$22,000 were recorded for the month. Additionally, on the last day of the month the company declared dividends of \$2,000. What is the balance of Stockholders' Equity at the end of the month, and is the balance a debit or a credit?

- A. \$32,000 debit.
- B. \$32,000 credit.
- C. \$18,000 credit.
- D. \$36,000 debit.

85. An \$800 debit item is accidentally posted as a credit. The trial balance column totals will therefore differ by

- A. \$0
- B. \$400
- C. \$800
- D. \$1,600

86. The trial balance for Parker Company is as follows:

Parker Company		
Trial Balance		
January 31, 20x5		
Cash	\$ 6,000	
Accounts Receivable	4,000	
Art Supplies	6,000	
Office Supplies	10,000	
Prepaid Rent	14,000	
Prepaid Insurance	10,000	
Art Equipment	10,000	
Office Equipment	6,000	
Accounts Payable		\$ 10,000
Common Stock		30,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	10,000	
Telephone Expense	6,000	
	\$ A	\$ B

If the balance of the Dividends account were \$100,000 and the balance of the Wages Expense account were \$10,000, what would be the amount of B?

- A. \$124,000
- B. \$150,000
- C. \$192,000
- D. \$152,000

87. The trial balance for Parker Company is as follows:

<b>Parker Company</b>		
<b>Trial Balance</b>		
<b>January 31, 20x5</b>		
Cash	\$ 6,000	
Accounts Receivable	4,000	
Art Supplies	6,000	
Office Supplies	10,000	
Prepaid Rent	14,000	
Prepaid Insurance	10,000	
Art Equipment	10,000	
Office Equipment	6,000	
Accounts Payable		\$ 10,000
Common Stock		30,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	10,000	
Telephone Expense	6,000	
	\$ A	\$ B

If the trial balance showed a balance of \$14,000 in the Dividends account and a balance of \$30,000 in the Wages Expense account, what would be the amount of Advertising Fees Earned for the period?

- A. \$106,000
- B. \$86,000
- C. \$116,000
- D. \$56,000

88. The trial balance for Parker Company is as follows:

<b>Parker Company</b>		
<b>Trial Balance</b>		
<b>January 31, 20x5</b>		
Cash	\$28,000	
Accounts Receivable	4,000	
Art Supplies	6,000	
Office Supplies	10,000	
Prepaid Rent	14,000	
Prepaid Insurance	10,000	
Art Equipment	10,000	
Office Equipment	6,000	
Accounts Payable		\$ 10,000
Common Stock		30,000
Dividends	14,000	
Advertising Fees Earned		108,000
Wages Expense	30,000	
Utilities Expense	10,000	
Telephone Expense	6,000	
	\$148,000	\$148,000

On the trial balance, total assets equal

- A. \$108,000
- B. \$104,000
- C. \$88,000
- D. \$68,000

89. The trial balance for Parker Company is as follows:

<b>Parker Company</b>		
<b>Trial Balance</b>		
<b>January 31, 20x5</b>		
Cash	\$ 6,000	
Accounts Receivable	4,000	
Art Supplies	6,000	
Office Supplies	10,000	
Prepaid Rent	14,000	
Prepaid Insurance	10,000	
Art Equipment	10,000	
Office Equipment	6,000	
Accounts Payable		\$10,000
Common Stock		30,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	10,000	
Telephone Expense	6,000	
	\$ <u>A</u>	\$ <u>B</u>

If the trial balance showed a balance of \$16,000 in the Wages Expense account and a balance of \$86,000 in the Advertising Fees Earned account, what would be the amount of A?

- A. \$126,000
- B. \$106,000
- C. \$136,000
- D. \$116,000

90. The trial balance for Parker Company is as follows:

Parker Company		
Trial Balance		
January 31, 20x5		
Cash	\$ 6,000	
Accounts Receivable	4,000	
Art Supplies	6,000	
Office Supplies	10,000	
Prepaid Rent	14,000	
Prepaid Insurance	10,000	
Art Equipment	10,000	
Office Equipment	6,000	
Accounts Payable		\$10,000
Common Stock		30,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	10,000	
Telephone Expense	6,000	
	\$ A	\$ B

If the trial balance showed a balance of \$8,000 in the Wages Expense account and a balance of \$85,000 in the Advertising Fees Earned account, what would be the amount of the Dividends account?

- A. \$75,000
- B. \$53,000
- C. \$35,000
- D. \$63,000

91. Which of the following errors will *not* cause the debit and credit columns of the trial balance to be unequal?

- A. A debit entry was recorded in the wrong account.
- B. A debit was entered in an account as a credit.
- C. The account balance was carried to the wrong column of the trial balance.
- D. The balance of an account was incorrectly computed.

92. The primary purpose of the trial balance is to test the

- A. recording of transactions.
- B. analysis of transactions.
- C. equality of debit and credit balances in the ledger.
- D. equality of debit and credit balances in the journal.

93. A \$155 credit item is posted as a debit. The trial balance column totals therefore will differ by

- A. \$310
- B. \$620
- C. \$155
- D. \$0

94. Which of the following errors will cause the trial balance to be out of balance?

- A. An entire transaction was entered in the general journal as \$27 instead of \$72.
- B. An entire transaction was omitted from the general journal.
- C. The balance of an account was incorrectly computed.
- D. A debit entry was entered in the wrong debit account.

95. Which of the following errors will cause the trial balance to be out of balance?

- A. Posting a debit to Land as a debit to Machinery.
- B. Placing a debit balance amount into the credit balance column of the ledger.
- C. Omitting an entire transaction.
- D. Incorrectly recording the purchase of land for cash as a debit to Cash and a credit to Land.

96. The general journal does not have a column titled

- A. Description.
- B. Account Balance.
- C. Date.
- D. Post. Ref.

97. To find a description of a transaction, one should look at the

- A. ledger.
- B. trial balance.
- C. journal.
- D. chart of accounts.

98. Which of the following accounts might be placed first in a journal entry?

- A. Interest Payable, when it has been decreased.
- B. Accounts Receivable, when it has been decreased.
- C. Unearned Revenue, when it has been increased.
- D. Service Revenue, when it has been increased.

99. Which of the following accounts would be placed after the debit(s) in a journal entry?

- A. Interest Payable, when it has been decreased.
- B. Accounts Receivable, when it has been decreased.
- C. Unearned Revenue, when it has been decreased.
- D. Dividends, when it has been increased.



100. Which of the following statements is *false* about a journal entry?

- A. All debits are always listed before any credits.
- B. It may have more than one debit or credit entry.
- C. Credits are always indented.
- D. Accounts that are increased are always listed first.

101. Which of the following accounts should be debited in a journal entry?

- A. Accounts Receivable, when it has been decreased.
- B. Dividends, when it has been increased.
- C. Wages Payable, when it has been increased.
- D. All of these choices.

102. The process of transferring journal entry information from the journal to the ledger is called

- A. journalizing.
- B. posting.
- C. footing.
- D. analyzing.

103. The account most recently posted is determined most efficiently by referring to the

- A. Post. Ref. column of the ledger.
- B. balance column of the ledger.
- C. date column of the general journal.
- D. Post. Ref. column of the general journal.

104. Posting is performed by transferring information from the

- A. source documents to the journal.
- B. source documents to the ledger.
- C. journal to the ledger.
- D. ledger to the journal.

105. Which of the following guidelines is correct?

- A. Dollar signs (\$) are required in all financial statements and other schedules.
- B. Account names are capitalized when referenced in text or listed in work documents like the journal or ledger.
- C. In financial statements only the first word of an account name is capitalized.
- D. All of these choices.

106. Which of the following is a business event that is *not* considered a recordable transaction?

- A. A company receives a product previously ordered.
- B. A company pays an employee for work performed.
- C. A customer inquires about the availability of a service.
- D. A customer purchases a service.

107. Which of the following is a business event that is considered a recordable transaction?

- A. A company hires a new employee.
- B. A customer purchases merchandise.
- C. A company orders a product from a supplier.
- D. An employee sends a purchase requisition to the purchasing department.

108. A purchase is recognized in the accounting records when

- A. payment is made for the item purchased.
- B. the purchase requisition is sent to the purchasing department.
- C. title transfers from the seller to the buyer.
- D. the buyer receives the seller's bill.

109. Which of the following business events is *not* a transaction?

- A. Signing a contract.
- B. Paying wages.
- C. Receiving goods.
- D. Purchasing a service.

110. Which of the following is *not* an example of obvious financial reporting frauds as discussed in the text?

- A. Keeping the books open for a few days after the end of the reporting period.
- B. Transferring assets to an affiliate at more than their actual value.
- C. Recording as assets expenditures that should have been classified as expenses.
- D. Recording a liability when title to merchandise passes to the purchaser.

111. Which of the following is an example of an obvious financial reporting fraud as discussed in the text?

- A. Closing the books at the end of the reporting period.
- B. Transferring assets to an affiliate at more than their actual value.
- C. Recording as expenses expenditures that should have been classified as expenses.
- D. Recording a liability when title to merchandise passes to the purchaser.

112. Slim Co. is ordering a new computer for its corporate office. Which of the following events would trigger the recognition of the computer and related liability on Slim's books?

- A. The company generates a purchase order.
- B. The purchasing department sends a purchase order to the supplier.
- C. The company receives the computer.
- D. The company receives the bill from the supplier.

113. Mesquite, Inc. is ordering a new machine to be used in its manufacturing facility. Which of the following events would trigger the recognition of the machine and related liability on Mesquite's books?

- A. The company generates a purchase order.
- B. A technician installs the machine on the floor of the manufacturing facility.
- C. The company receives the machine.
- D. The company pays the bill from the supplier.

114. Mesquite, Inc. engaged in the following transactions during October:

Performed services for cash	\$1,840
Performed services on credit	2,100
Purchased office supplies on account	800
Paid salaries in cash	900
Collected on account	600
Paid on account	400

What is the balance in cash after these transactions?

- A. \$940
- B. \$1,140
- C. \$740
- D. \$2,440

115. Mesquite, Inc. engaged in the following transactions during October:

Performed services for cash	\$1,840
Performed services on credit	2,100
Purchased office supplies on account	800
Paid salaries in cash	900
Collected on account	600
Paid on account	400

What is the amount of cash still to be received?

- A. \$2,300
- B. \$1,500
- C. \$1,900
- D. \$400

116. Mesquite, Inc. engaged in the following transactions during October:

Performed services for cash	\$1,840
Performed services on credit	2,100
Purchased office supplies on account	800
Paid salaries in cash	900
Collected on account	600
Paid on account	400

What is the amount of cash still to be paid?

- A. \$2,300
- B. \$2,100
- C. \$1,300
- D. \$400

117. Copper Company engaged in the following transactions during April

Performed services for cash	\$215,000
Performed services on credit	168,000
Purchased office supplies on account	56,000
Paid salaries in cash	29,000
Collected on account	42,000
Paid on account	38,000

What is the amount of cash still to be paid?

- A. \$18,000
- B. \$47,000
- C. \$94,000
- D. \$52,000

118. Copper Company engaged in the following transactions during April

Performed services for cash	\$215,000
Performed services on credit	168,000
Purchased office supplies on account	56,000
Paid salaries in cash	29,000
Collected on account	42,000
Paid on account	38,000

What is the amount of cash still to be collected?

- A. \$126,000
- B. \$341,000
- C. \$144,000
- D. \$18,000

119. Copper Company began operations in April and then engaged in the following transactions during April

Performed services for cash	\$215,000
Performed services on credit	168,000
Purchased office supplies on account	56,000
Paid salaries in cash	29,000
Collected on account	42,000
Paid on account	38,000

What is the balance in cash after these transactions?

- A. \$302,000
- B. \$190,000
- C. \$144,000
- D. \$87,000

120. Copper Company engaged in the following transactions during April

Performed services for cash	\$215,000
Performed services on credit	108,000
Purchased office supplies on account	56,000
Paid salaries in cash	129,000
Collected on account	??
Paid on account	38,000

If the balance in cash after these transactions is \$115,000, how much cash was collected on account?

- A. \$67,000
- B. \$62,000
- C. \$15,000
- D. \$29,000

121. Copper Company began operations in April and then engaged in the following transactions during April

Performed services for cash	\$215,000
Performed services on credit	168,000
Purchased office supplies on account	56,000
Paid salaries in cash	29,000
Collected on account	22,000
Paid on account	??

If the balance in cash after these transactions is \$165,000, how much cash was paid on account?

- A. \$43,000
- B. \$57,000
- C. \$1,000
- D. \$21,000

122. Match each item with the correct statement below.

1. Process of assigning a monetary amount to business transactions.
2. Basic storage unit for accounting data and used to accumulate amounts from similar transactions.
3. Left side.
4. A series of steps that measure and communicate useful information to decision makers.
5. Process of assigning all the transactions in which a business engages to appropriate categories, or accounts.
6. Process of transferring transactions from the journal to the ledger.
7. Refers to the decision as to when to record a business transaction.
8. A device used to ensure that the total of debits and credits in the accounts are equal.
9. The book of original entry.
10. Recording transactions at the exchange price at the point of recognition.

- Recognition \_\_\_\_\_
- Valuation \_\_\_\_\_
- Classification \_\_\_\_\_
- Accounting cycle \_\_\_\_\_
- Journal \_\_\_\_\_
- Trial balance \_\_\_\_\_
- Posting \_\_\_\_\_
- Cost principle \_\_\_\_\_
- Account \_\_\_\_\_
- Debit \_\_\_\_\_

123. Use this journal entry to answer the following question.

Nov.	16	Accounts Payable		
		Cash	685	
Recorded payment of a liability				

Explain how the above journal entry relates to the measurement issues of (a) recognition, (b) valuation, and (c) classification.

124. Why is the Dividends account increased by a debit? Explain in terms of its relationship to stockholders' equity.

125. For each of the following economic events determine whether the event is a business transaction on the date it occurs and whether it's recognized in the accounts on that date. Support your answer.

a. On July 15, the controller of Kona Corporation orders a custom display case for the company's store.

b. On July 31, a new administrative assistant is hired at a monthly salary of \$3,500.

c. On July 31, the controller of Kona Corporation receives a bill for electricity for the month of July. The bill is due on August 18 and will be paid on that date.

126. A trial balance proves that the accounts are in balance. Does a balanced trial balance also prove that all the transactions are correctly analyzed and recorded? Why or why not?

127. If a debit to Supplies were posted as a credit, and a credit of the same amount to Cash were posted as a debit, what would be the effect, if any, on the two accounts and on the trial balance column totals?

128. What type of information does the general journal include for each transaction?

129. What are the steps in the posting process for the debit side of an entry?

130. Discuss the difference between business events that are transactions and those that are not. Why is the distinction important?



131. Ironwood Company has just started operations. The company sold 5,000 shares of common stock to investors for \$10,000 to get the business started. The company has made several sales on account, but has not yet collected any cash from these sales. At this point, Ironwood's cash flows for expenses are exceeding its cash flows from revenues. How might Ironwood make up the difference so it can maintain its liquidity?

132. Using the following transactions, calculate (A) the ending balance of Cash, (B) the ending balance of Accounts Receivable, (C) total liabilities, and (D) Stockholders' Equity at the end of the period. For parts a, b, and d, indicate whether each balance is debit or credit.

- a. Began doing business by selling shares of common stock to investors for \$50,000 in cash.
- b. Billed customers for services rendered, \$10,000.
- c. Paid for six months' subscription in advance, \$2,500.
- d. Received advertising bill, to be paid next week, \$500.
- e. Dividends of \$4,000 were paid to common stock holders.
- f. Received \$7,500 from customers billed in b.
- g. Paid half of advertising bill.
- h. Received \$1,000 in advance of performing a service.

133. Using the following transactions, calculate the ending balance of (A) total assets, (B) total liabilities, (C) Cash, and (D) Stockholders' Equity. Indicate whether each balance is debit or credit.

- a. Began doing business by selling shares of common stock to investors for \$72,000 in cash.
- b. Paid one year's insurance in advance, \$4,800.
- c. Billed customers for services rendered, \$12,000.
- d. Received utility bill, to be paid next month, \$800.
- e. Received \$1,600 in advance of performing a service.
- f. Received \$8,800 from customers billed in c.
- g. Paid \$600 on the utility bill of d.
- h. Dividends of \$4,000 were paid to common stock holders.

134. From the following alphabetical list of account balances, all of which are normal, for Ivy Maxx Company on July 31, 20x5, prepare a trial balance in proper form (the amount of dividends paid by Ivy Maxx must be computed) .

Accounts Payable	\$250
Accounts Receivable	100
Cash	40
Equipment	350
Common Stock	75
Dividends	?
Prepaid Advertising	10
Revenue Earned	200
Wages Expense	35
Wages Payable	25

135. Using the alphabetical list of account balances presented below, all of which are normal, prepare a trial balance for Cookies and Cream Company at June 30, 20x5, in proper order. Compute the balance of the Cash account.

Accounts Payable	\$280
Accounts Receivable	560
Cash	?
Equipment	800
Office Expense	360
Common Stock	880
Service Revenue	600

136. From the following alphabetical list of account balances, all of which are normal, for Cannon Company on September 30, 20x5, prepare a trial balance in proper form (the amount of dividends paid by Cannon Company must be computed) .

Accounts Payable	\$ 780
Accounts Receivable	460
Cash	400
Equipment	1,380
Prepaid Advertising	20
Revenue Earned	1,000
Common Stock	1,200
Dividends	?
Wages Expense	60
Wages Payable	20

137. Record the following transactions, using proper form, in the journal provided.

June	9	Provided services in the amount of \$4,000, receiving \$300 in partial payment.
	19	Received \$1,600 of the amount owed from June 9.





139. Provide explanations for the following related journal entries:

a.	Cash	6,000	
	Common Stock		6,000
b.	Law	3,400	
	Library		
	Accounts Payable		3,400
c.	Cash	600	
	Accounts	1,000	
	Receivable		
	Legal Fees Earned		1,600
d.	Cash	500	
	Accounts Receivable		500
e.	Accounts	3,400	
	Payable		
	Cash		3,400

140. Provide explanations for the following related journal entries:

a.	Prepaid	4,000	
	Rent		
	Cash		4,000
b.	Trucks	36,000	
	Notes Payable		36,000
c.	Cash	600	
	Accounts Receivable		600
d.	Notes	18,000	
	Payable		
	Cash		18,000
e.	Cash	2,500	
	Unearned Fees		2,500

141. Given the following ledger account and postings, complete the Balance column. Assume no previous postings in the account

Unearned Rent Revenue		Account No. 226				
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Nov.	1		J1		6,200	
	7		J1	1,400		
	8		J2		1,000	
	12		J2	400		

142. Given the following ledger account and postings, complete the Balance column. Assume no previous postings in the account

Accounts Payable		Account No. 212				
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
20x5						
Dec.	1		J1		8,200	
	7		J1	2,800		
	8		J2		600	
	12		J2	800		

143. Given the following ledger account and postings, complete the Balance column. Assume no previous postings in the account

Accounts Receivable		Account No. 113				
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Mar.	1		J2	3,420		
	3		J3		640	
	9		J3		1,400	
	14		J3	820		



144. During the most recent month, Ostriker Company began operations with a cash balance of \$0 and made cash sales of \$81,000. During this same time period, the company paid \$32,000 in cash expenses. Additionally, the company purchased supplies on account, \$34,000, made sales on account, \$90,000, and received cash on the credit sales \$52,000.

- a. If cash at the end of the month totals \$74,000, how much cash was paid on account?
- b. What is the total amount still to be paid?
- c. What is the total amount still to be received?

145. During the most recent month, Campbell Company began operations with a cash balance of \$0 and made cash sales of \$162,000. During this same time period, the company paid \$64,000 in cash expenses. Additionally, the company purchased supplies on account, \$68,000, made sales on account, \$180,000, and paid cash on account \$12,000.

- a. If cash at the end of the month totals \$148,000, how much cash was received on account?
- b. What is the total amount still to be paid?
- c. What is the total amount still to be received?

## Chapter 2: Measurement Concepts: Recording Business Transactions **Key**

1. The valuation issue deals with how the components of a transaction should be categorized.

**FALSE**

2. Business transactions are economic events that should be recorded in the accounting records.

**TRUE**

3. In accounting, to *recognize* means to record a transaction or event.

**TRUE**

4. Generally accepted accounting principles state that all business transactions should be valued at fair value both when they occur and at all subsequent reporting dates.

**FALSE**

5. Fair value is the exchange price of an actual or potential business transaction between market participants.

**TRUE**

6. Normally, the value of an asset remains at its initial fair value or cost until the asset is sold, expires, or is consumed.

**TRUE**

7. A credit to an asset account means that asset account has been increased.

**FALSE**

8. A debit has an unfavorable effect on an account.

**FALSE**

9. For a T account, an account balance is the difference in total dollars between total debit footings and total credit footings.

**TRUE**

10. A decrease in a liability is recorded by a credit.

**FALSE**

11. The double-entry system is possible because all business transactions have at least two equal and opposite aspects.

**TRUE**

12. A decrease in the Retained Earnings account is recorded with a debit.

**TRUE**

13. A transaction that increases expenses will decrease stockholders' equity.

**TRUE**

14. The Common Stock account represents the stockholders' claim against specific assets of the company, while the Retained Earnings account represents the stockholders' claim against the general assets of the company.

**FALSE**

15. The first step in the accounting cycle is to post the journal entries to the ledger and prepare a trial balance.

**FALSE**

16. The normal balance of an account is the side (debit or credit) used to decrease the account.

**FALSE**

17. The general ledger is the basic storage unit for accounting data and is used to accumulate amounts from similar transactions.

**FALSE**

18. One of the general rules of the double-entry system is that total debits must always be equal to total credits.

**TRUE**

19. Dividends are shown on both the income statement and the statement of retained earnings.

**FALSE**

20. Dividends are deductions from stockholders' claims on retained earnings and are shown on the statement of retained earnings.

**TRUE**

21. A journal entry is a notation that records a single transaction in the chronological accounting record known as the book of original entry.

**TRUE**

22. A journal entry shows the date, credit account, and credit amount shown on one line, and the debit account (indented) and debit amount shown on the next line.

**FALSE**

23. Liabilities are established with credits and eliminated with debits.

**TRUE**

24. Generally, before Accounts Receivable is debited, it is credited.

**FALSE**

25. A journal entry is a notation that consists of either a single debit or a single credit that is recorded in the general ledger.

**FALSE**

26. A compound journal entry involves at least two debit accounts and two credit accounts.

**FALSE**

27. When a company records the purchase of 1 month of prepaid expense the transaction does not affect the totals of assets or liabilities and stockholders' equity.

**TRUE**

28. In a trial balance, all debits are listed before all credits.

**FALSE**

29. A trial balance is normally prepared at the end of each business day.

**FALSE**

30. When the columns of the trial balance equal each other, it is still possible that errors may have occurred in recording and posting the transactions.

**TRUE**

31. A transposition error will cause the trial balance to be out of balance by an amount that is evenly divisible by two.

**FALSE**

32. Recording an account with a debit balance as a credit, or an account with a credit balance as a debit, will cause the trial balance to be out of balance by an amount that is evenly divisible by two.

**TRUE**

33. When a transaction results in an account with a balance that isn't "normal," the "abnormal" balance should be corrected to the "normal" balance before copying the balance into the trial balance.

**FALSE**

34. A trial balance may be prepared at any point in time.

**TRUE**

35. The general journal is a chronological record of all transactions.

**TRUE**

36. Entering transactions into the journal is called *posting*.

**FALSE**

37. A ledger account is an abbreviated version of a T account.

**FALSE**

38. In a journal entry, debits are always indented.

**FALSE**

39. In a journal entry, the Post. Ref. column is left blank until the entry has been posted.

**TRUE**

40. The final step of the transaction analysis is the preparation of the trial balance.

**TRUE**

41. One might see "J5" correctly placed in the Post. Ref. column of the Accounts Payable account.

**TRUE**

42. Journal entries are typically posted to the ledger only at the end of the year.

**FALSE**

43. Another name for the *ledger* is the book of *original entry*.

**FALSE**

44. In the general journal, the year appears on the first line of the first column, the month on the next line of the first column, and the day in the second column opposite the month.

**TRUE**

45. The general ledger is used to record the details of each transaction. The general journal is used to update each account.

**FALSE**

46. When a company receives a product previously ordered, a recordable transaction has occurred.

**TRUE**

47. When a business hires a new employee, a recordable transaction has occurred.

**FALSE**

48. A transaction should be recorded when title to merchandise passes from the supplier to the purchaser and creates an obligation to pay.

**TRUE**

49. Purchase requests and purchase orders are economic events, and as such they affect a company's financial position, and are recognized in the accounting records.

**FALSE**

50. When a company pays an employee for work performed, it is considered an economic event that is recorded as a transaction.

**TRUE**

51. A purchase should usually not be recognized (recorded) before the title is transferred because, until that point, the vendor has not fulfilled its contractual obligation and the buyer has no liability.

**TRUE**

52. The timing of cash flows is critical to a company's ability to maintain adequate liquidity so that it can pay its bills on time.

**TRUE**

53. All sales transactions generate immediate cash.

**FALSE**

54. In order to manage a company's liquidity, managers and other users of financial information must understand the difference between transactions that generate immediate cash and those that do not.

**TRUE**

55. One way a company can manage its expenditures is to rely on its creditors to give it time to pay for purchases.

**TRUE**

56. All expenses incurred by a business are paid immediately in cash.

**FALSE**

57. Purchasing office supplies on account is an example of one way a company can take advantage of deferring a cash payment.

**TRUE**

58. When a business reports an asset at an inflated dollar amount, it has violated the measurement issue of

A. recognition.

**B.** valuation.

C. classification.

D. realization.

59. Which of the following is *not* a measurement issue in accounting?

A. When to record a business transaction.

B. How to classify the items of a business transaction.

C. When to classify the items of a business transaction.

**D.** Where to record a business transaction.

60. The issue of deciding when to record a transaction is solved by

A. properly classifying the transaction.

**B.** deciding on a point of recognition.

C. assigning historical cost to the transaction.

D. analyzing the intent of management.

61. The cost principle relates most closely to the

A. recognition point.

B. recognition issue.

**C.** valuation issue.

D. classification issue.



62. Which of the following is *not* a measurement issue in accounting?

- A. Valuation.
- B. Recognition.
- C.** Evaluation.
- D. Classification.

63. Which of the following is an illustration of the classification issue?

- A. At what amount should land be shown on the balance sheet?
- B. At what point should the payment of salaries to employees be recorded?
- C.** Should supplies be recorded as an asset or as an expense?
- D. At what point should a bill be paid for the purchase of an item?

64. When a business erroneously records expenses as assets, it has violated the measurement issue of

- A. communication.
- B.** classification.
- C. valuation.
- D. realization.

65. *After* initially recording an asset at cost, fair value is

- A.** the price at which an asset could be sold in a current transaction between independent parties.
- B. the actual, or historical, price at which the asset was acquired.
- C. the easiest value used to measure and record assets.
- D. verifiable at all future dates by referring to the invoice price paid for the asset.

66. Proper \_\_\_\_\_ depends on correctly analyzing the effect of each transaction and on maintaining a system of accounts that reflects that effect.

- A.** classification
- B. valuation
- C. recognition
- D. realization

67. Which of the following accounts is increased with a debit?

- A. Common Stock
- B. Rent Payable
- C. Service Revenue
- D.** Prepaid Insurance

68. Which of the following accounts is increased with a credit?

- A. Office Supplies
- B. Unearned Revenue**
- C. Land
- D. Prepaid Insurance

69. Which pair of accounts follows the rules of debit and credit in the same manner?

- A. Service Revenue and Equipment
- B. Land and Dividends**
- C. Notes Payable and Buildings
- D. Wages Expense and Service Revenue

70. Which pair of accounts follows the rules of debit and credit in the opposite manner?

- A. Prepaid Insurance and Dividends
- B. Advertising Expense and Land
- C. Dividends and Service Revenue**
- D. Interest Payable and Common Stock

71. The double-entry system

- A. requires that each transaction be recorded with at least one debit and one credit.
- B. requires that the total amount of the debits must always equal the total amount of the credits.
- C. is based on the principle of duality.
- D. All of these choices.**

72. Which of the following does not impact the Statement of Retained Earnings?

- A. Common Stock**
- B. Revenues
- C. Expenses
- D. Dividends

73. Which of the following is the final step in the accounting cycle?

- A. Prepare financial statements.
- B. Close the accounts.**
- C. Prepare an adjusted trial balance.
- D. Post the journal entries to the ledger.

74. Which of the following is the first step in the accounting cycle?

- A. Prepare financial statements.
- B.** Analyze business transactions from source documents.
- C. Prepare an adjusted trial balance.
- D. Post the journal entries to the ledger.

75. The declaration of dividends will

- A. decrease net income.
- B.** increase liabilities.
- C. not affect total assets.
- D. increase stockholders' equity.

76. A company records a transaction in which six months' rent is paid in advance. Which of the following journal entries records the transaction?

- A.** Prepaid Rent – Debit; Cash – Credit
- B. Rent Receivable – Debit; Cash – Credit
- C. Rent Revenue – Debit; Cash – Credit
- D. Rent Expense – Debit; Cash – Credit.

77. Receiving cash from a customer for settlement of an Accounts Receivable will

- A. decrease Stockholders' Equity.
- B. increase net income.
- C. increase total assets.
- D.** not affect total assets.

78. Which of the following events does *not* require a journal entry?

- A. Purchase of a one-year insurance policy.
- B.** Agreement to perform a service at a future date.
- C. Payment for a service performed previously.
- D. All of these choices.

79. When a company has performed a service but has not yet received payment, what is the required journal entry to be recorded?

- A.** Accounts Receivable – Debit; Service Revenue – Credit
- B. Service Revenue – Debit; Accounts Payable – Credit.
- C. Service Revenue – Debit; Accounts Receivable – Credit
- D. No entry is required until the cash is received.

80. When a service has been performed, but no cash has been received, which of the following statements is *true*?

- A.** The entry would include a debit to Accounts Receivable.
- B. The entry would include a debit to Accounts Payable.
- C. The entry would include a credit to Unearned Revenue.
- D. No entry is required until the cash is received.

81. The controller for Tires and More, Inc. has recorded the following transactions during the month: the purchase of equipment for \$8,500 cash; payment of \$6,300 for 3 months of rent; and, collection of \$2,400 from a customer for services performed. At the beginning of the month the company was established by selling 10,000 shares of stock to the public for \$15,000 cash. What is the balance in the Cash account at the end of the month, and is the balance a debit or a credit?

- A.** \$2,600 debit.
- B. \$2,600 credit.
- C. \$6,800 debit.
- D. \$15,200 debit.

82. The controller for Tires and More, Inc. has recorded the following transactions during the month: the purchase of supplies on credit, \$4,200; receipt of a bill for utilities for the month which is due on the 15th of the next month, \$1,200; and, partial payment on the balance due for supplies, \$800. What is the balance in the Accounts Payable account at the end of the month assuming a beginning balance of \$0, and is the balance a debit or a credit?

- A. \$4,600 debit.
- B.** \$4,600 credit.
- C. \$3,400 credit.
- D. \$5,400 credit.

83. The controller for Tires and More, Inc. has recorded the following transactions during the month: the company was established by selling 10,000 shares of stock to the public for \$20,000 on the 1st of the month; the company recorded \$36,000 of revenue for tires and services provided during the month; and expenses of \$22,000 were recorded for the month. What is the balance of Stockholders' Equity at the end of the month, and is the balance a debit or a credit?

- A. \$34,000 debit.
- B.** \$34,000 credit.
- C. \$20,000 credit.
- D. \$6,000 debit.

84. The controller for Tires and More, Inc. has recorded the following transactions during the month: the company was established by selling 10,000 shares of stock to the public for \$20,000 on the 1st of the month; the company recorded \$36,000 of revenue for tires and services provided during the month; and expenses of \$22,000 were recorded for the month. Additionally, on the last day of the month the company declared dividends of \$2,000. What is the balance of Stockholders' Equity at the end of the month, and is the balance a debit or a credit?

- A. \$32,000 debit.
- B. \$32,000 credit.**
- C. \$18,000 credit.
- D. \$36,000 debit.

85. An \$800 debit item is accidentally posted as a credit. The trial balance column totals will therefore differ by

- A. \$0
- B. \$400
- C. \$800
- D. \$1,600**

86. The trial balance for Parker Company is as follows:

Parker Company		
Trial Balance		
January 31, 20x5		
Cash	\$ 6,000	
Accounts Receivable	4,000	
Art Supplies	6,000	
Office Supplies	10,000	
Prepaid Rent	14,000	
Prepaid Insurance	10,000	
Art Equipment	10,000	
Office Equipment	6,000	
Accounts Payable		\$ 10,000
Common Stock		30,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	10,000	
Telephone Expense	6,000	
	\$ A	\$ B

If the balance of the Dividends account were \$100,000 and the balance of the Wages Expense account were \$10,000, what would be the amount of B?

- A. \$124,000
- B. \$150,000
- C. \$192,000**
- D. \$152,000

87. The trial balance for Parker Company is as follows:

<b>Parker Company</b>		
<b>Trial Balance</b>		
<b>January 31, 20x5</b>		
Cash	\$ 6,000	
Accounts Receivable	4,000	
Art Supplies	6,000	
Office Supplies	10,000	
Prepaid Rent	14,000	
Prepaid Insurance	10,000	
Art Equipment	10,000	
Office Equipment	6,000	
Accounts Payable		\$ 10,000
Common Stock		30,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	10,000	
Telephone Expense	6,000	
	\$ A	\$ B

If the trial balance showed a balance of \$14,000 in the Dividends account and a balance of \$30,000 in the Wages Expense account, what would be the amount of Advertising Fees Earned for the period?

- A. \$106,000
- B. \$86,000**
- C. \$116,000
- D. \$56,000

88. The trial balance for Parker Company is as follows:

<b>Parker Company</b>		
<b>Trial Balance</b>		
<b>January 31, 20x5</b>		
Cash	\$28,000	
Accounts Receivable	4,000	
Art Supplies	6,000	
Office Supplies	10,000	
Prepaid Rent	14,000	
Prepaid Insurance	10,000	
Art Equipment	10,000	
Office Equipment	6,000	
Accounts Payable		\$ 10,000
Common Stock		30,000
Dividends	14,000	
Advertising Fees Earned		108,000
Wages Expense	30,000	
Utilities Expense	10,000	
Telephone Expense	6,000	
	\$148,000	\$148,000

On the trial balance, total assets equal

- A. \$108,000
- B. \$104,000
- C. \$88,000**
- D. \$68,000

89. The trial balance for Parker Company is as follows:

<b>Parker Company</b>		
<b>Trial Balance</b>		
<b>January 31, 20x5</b>		
Cash	\$ 6,000	
Accounts Receivable	4,000	
Art Supplies	6,000	
Office Supplies	10,000	
Prepaid Rent	14,000	
Prepaid Insurance	10,000	
Art Equipment	10,000	
Office Equipment	6,000	
Accounts Payable		\$10,000
Common Stock		30,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	10,000	
Telephone Expense	6,000	
	\$ <u>A</u>	\$ <u>B</u>

If the trial balance showed a balance of \$16,000 in the Wages Expense account and a balance of \$86,000 in the Advertising Fees Earned account, what would be the amount of A?

- A. \$126,000**
- B. \$106,000
- C. \$136,000
- D. \$116,000

90. The trial balance for Parker Company is as follows:

Parker Company		
Trial Balance		
January 31, 20x5		
Cash	\$ 6,000	
Accounts Receivable	4,000	
Art Supplies	6,000	
Office Supplies	10,000	
Prepaid Rent	14,000	
Prepaid Insurance	10,000	
Art Equipment	10,000	
Office Equipment	6,000	
Accounts Payable		\$10,000
Common Stock		30,000
Dividends	?	
Advertising Fees Earned		?
Wages Expense	?	
Utilities Expense	10,000	
Telephone Expense	6,000	
	\$ A	\$ B

If the trial balance showed a balance of \$8,000 in the Wages Expense account and a balance of \$85,000 in the Advertising Fees Earned account, what would be the amount of the Dividends account?

- A. \$75,000
- B. \$53,000
- C. \$35,000**
- D. \$63,000

91. Which of the following errors will *not* cause the debit and credit columns of the trial balance to be unequal?

- A. A debit entry was recorded in the wrong account.**
- B. A debit was entered in an account as a credit.
- C. The account balance was carried to the wrong column of the trial balance.
- D. The balance of an account was incorrectly computed.

92. The primary purpose of the trial balance is to test the

- A. recording of transactions.
- B. analysis of transactions.
- C. equality of debit and credit balances in the ledger.**
- D. equality of debit and credit balances in the journal.

93. A \$155 credit item is posted as a debit. The trial balance column totals therefore will differ by

- A. \$310**
- B. \$620
- C. \$155
- D. \$0



94. Which of the following errors will cause the trial balance to be out of balance?

- A. An entire transaction was entered in the general journal as \$27 instead of \$72.
- B. An entire transaction was omitted from the general journal.
- C.** The balance of an account was incorrectly computed.
- D. A debit entry was entered in the wrong debit account.

95. Which of the following errors will cause the trial balance to be out of balance?

- A. Posting a debit to Land as a debit to Machinery.
- B.** Placing a debit balance amount into the credit balance column of the ledger.
- C. Omitting an entire transaction.
- D. Incorrectly recording the purchase of land for cash as a debit to Cash and a credit to Land.

96. The general journal does not have a column titled

- A. Description.
- B.** Account Balance.
- C. Date.
- D. Post. Ref.

97. To find a description of a transaction, one should look at the

- A. ledger.
- B. trial balance.
- C.** journal.
- D. chart of accounts.

98. Which of the following accounts might be placed first in a journal entry?

- A.** Interest Payable, when it has been decreased.
- B. Accounts Receivable, when it has been decreased.
- C. Unearned Revenue, when it has been increased.
- D. Service Revenue, when it has been increased.

99. Which of the following accounts would be placed after the debit(s) in a journal entry?

- A. Interest Payable, when it has been decreased.
- B.** Accounts Receivable, when it has been decreased.
- C. Unearned Revenue, when it has been decreased.
- D. Dividends, when it has been increased.

100. Which of the following statements is *false* about a journal entry?

- A. All debits are always listed before any credits.
- B. It may have more than one debit or credit entry.
- C. Credits are always indented.
- D.** Accounts that are increased are always listed first.

101. Which of the following accounts should be debited in a journal entry?

- A. Accounts Receivable, when it has been decreased.
- B.** Dividends, when it has been increased.
- C. Wages Payable, when it has been increased.
- D. All of these choices.

102. The process of transferring journal entry information from the journal to the ledger is called

- A. journalizing.
- B.** posting.
- C. footing.
- D. analyzing.

103. The account most recently posted is determined most efficiently by referring to the

- A. Post. Ref. column of the ledger.
- B. balance column of the ledger.
- C. date column of the general journal.
- D.** Post. Ref. column of the general journal.

104. Posting is performed by transferring information from the

- A. source documents to the journal.
- B. source documents to the ledger.
- C.** journal to the ledger.
- D. ledger to the journal.

105. Which of the following guidelines is correct?

- A. Dollar signs (\$) are required in all financial statements and other schedules.
- B. Account names are capitalized when referenced in text or listed in work documents like the journal or ledger.
- C. In financial statements only the first word of an account name is capitalized.
- D.** All of these choices.

106. Which of the following is a business event that is *not* considered a recordable transaction?

- A. A company receives a product previously ordered.
- B. A company pays an employee for work performed.
- C.** A customer inquires about the availability of a service.
- D. A customer purchases a service.

107. Which of the following is a business event that is considered a recordable transaction?

- A. A company hires a new employee.
- B.** A customer purchases merchandise.
- C. A company orders a product from a supplier.
- D. An employee sends a purchase requisition to the purchasing department.

108. A purchase is recognized in the accounting records when

- A. payment is made for the item purchased.
- B. the purchase requisition is sent to the purchasing department.
- C.** title transfers from the seller to the buyer.
- D. the buyer receives the seller's bill.

109. Which of the following business events is *not* a transaction?

- A.** Signing a contract.
- B. Paying wages.
- C. Receiving goods.
- D. Purchasing a service.

110. Which of the following is *not* an example of obvious financial reporting frauds as discussed in the text?

- A. Keeping the books open for a few days after the end of the reporting period.
- B. Transferring assets to an affiliate at more than their actual value.
- C. Recording as assets expenditures that should have been classified as expenses.
- D.** Recording a liability when title to merchandise passes to the purchaser.

111. Which of the following is an example of an obvious financial reporting fraud as discussed in the text?

- A. Closing the books at the end of the reporting period.
- B.** Transferring assets to an affiliate at more than their actual value.
- C. Recording as expenses expenditures that should have been classified as expenses.
- D. Recording a liability when title to merchandise passes to the purchaser.

112. Slim Co. is ordering a new computer for its corporate office. Which of the following events would trigger the recognition of the computer and related liability on Slim's books?

- A. The company generates a purchase order.
- B. The purchasing department sends a purchase order to the supplier.
- C.** The company receives the computer.
- D. The company receives the bill from the supplier.

113. Mesquite, Inc. is ordering a new machine to be used in its manufacturing facility. Which of the following events would trigger the recognition of the machine and related liability on Mesquite's books?

- A. The company generates a purchase order.
- B. A technician installs the machine on the floor of the manufacturing facility.
- C.** The company receives the machine.
- D. The company pays the bill from the supplier.

114. Mesquite, Inc. engaged in the following transactions during October:

Performed services for cash	\$1,840
Performed services on credit	2,100
Purchased office supplies on account	800
Paid salaries in cash	900
Collected on account	600
Paid on account	400

What is the balance in cash after these transactions?

- A. \$940
- B.** \$1,140
- C. \$740
- D. \$2,440

115. Mesquite, Inc. engaged in the following transactions during October:

Performed services for cash	\$1,840
Performed services on credit	2,100
Purchased office supplies on account	800
Paid salaries in cash	900
Collected on account	600
Paid on account	400

What is the amount of cash still to be received?

- A. \$2,300
- B.** \$1,500
- C. \$1,900
- D. \$400

116. Mesquite, Inc. engaged in the following transactions during October:

Performed services for cash	\$1,840
Performed services on credit	2,100
Purchased office supplies on account	800
Paid salaries in cash	900
Collected on account	600
Paid on account	400

What is the amount of cash still to be paid?

- A. \$2,300
- B. \$2,100
- C. \$1,300
- D. \$400**

117. Copper Company engaged in the following transactions during April

Performed services for cash	\$215,000
Performed services on credit	168,000
Purchased office supplies on account	56,000
Paid salaries in cash	29,000
Collected on account	42,000
Paid on account	38,000

What is the amount of cash still to be paid?

- A. \$18,000**
- B. \$47,000
- C. \$94,000
- D. \$52,000

118. Copper Company engaged in the following transactions during April

Performed services for cash	\$215,000
Performed services on credit	168,000
Purchased office supplies on account	56,000
Paid salaries in cash	29,000
Collected on account	42,000
Paid on account	38,000

What is the amount of cash still to be collected?

- A. \$126,000**
- B. \$341,000
- C. \$144,000
- D. \$18,000

119. Copper Company began operations in April and then engaged in the following transactions during April

Performed services for cash	\$215,000
Performed services on credit	168,000
Purchased office supplies on account	56,000
Paid salaries in cash	29,000
Collected on account	42,000
Paid on account	38,000

What is the balance in cash after these transactions?

- A. \$302,000
- B. \$190,000**
- C. \$144,000
- D. \$87,000

120. Copper Company engaged in the following transactions during April

Performed services for cash	\$215,000
Performed services on credit	108,000
Purchased office supplies on account	56,000
Paid salaries in cash	129,000
Collected on account	??
Paid on account	38,000

If the balance in cash after these transactions is \$115,000, how much cash was collected on account?

- A. \$67,000**
- B. \$62,000
- C. \$15,000
- D. \$29,000

121. Copper Company began operations in April and then engaged in the following transactions during April

Performed services for cash	\$215,000
Performed services on credit	168,000
Purchased office supplies on account	56,000
Paid salaries in cash	29,000
Collected on account	22,000
Paid on account	??

If the balance in cash after these transactions is \$165,000, how much cash was paid on account?

- A. \$43,000**
- B. \$57,000
- C. \$1,000
- D. \$21,000

122. Match each item with the correct statement below.

- |  |                           |
|--|---------------------------|
| 1. Process of assigning a monetary amount to business transactions.  | Recognition <u>7</u>      |
| 2. Basic storage unit for accounting data and used to accumulate amounts from similar transactions.              | Valuation <u>1</u>        |
| 3. Left side.  | Classification <u>5</u>   |
| 4. A series of steps that measure and communicate useful information to decision makers.                         | Accounting cycle <u>4</u> |
| 5. Process of assigning all the transactions in which a business engages to appropriate categories, or accounts. | Journal <u>9</u>          |
| 6. Process of transferring transactions from the journal to the ledger.  | Trial balance <u>8</u>    |
| 7. Refers to the decision as to when to record a business transaction.   | Posting <u>6</u>          |
| 8. A device used to ensure that the total of debits and credits in the accounts are equal.                       | Cost principle <u>10</u>  |
| 9. The book of original entry.   | Account <u>2</u>          |
| 10. Recording transactions at the exchange price at the point of recognition.                                    | Debit <u>3</u>            |

123. Use this journal entry to answer the following question.

Nov.	16	Accounts Payable	
		Cash	685
		Recorded payment of a liability	

Explain how the above journal entry relates to the measurement issues of (a) recognition, (b) valuation, and (c) classification.

- The transaction occurred and was recognized on November 16.
- A valuation of \$685 was placed on the transaction.
- The accounts involved were determined to be (classified as) Accounts Payable and Cash.

124. Why is the Dividends account increased by a debit? Explain in terms of its relationship to stockholders' equity.

Dividends represent a decrease in stockholders' equity. According to the rules of debit and credit, a decrease in stockholders' equity is recorded as a debit.

125. For each of the following economic events determine whether the event is a business transaction on the date it occurs and whether it's recognized in the accounts on that date. Support your answer.

a. On July 15, the controller of Kona Corporation orders a custom display case for the company's store.

b. On July 31, a new administrative assistant is hired at a monthly salary of \$3,500.

c. On July 31, the controller of Kona Corporation receives a bill for electricity for the month of July. The bill is due on August 18 and will be paid on that date.

a. This economic event is not a business transaction and is not recognized on July 15. There is no information that the custom display case has been shipped or that title has passed to Kona Corporation.

b. This is not a business transaction and is not recognized on July 31. The administrative assistant has not yet begun working for Kona Corporation and is not yet owed any salary for services performed.

c. This is a business transaction and is recognized in the accounts on July 31. The stockholders' equity account, Utilities Expense, is increased with a debit and the liability account, Accounts Payable, is increased with a credit.

126. A trial balance proves that the accounts are in balance. Does a balanced trial balance also prove that all the transactions are correctly analyzed and recorded? Why or why not?

The trial balance proves whether the accounts are in balance. *In balance* means that the total of all debits recorded equals the total of all credits recorded. But the trial balance does not prove that the transactions were analyzed correctly or recorded in the proper accounts. For example, the trial balance does not show that a debit should have been made in Office Supplies rather than in Office Equipment. And the trial balance does not detect whether transactions have been omitted, because equal debits and credits will have been omitted. Also, if an error of the same amount is made in both a debit and a credit, it will not be evident in the trial balance. The trial balance proves only that the debits and credits in the accounts are in balance.

127. If a debit to Supplies were posted as a credit, and a credit of the same amount to Cash were posted as a debit, what would be the effect, if any, on the two accounts and on the trial balance column totals?

The Cash account would be overstated, Supplies would be understated, and the trial balance would balance.



128. What type of information does the general journal include for each transaction?

The entries in a general journal include the following information about each transaction:

**Date:** The year appears on the first line of the first column, the month on the next line of the first column, and the day in the second column opposite the month. For subsequent entries on the same page for the same month and year, the month and year can be omitted.

**Accounts:** The names of the accounts debited and credited appear in the Description column. The names of the accounts that are debited are placed next to the left margin opposite the dates; on the line below, the names of the accounts credited are indented.

**Amounts:** The debit amounts appear in the Debit column opposite the accounts that are debited, and the credit amounts appear in the Credit column opposite the accounts credited.

**Explanation:** An explanation of each transaction appears in the Description column below the account names. An explanation should be brief but sufficient to identify the transaction.

**Account numbers:** The account numbers appear in the Post. Ref. (posting reference) column, if they apply.

129. What are the steps in the posting process for the debit side of an entry?

The steps in the posting process for the debit side of an entry are:

**Step 1:** In the ledger, locate the debit account named in the journal entry.

**Step 2:** Enter the date of the transaction in the ledger and, in the Post. Ref. column, the journal page number from which the entry comes.

**Step 3:** In the Debit column of the ledger account, enter the amount of the debit as it appears in the journal.

**Step 4:** Calculate the account balance and enter it in the appropriate Balance column.

**Step 5:** Enter in the Post. Ref. column of the journal the account number to which the amount has been posted.

130. Discuss the difference between business events that are transactions and those that are not. Why is the distinction important?

Business events become transactions and are recorded when title passes from the seller to the buyer or, in the case of services, when the service is performed. The distinction is important because the recording of a transaction will have an effect on the financial position of the business.

131. Ironwood Company has just started operations. The company sold 5,000 shares of common stock to investors for \$10,000 to get the business started. The company has made several sales on account, but has not yet collected any cash from these sales. At this point, Ironwood's cash flows for expenses are exceeding its cash flows from revenues. How might Ironwood make up the difference so it can maintain its liquidity?

Ironwood can seek more time from creditors to pay its bills, it can get a bank loan, or it can sell unused land, equipment, or other assets.

132. Using the following transactions, calculate (A) the ending balance of Cash, (B) the ending balance of Accounts Receivable, (C) total liabilities, and (D) Stockholders' Equity at the end of the period. For parts a, b, and d, indicate whether each balance is debit or credit.

- a. Began doing business by selling shares of common stock to investors for \$50,000 in cash.
- b. Billed customers for services rendered, \$10,000.
- c. Paid for six months' subscription in advance, \$2,500.
- d. Received advertising bill, to be paid next week, \$500.
- e. Dividends of \$4,000 were paid to common stock holders.
- f. Received \$7,500 from customers billed in b.
- g. Paid half of advertising bill.
- h. Received \$1,000 in advance of performing a service.

- a. \$51,750 debit ( $\$50,000 + \$7,500 + \$1,000 - \$2,500 - \$4,000 - \$250$ )
- b. \$2,500 debit ( $\$10,000 - \$7,500$ )
- c. \$1,250 credit ( $\$500 + \$1,000 - \$250$ )
- d. \$55,500 credit ( $\$50,000 + \$10,000 - \$500 - \$4,000$ )

133. Using the following transactions, calculate the ending balance of (A) total assets, (B) total liabilities, (C) Cash, and (D) Stockholders' Equity. Indicate whether each balance is debit or credit.

- a. Began doing business by selling shares of common stock to investors for \$72,000 in cash.
- b. Paid one year's insurance in advance, \$4,800.
- c. Billed customers for services rendered, \$12,000.
- d. Received utility bill, to be paid next month, \$800.
- e. Received \$1,600 in advance of performing a service.
- f. Received \$8,800 from customers billed in c.
- g. Paid \$600 on the utility bill of d.
- h. Dividends of \$4,000 were paid to common stock holders.

- a. \$81,000 debit ( $\$72,000 + \$12,000 + \$1,600 - \$600 - \$4,000$ )
- b. \$1,800 credit ( $\$800 + \$1,600 - \$600$ )
- c. \$73,000 debit ( $\$72,000 + \$1,600 + \$8,800 - \$4,800 - \$600 - \$4,000$ )
- d. \$79,200 credit ( $\$72,000 + \$12,000 - \$800 - \$4,000$ )

134. From the following alphabetical list of account balances, all of which are normal, for Ivy Maxx Company on July 31, 20x5, prepare a trial balance in proper form (the amount of dividends paid by Ivy Maxx must be computed) .

Accounts Payable	\$250
Accounts Receivable	100
Cash	40
Equipment	350
Common Stock	75
Dividends	?
Prepaid Advertising	10
Revenue Earned	200
Wages Expense	35
Wages Payable	25

<b>Ivy Maxx Company</b>		
<b>Trial Balance</b>		
<b>July 31, 20x5</b>		
Cash	\$ 40	
Accounts Receivable	100	
Prepaid Advertising	10	
Equipment	350	
Accounts Payable		\$ 250
Wages Payable		25
Common Stock		75
Dividends	15	
Revenue Earned		200
Wages Expense	<u>35</u>	<u>      </u>
	<u>\$550</u>	<u>\$550</u>

135. Using the alphabetical list of account balances presented below, all of which are normal, prepare a trial balance for Cookies and Cream Company at June 30, 20x5, in proper order. Compute the balance of the Cash account.

Accounts Payable	\$280
Accounts Receivable	560
Cash	?
Equipment	800
Office Expense	360
Common Stock	880
Service Revenue	600

Cookies and Cream Company		
Trial Balance		
June 30, 20x5		
Cash	\$ 40	
Accounts Receivable	560	
Equipment	800	
Accounts Payable		\$280
Common Stock		880
Service Revenue		600
Office Expense	360	
	<u>\$1,760</u>	<u>\$1,760</u>

136. From the following alphabetical list of account balances, all of which are normal, for Cannon Company on September 30, 20x5, prepare a trial balance in proper form (the amount of dividends paid by Cannon Company must be computed) .

Accounts Payable	\$ 780
Accounts Receivable	460
Cash	400
Equipment	1,380
Prepaid Advertising	20
Revenue Earned	1,000
Common Stock	1,200
Dividends	?
Wages Expense	60
Wages Payable	20

Cannon Company		
Trial Balance		
September 30, 20x5		
Cash	\$ 400	
Accounts Receivable	460	
Prepaid Advertising	20	
Equipment	1,380	
Accounts Payable		\$ 780
Wages Payable		20
Common Stock		1,200
Dividends	680	
Revenue Earned		1,000
Wages Expense	60	
	<u>\$3,000</u>	<u>\$3,000</u>

137. Record the following transactions, using proper form, in the journal provided.

June	9	Provided services in the amount of \$4,000, receiving \$300 in partial payment.
	19	Received \$1,600 of the amount owed from June 9.



Date	Description	Post. Ref.	Debit	Credit
June 9		Cash	300	
		Accounts Receivable	3,700	
		Service Revenue		4,000
		Received cash in partial payment of services rendered		
19		Cash	1,600	
		Accounts Receivable		1,600
		Received cash on account		



General Journal	Page			
Date	Description	Post. Ref.	Debit	Credit
	a. Utilities Expense		1,000	
		Accounts Payable		1,000
	b. Prepaid Insurance		1,200	
		Cash		1,200
	c. Dividends		700	
		Cash		700
	d. Accounts Payable		1,000	
		Cash		1,000
	e. Land		23,000	
		Cash		11,500
		Notes Payable		11,500

139. Provide explanations for the following related journal entries:

- a. Cash 6,000  
Common Stock 6,000
- b. Law 3,400  
Library  
Accounts Payable 3,400
- c. Cash 600  
Accounts Receivable 1,000  
Legal Fees Earned 1,600
- d. Cash 500  
Accounts Receivable 500
- e. Accounts Payable 3,400  
Cash 3,400



- a. Common stock was sold to investors.
- b. Purchased a law library, to be paid for at a later time.
- c. Rendered \$1,600 in legal services; \$600 was received in cash, the remainder to be received at a later time.
- d. Received \$500 from c.
- e. Paid for the law library of b.

140. Provide explanations for the following related journal entries:

a.	Prep 4,000 aid Rent		
	Cash	4,000	
b.	Truc 36,000 ks		
	Notes Payable	36,000	
c.	Cash 600		
	Accounts Receivable	600	
d.	Note 18,000 s Paya ble		
	Cash	18,000	
e.	Cash 2,500		
	Unearned Fees	2,500	

- a. Made advance payment of rent.
- b. Issued promissory note for purchase of company truck.
- c. Received payment from credit customer.
- d. Paid half of promissory note for purchase of company truck.
- e. Received cash in advance of performing a service.

141. Given the following ledger account and postings, complete the Balance column. Assume no previous postings in the account

Unearned Rent Revenue		Account No. 226					
Date	Item	Post. Ref.	Debit	Credit	Balance		
					Debit	Cr	edit
2014							
Nov.	1		J1		6,200		
	7		J1	1,400			
	8		J2		1,000		
	12		J2	400			

Unearned Rent Revenue		Account No. 226					
Date	Item	Post. Ref.	Debit	Credit	Balance		
					Debit	Cr	edit
2014							
Nov.	1		J1		6,200	6,200	
	7		J1	1,400		4,800	
	8		J2		1,000	5,800	
	12		J2	400		5,400	

142. Given the following ledger account and postings, complete the Balance column. Assume no previous postings in the account

Accounts Payable		Account No. 212					
Date	Item	Post. Ref.	Debit	Credit	Balance		
					Debit	Cr	edit
20x5							
Dec.	1		J1		8,200		
	7		J1	2,800			
	8		J2		600		
	12		J2	800			

Accounts Payable		Account No. 212				
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
20x5						
Dec.	1		J1		8,200	8,200
	7		J1	2,800		5,400
	8		J2		600	6,000
	12		J2	800		5,200

143. Given the following ledger account and postings, complete the Balance column. Assume no previous postings in the account

Accounts Receivable		Account No. 113				
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Mar.	1		J2	3,420		
	3		J3		640	
	9		J3		1,400	
	14		J3	820		

Accounts Receivable		Account No. 113				
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Mar.	1		J2	3,420		3,420
	3		J3		640	2,780
	9		J3		1,400	1,380
	14		J3	820		2,200

144. During the most recent month, Ostriker Company began operations with a cash balance of \$0 and made cash sales of \$81,000. During this same time period, the company paid \$32,000 in cash expenses. Additionally, the company purchased supplies on account, \$34,000, made sales on account, \$90,000, and received cash on the credit sales \$52,000.

- a. If cash at the end of the month totals \$74,000, how much cash was paid on account?
- b. What is the total amount still to be paid?
- c. What is the total amount still to be received?

a.

Cash sales	\$ 81,000
- Cash expenses	(32,000)
+ Cash rec'd on acct.	52,000
- <b>Cash paid on acct.</b>	<u><b>(27,000)</b></u>
Cash on hand	\$ 74,000

b.  $\$34,000 - 27,000 = \$7,000$

c.  $\$90,000 - 52,000 = \$38,000$

145. During the most recent month, Campbell Company began operations with a cash balance of \$0 and made cash sales of \$162,000. During this same time period, the company paid \$64,000 in cash expenses. Additionally, the company purchased supplies on account, \$68,000, made sales on account, \$180,000, and paid cash on account \$12,000.

- a. If cash at the end of the month totals \$148,000, how much cash was received on account?
- b. What is the total amount still to be paid?
- c. What is the total amount still to be received?

a.

Cash sales	\$ 162,000
- Cash expenses	(64,000)
- Cash paid on acct.	(12,000)
- <b>Cash rec'd on acct.</b>	<u><b>62,000</b></u>
Cash on hand	\$ 148,000

b.  $\$68,000 - 12,000 = \$56,000$

c.  $\$180,000 - 62,000 = \$118,000$