

College Accounting, 14e (Slater)

Chapter 2 Debits and Credits: Analyzing and Recording Business Transactions

2.1 Learning Objective 2-1

1) Accounts Payable had a normal starting balance of \$900. There were debit postings of \$100 and credit postings of \$450 during the month. The ending balance is:

- A) \$1,250 credit.
- B) \$1,450 debit.
- C) \$1,250 debit.
- D) \$1,450 credit.

Answer: A

Explanation: $(\$900 - \$100) + \$450 = \$1,250$

Diff: 2

LO: 2-1

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

2) The beginning balance in the Equipment account was \$4,000. The company purchased an additional \$1,000 worth of Equipment. The ending balance in the account is:

- A) debit of \$3,000.
- B) credit of \$4,000.
- C) debit of \$5,000.
- D) credit of \$3,000.

Answer: C

Explanation: $\$4,000 + \$1,000 = \$5,000$

Diff: 1

LO: 2-1

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

3) An accounting tool used to record increases and decreases in individual Assets, Liabilities, Capital, Revenue, Expenses, and Owner's Drawing is a(n):

- A) chart of accounts.
- B) account.
- C) trial balance.
- D) footing.

Answer: B

Diff: 2

LO: 2-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

4) A formal account that has columns for date, explanation, posting reference, debit, and credit is called the:

- A) T account.
- B) standard account form.
- C) ledger.
- D) chart of accounts.

Answer: B

Diff: 2

LO: 2-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

5) A ledger:

- A) includes all company accounts and their related balances.
- B) can replace the financial statements.
- C) is the same as a chart of accounts.
- D) is known as a worksheet.

Answer: A

Diff: 1

LO: 2-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

6) The right side of any account is the:

- A) debit side.
- B) credit side.
- C) ending balance.
- D) beginning balance.

Answer: B

Diff: 1

LO: 2-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

7) The left side of any account is the:

- A) debit side.
- B) credit side.
- C) ending balance.
- D) beginning balance.

Answer: A

Diff: 1

LO: 2-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

8) An account is said to have a debit balance if:

- A) the footing of the debits exceeds the footing of the credits.
- B) there are more entries on the debit side than on the credit side.
- C) its normal balance is debit without regard to the amounts or number of entries on the debit side.
- D) the last entry of the accounting period was posted on the debit side.

Answer: A

Diff: 2

LO: 2-1

AACSB: Analytical Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

9) The ledger is:

- A) a group of accounts that records results from business transactions.
- B) a tool used to ensure that all accounts have normal balances.
- C) a chronological record of the day's transactions.
- D) a tool used to ensure that debits equal credits.

Answer: A

Diff: 1

LO: 2-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

10) The credit side is always the left side of the account.

Answer: FALSE

Diff: 1

LO: 2-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

11) A T account is used for demonstration purposes.

Answer: TRUE

Diff: 2

LO: 2-1

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

12) Explain the difference between expenses and withdrawals.

Answer: A withdrawal is used for recording the owner's withdrawal of company assets for personal use, and not related to the business. Expenses are costs the company incurs in carrying on operations in its effort to create revenues.

Diff: 2

LO: 2-1

AACSB: Written and Oral Communication

Learning Outcome: Define accounting terms, accounting concepts and principles

2.2 Learning Objective 2-2

1) A compound entry is:

- A) a transaction involving more than one debit and/or credit.
- B) used to prepare the trial balance.
- C) to duplicate an entry.
- D) found on the income statement.

Answer: A

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

2) The rules of debit and credit require increases to be posted to the:

- A) debit side.
- B) credit side.
- C) normal balance.
- D) None of these answers is correct.

Answer: C

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

3) The Accounts Payable account is:

- A) a capital, and it has a normal debit balance.
- B) a withdrawal, and has a normal credit balance.
- C) a liability, and it has a normal debit balance.
- D) a liability, and it has a normal credit balance.

Answer: D

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

4) An account that would be increased by a credit is:

- A) Cash.
- B) Prepaid Expense.
- C) Utilities Expense.
- D) Unearned Revenue.

Answer: D

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

- 5) A debit may signify a(n):
- A) increase in Asset account.
 - B) decrease in Revenue account.
 - C) decrease in the Liability account.
 - D) All of the above

Answer: D

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

- 6) A credit may signify a(n):
- A) increase in assets.
 - B) decrease in liabilities.
 - C) increase in revenue.
 - D) increase in withdrawals.

Answer: C

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

- 7) Which of the following types of accounts has a normal credit balance?
- A) Withdrawals
 - B) Assets
 - C) Expenses
 - D) None of the above

Answer: D

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

- 8) Which of the following types of accounts has a normal debit balance?
- A) Withdrawals
 - B) Assets
 - C) Expenses
 - D) All of these answers are correct.

Answer: D

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

9) When recording transactions in two or more accounts and the totals of the debits and credits are equal, it is called:

- A) debiting.
- B) crediting.
- C) balancing.
- D) double-entry bookkeeping.

Answer: D

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

10) Which of the following groups of accounts have a normal debit balance?

- A) Revenue, liabilities, and expenses
- B) Assets, capital, and withdrawals
- C) Liabilities, expenses, and assets
- D) Assets, expenses, and withdrawals

Answer: D

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

11) Which of the following accounts would be increased by a debit?

- A) Supplies
- B) Accounts Payable
- C) Capital
- D) Service Revenue

Answer: A

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

12) What is a proper entry to show the owner making an investment in the company?

- A) A credit to Cash and a debit to Capital
- B) A debit to Cash and a credit to Capital
- C) A debit to Cash and a credit to Revenue
- D) A credit to Cash and a debit to Revenue

Answer: B

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

13) Which of the following entries would be used to record the billing of fees earned?

- A) Debit Accounts Receivable and credit Rental Fees
- B) Credit Cash and credit Rental Fees
- C) Debit Accounts Payable and credit Rental Fees
- D) Debit Rental Fees, credit Accounts Receivable.

Answer: A

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

14) Which of the statements of the rules of debit and credit is true?

- A) Decrease Accounts Receivable with a credit and the normal balance is a credit.
- B) Increase Accounts Payable with a credit and the normal balance is a credit.
- C) Increase Revenue with a debit and the normal balance is a debit.
- D) Decrease Cash with a debit and the normal balance is a debit.

Answer: B

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

15) Which of the following entries records the investment of cash by Sam, owner of a sole proprietorship?

- A) Debit John, Capital; credit Cash
- B) Debit Cash; credit Revenue
- C) Debit Sam, Withdrawals; credit Revenue
- D) Debit Cash; credit Sam, Capital

Answer: D

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

16) Bill, owner of Bill's Golf Center, withdrew \$1,600 in cash from the business. Record the transaction by:

- A) debiting Bill, Withdrawals, \$1,600; crediting Cash, \$1,600.
- B) debiting Accounts Receivable, \$1,600; crediting Cash, \$1,600.
- C) debiting Expense, \$1,600; crediting Cash, \$1,600.
- D) debiting Bill, Withdrawals, \$1,600; crediting Bill, Capital, \$1,600.

Answer: A

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

17) The entry to record Tom's payment of a home telephone bill is:

- A) debit Accounts Payable; credit Telephone Expense.
- B) debit Tom, Withdrawals; credit Cash.
- C) debit Telephone Expense; credit Cash.
- D) debit Tom, Withdrawals; credit Accounts Payable.

Answer: B

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

18) Excel Home bought painting equipment on account for \$5,000. The entry would include:

- A) debit to Supplies Expense, \$5,000; credit to Cash, \$5,000.
- B) debit to Equipment, \$5,000; credit to Cash, \$5,000.
- C) debit to Equipment, \$5,000; credit to Accounts Payable, \$5,000.
- D) debit to Supplies Expense, \$5,000; credit to Accounts Payable, \$5,000.

Answer: C

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

19) The owner of BobCats R Us paid his personal Visa Card bill using a company check. The correct entry to record the transaction is:

- A) credit Cash; debit Capital.
- B) credit Cash; debit Supplies Expense.
- C) credit Cash; debit Withdrawals.
- D) credit Cash; debit Accounts Payable.

Answer: C

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

20) Susan flew to San Francisco on a business trip that will be reimbursed by her employer. The purchase price of the ticket was \$800 and it was bought on account. The entry to record the transaction is:

- A) debit Accounts Payable, \$800; credit Travel Expense, \$800.
- B) debit Capital, \$800; credit Accounts Payable, \$800.
- C) debit Travel Expense, \$800; credit Accounts Payable, \$800.
- D) debit Travel Expense, \$800; credit Cash, \$800.

Answer: C

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

21) The Accounts Payable account has total credit postings of \$2,500 and debit postings of \$1,500. The balance of the account is:

- A) \$1,000 debit.
- B) \$1,000 credit.
- C) \$4,000 credit.
- D) \$4,000 debit.

Answer: A

Explanation: $\$2,500 - \$1,500 = \$1,000$

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

22) The Salaries Payable account has total debit postings of \$1,100 and credit postings of \$1,500. The ending balance of the account is:

- A) \$2,600 debit.
- B) \$400 credit.
- C) \$2,600 credit.
- D) \$400 debit.

Answer: B

Explanation: $\$1,500 - \$1,100 = \$400$

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

23) Office Supplies had a normal starting balance of \$95. There were debit postings of \$120 and credit postings of \$60 during the month. The ending balance of the account is:

- A) \$85 debit.
- B) \$85 credit.
- C) \$155 debit.
- D) \$155 credit.

Answer: C

Explanation: $(\$95 + \$120) - \$60 = \155

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

24) Accounts Payable has a normal balance of \$1,100. After paying to creditors \$300, the balance in the account is:

- A) debit \$800.
- B) debit \$1,400.
- C) credit \$800.
- D) credit \$1,400.

Answer: A

Explanation: $\$1,100 - \$300 = \$800$

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

25) The beginning balance in Cash was \$5,000. Additional cash of \$2,600 was received. Checks were written totaling \$3,300. The ending balance in cash is:

- A) \$2,400.
- B) \$7,600.
- C) \$5,700.
- D) \$4,300.

Answer: D

Explanation: $(\$5,000 + \$2,600) - \$3,300 = \$4,300$

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

26) A credit to an asset account was posted as a credit to the Revenue account. This error would cause:

- A) revenue to be overstated.
- B) liabilities to be overstated.
- C) capital to be understated.
- D) Both A and C are correct.

Answer: A

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

27) A credit to a liability account was posted as a credit to an expense account. This error would cause:

- A) assets to be overstated.
- B) liabilities to be overstated.
- C) expenses to be overstated.
- D) liabilities to be understated.

Answer: D

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

28) A debit to an expense account was posted as a debit to a revenue account. This error would cause:

- A) assets to be overstated.
- B) expenses to be overstated.
- C) revenue to be understated.
- D) None of the above is correct.

Answer: C

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

29) A credit to an asset account was posted as a credit to a revenue account. This error would cause:

- A) assets to be overstated.
- B) revenue to be overstated.
- C) expenses to be overstated.
- D) Both A and B are correct.

Answer: B

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

30) A credit to a liability account was posted as a debit to the Revenue account. This error would cause:

- A) Liability to be overstated.
- B) Revenue to be understated.
- C) Revenue to be overstated.
- D) None of the above is correct.

Answer: B

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

31) A debit to an asset account was posted as a debit to an expense account. This error would cause:

- A) liabilities to be overstated.
- B) expenses to be overstated.
- C) assets to be understated.
- D) Both B and C are correct.

Answer: D

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

32) A debit to a Liability account was posted as a debit to an Asset account. This error would cause:

- A) Asset to be understated.
- B) Liabilities to be understated.
- C) Asset to be overstated.
- D) None of the above is correct.

Answer: C

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

33) A debit to an asset account was posted as a debit to a liability account. This error would cause:

- A) assets to be understated.
- B) liabilities to be overstated.
- C) capital to be understated.
- D) None of the above is correct.

Answer: A

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

34) The chart of accounts:

- A) is a numbered list of all of the business's accounts.
- B) allows accounts to be located quickly.
- C) can be expanded as the business grows.
- D) All of the above are correct.

Answer: D

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

35) A credit to an asset account was posted as a credit to a liability account. This error would cause:

- A) assets to be understated.
- B) liabilities to be overstated.
- C) capital to be understated.
- D) None of the above is correct.

Answer: B

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

36) The business incurred an expense and planned to pay for the expense later on credit. To record this:

- A) an expense is debited and a liability is credited.
- B) an expense is debited and an asset is credited.
- C) an asset is debited and asset is credited.
- D) None of the above answers are correct.

Answer: A

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

37) The business provided services for cash. To record this:

- A) an asset is credited and a liability is credited.
- B) an asset is credited and a revenue is credited.
- C) an expense is debited and Capital is credited.
- D) None of the above answers are correct.

Answer: B

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

38) The owner invested a personal truck in the business. To record this transaction:

- A) debit Equipment and credit Revenue.
- B) debit Accounts Payable and credit Equipment.
- C) debit Equipment and credit Capital.
- D) credit Equipment and debit Capital.

Answer: C

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

39) Which of the following errors would cause the trial balance to be out of balance?

- A) An entry is posted twice.
- B) An entry is not posted at all.
- C) A debit is entered as \$500 and the credit is entered at \$5,000.
- D) None of the above answers are correct.

Answer: C

Diff: 3

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

40) The business bought supplies on account. To record this:

- A) an expense is debited and a liability is credited.
- B) an asset is debited and a liability is credited.
- C) an asset is credited and a liability is credited.
- D) None of the above answers are correct.

Answer: B

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

41) A liability would be debited and an asset credited if:

- A) the business paid a creditor.
- B) the business incurred an expense and did not pay the expense immediately.
- C) the business bought supplies on account.
- D) the business bought supplies for cash.

Answer: A

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

42) One asset would be debited and another credited if:

- A) the business provided services to a cash customer.
- B) the business paid a creditor.
- C) the business bought supplies paying cash.
- D) the business provided services to a credit customer.

Answer: C

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

43) An asset would be debited and another asset credited if:

- A) the business bought supplies for cash.
- B) the business incurred an expense and paid it.
- C) the business bought equipment on account.
- D) None of these is correct.

Answer: A

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

44) What would be the effect on the accounts if the business provided services to a customer on account?

- A) An asset would be debited and an expense credited.
- B) Capital would be debited and Revenue credited.
- C) An asset would be debited and Revenue credited.
- D) An asset would be debited and Capital credited.

Answer: C

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

45) What would be the effect on the accounts if the business provided services to a credit customer?

- A) An asset would be debited and an expense debited.
- B) Capital would be credited and Revenue credited.
- C) An asset would be debited and Revenue credited.
- D) An asset would be debited and Capital credited.

Answer: C

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

46) What would be the effect on the accounts if the owner invested cash into the business?

- A) An asset would be debited and Capital credited.
- B) Withdrawals would be debited and an asset credited.
- C) An asset would be debited and a revenue credited.
- D) A Revenue would be debited and Capital credited.

Answer: A

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

47) What would be the effect on the accounts if the business purchased equipment on account?

- A) An asset would be debited and an expense debited.
- B) Expense would be debited and Liability credited.
- C) An asset would be debited and Liability debited.
- D) An asset would be debited and a Liability credited.

Answer: D

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

48) What would be the effect on the accounts if the business received the telephone bill but did not pay it immediately?

- A) An expense would be debited and an asset credited.
- B) Capital would be debited and Revenue credited.
- C) An expense would be debited and a liability credited.
- D) An asset would be debited and Capital credited.

Answer: C

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

49) An account that would be increased by a debit is:

- A) Cash.
- B) Fees Earned.
- C) Capital.
- D) Accounts Payable.

Answer: A

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

50) Which of the following groups of accounts have a normal credit balance?

- A) Revenue, liabilities, and capital
- B) Assets, capital, and withdrawals
- C) Liabilities, expenses, and assets
- D) Assets, expenses, and withdrawals

Answer: A

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

51) A chart of accounts:

- A) is set up in alphabetical order.
- B) is a list of customer accounts.
- C) is a listing of all the accounts in order of dollar value.
- D) None of the above are correct.

Answer: D

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

52) Accounts receivable decrease on the credit side of the account.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

53) In accrual basis accounting, revenues are recorded when earned.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

54) Cash is credited when the business makes a payment for supplies.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

55) Debits must always exceed credits in a transaction or journal entry.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

56) The debit side of all accounts decreases the account balance and the credit side of all accounts increases the account balance.

Answer: FALSE

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

57) The debit side is always the left side of Asset accounts only.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

58) A transaction that involves more than one credit or more than one debit is called a compound entry.

Answer: TRUE

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

59) The right side of an account is always the normal balance side.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

60) Double-entry accounting requires transactions to affect two or more accounts, and the total of the debits to be greater than the credits.

Answer: FALSE

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

61) Three accounts are affected in every transaction.

Answer: FALSE

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

62) Withdrawals increase on the credit side of the account.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

63) After deciding which accounts are affected, the next step in analyzing a transaction is to determine to which categories the accounts belong.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

64) Equipment is an example of a Capital account.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

65) A compound entry is when more than one transaction occurs.

Answer: FALSE

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

66) When the owner invests personal equipment in the business, cash is decreased.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

67) Accounts Payable indicates amounts owed.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

68) Accounts Payable indicates monies owed to us by our clients or customers.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

69) Expenses paid in advance are recorded as Assets.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

70) Accounts Payable is an asset account that is increased on the debit side.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

71) The Accounts Receivable account is increased by a credit.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

72) Why is Revenue increased on the Credit side? (Explain as it pertains to the expanded accounting equation and its relationship to Owner's Equity.)

Answer: Revenue is an increase to owner's equity; Capital is increased on the credit side.

Diff: 1

LO: 2-2

AACSB: Written and Oral Communication

Learning Outcome: Define accounting terms, accounting concepts and principles

73) Selected accounts from the ledger of Thomas Company appear below. For each account, indicate the following:

a. In the first column at right, indicate the type of each account using the following abbreviations:

Asset - A Revenue - R None of the above - N Liability - L Expense - E

b. In the second column, indicate the normal balance of the account by inserting a Dr. or Cr.

| Account | Type of Account | Normal Balance |
|------------------------|-----------------|----------------|
| 1. Office Supplies | _____ | _____ |
| 2. Accounts Receivable | _____ | _____ |
| 3. Fees Earned | _____ | _____ |
| 4. Thomas, Withdrawals | _____ | _____ |
| 5. Accounts Payable | _____ | _____ |
| 6. Salaries Expense | _____ | _____ |
| 7. Thomas, Capital | _____ | _____ |
| 8. Accounts Receivable | _____ | _____ |
| 9. Equipment | _____ | _____ |
| 10. Telephone Expense | _____ | _____ |

Answer:

| Account | Type of Account | Normal Balance |
|------------------------|-----------------|----------------|
| 1. Office Supplies | A | Dr |
| 2. Accounts Receivable | A | Dr |
| 3. Fees Earned | R | Cr |
| 4. Thomas, Withdrawals | N | Dr |
| 5. Accounts Payable | L | Cr |
| 6. Salaries Expense | E | Dr |
| 7. Thomas, Capital | N | Cr |
| 8. Accounts Receivable | A | Dr |
| 9. Equipment | A | Dr |
| 10. Telephone Expense | E | Dr |

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

74) Identify the normal balance for each of the following accounts by placing a Dr. (debit) or a Cr. (credit) in the space provided.

- _____ 1. Truck
- _____ 2. B. James, Withdrawals
- _____ 3. B. James, Capital
- _____ 4. Accounting Fees Earned
- _____ 5. Cash
- _____ 6. Accounts Receivable
- _____ 7. Accounts Payable
- _____ 8. Rent Expense
- _____ 9. Office Equipment
- _____ 10. Supplies

Answer:

- 1. Dr.
- 2. Dr.
- 3. Cr.
- 4. Cr.
- 5. Dr.
- 6. Dr.
- 7. Cr.
- 8. Dr.
- 9. Dr.
- 10. Dr.

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

75) Identify whether a debit or credit would be correct for each of the following account changes. Use a Dr. (debit) or Cr. (credit) in the space provided.

- _____ 1. Increase Truck
- _____ 2. Increase Accounts Receivable
- _____ 3. Increase Accounts Payable
- _____ 4. Increase Salaries Expense
- _____ 5. Increase Service Fees Earned
- _____ 6. Decrease Cash
- _____ 7. Increase S. McCrae, Capital
- _____ 8. Increase S. McCrae, Withdrawals
- _____ 9. Increase Rent Expense
- _____ 10. Increase Equipment

Answer:

- 1. Dr.
- 2. Dr.
- 3. Cr.
- 4. Dr.
- 5. Cr.
- 6. Cr.
- 7. Cr.
- 8. Dr.
- 9. Dr.
- 10. Dr.

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

76) Below is a chart of accounts. Following is a series of transactions. Indicate for each transaction the accounts that should be debited and credited by inserting the proper account number in the space provided.

| | |
|--------------------------|------------------------------|
| 111 Cash | 312 S. Anderson, Withdrawals |
| 112 Accounts Receivable | 411 Service Fees Earned |
| 121 Office Equipment | 511 Salaries Expense |
| 211 Accounts Payable | 512 Rent Expense |
| 311 S. Anderson, Capital | 513 Supplies Expense |

| Debit | Credit | Transaction |
|-------|--------|---|
| _____ | _____ | 1. Purchased office equipment with cash. |
| _____ | _____ | 2. Paid salaries for the week. |
| _____ | _____ | 3. Invested additional cash in the business. |
| _____ | _____ | 4. Received cash on account. |
| _____ | _____ | 5. Billed a client on account for services performed. |
| _____ | _____ | 6. Paid accounts payable. |
| _____ | _____ | 7. Collected accounts receivable. |
| _____ | _____ | 8. Withdrew cash for personal use. |
| _____ | _____ | 9. Paid Supplies expense. |
| _____ | _____ | 10. Paid rent expense for the month. |

Answer:

- 1. 121 111
- 2. 511 111
- 3. 111 311
- 4. 111 112
- 5. 112 411
- 6. 211 111
- 7. 111 112
- 8. 312 111
- 9. 513 111
- 10. 512 111

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

77) A chart of accounts is below. Following is a series of transactions. Indicate for each transaction the accounts that should be debited and credited by inserting the proper account number in the space provided.

- | | |
|-------------------------|----------------------------|
| 111 Cash | 312 G. Baxter, Withdrawals |
| 112 Accounts Receivable | 411 Delivery Fees Earned |
| 121 Delivery Equipment | 511 Salaries Expense |
| 211 Accounts Payable | 512 Rent Expense |
| 311 G. Baxter, Capital | 513 Utilities Expense |
| | 514 Gas Expense |

| Debit | Credit | Transaction |
|-------|--------|---|
| _____ | _____ | 1. Invested cash in the business. |
| _____ | _____ | 2. Received cash for delivery services performed. |
| _____ | _____ | 3. Billed a customer for services performed. |
| _____ | _____ | 4. Paid accounts payable. |
| _____ | _____ | 5. Collected accounts receivable. |
| _____ | _____ | 6. Withdrew cash for personal use. |
| _____ | _____ | 7. Paid advertising expense. |
| _____ | _____ | 8. Paid rent expense for the month. |
| _____ | _____ | 9. Purchased delivery equipment on account. |
| _____ | _____ | 10. Paid salaries for the week. |

Answer:

- | | | |
|-----|-----|-----|
| 1. | 111 | 311 |
| 2. | 111 | 411 |
| 3. | 112 | 411 |
| 4. | 211 | 111 |
| 5. | 111 | 112 |
| 6. | 312 | 111 |
| 7. | 513 | 111 |
| 8. | 512 | 111 |
| 9. | 121 | 211 |
| 10. | 511 | 111 |

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

78) The following transactions occurred during June for Center City Cycle Shop. Record the transactions below in the T accounts. Place the letter of the transaction next to the entry. Foot and calculate the ending balances of the T accounts where appropriate.

- a. invested \$6500 in the bike service from his personal savings account.
- b. Bought office equipment for cash, \$900.
- c. Performed bike service for a customer on account, \$1,000.
- d. Company cell phone bill received, but not paid, \$80.
- e. Collected \$500 from customer in transaction c.
- f. withdrew \$300 for personal use.

| | | | | | | | | | | | | | | | | | |
|--|------|-----|------------------|-----|----------------|-----|------------------|-----|--|---------------------|-----|------------------|-----|--------------------|-----|-------------------|-----|
| <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;">Cash</td> <td style="width: 50%; text-align: right;">111</td> </tr> <tr> <td style="border-bottom: 1px solid black;">Office Equipment</td> <td style="text-align: right;">112</td> </tr> <tr> <td style="border-bottom: 1px solid black;">Tyler, Capital</td> <td style="text-align: right;">311</td> </tr> <tr> <td style="border-bottom: 1px solid black;">Bike Fees Earned</td> <td style="text-align: right;">411</td> </tr> </table> | Cash | 111 | Office Equipment | 112 | Tyler, Capital | 311 | Bike Fees Earned | 411 | <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;">Accounts Receivable</td> <td style="width: 50%; text-align: right;">112</td> </tr> <tr> <td style="border-bottom: 1px solid black;">Accounts Payable</td> <td style="text-align: right;">211</td> </tr> <tr> <td style="border-bottom: 1px solid black;">Tyler, Withdrawals</td> <td style="text-align: right;">312</td> </tr> <tr> <td style="border-bottom: 1px solid black;">Telephone Expense</td> <td style="text-align: right;">512</td> </tr> </table> | Accounts Receivable | 112 | Accounts Payable | 211 | Tyler, Withdrawals | 312 | Telephone Expense | 512 |
| Cash | 111 | | | | | | | | | | | | | | | | |
| Office Equipment | 112 | | | | | | | | | | | | | | | | |
| Tyler, Capital | 311 | | | | | | | | | | | | | | | | |
| Bike Fees Earned | 411 | | | | | | | | | | | | | | | | |
| Accounts Receivable | 112 | | | | | | | | | | | | | | | | |
| Accounts Payable | 211 | | | | | | | | | | | | | | | | |
| Tyler, Withdrawals | 312 | | | | | | | | | | | | | | | | |
| Telephone Expense | 512 | | | | | | | | | | | | | | | | |

Answer:

| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|------|-----|--------------------|--|------------------|--|-------|--|------------------|-----|--------|--|----------------|-----|----------|--|------------------|-----|----------|--|--|---------------------|-----|--------------------|--|-----|--|------------------|-----|-------|--|--------------------|-----|--------|--|-------------------|-----|-------|--|
| <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;">Cash</td> <td style="width: 50%; text-align: right;">111</td> </tr> <tr> <td style="border-bottom: 1px solid black;">a. 6,500 b. 900</td> <td></td> </tr> <tr> <td style="border-bottom: 1px solid black;">e. 500 f. 300</td> <td></td> </tr> <tr> <td style="border-bottom: 1px solid black;">5,800</td> <td></td> </tr> <tr> <td style="border-bottom: 1px solid black;">Office Equipment</td> <td style="text-align: right;">112</td> </tr> <tr> <td style="border-bottom: 1px solid black;">b. 900</td> <td></td> </tr> <tr> <td style="border-bottom: 1px solid black;">Tyler, Capital</td> <td style="text-align: right;">311</td> </tr> <tr> <td style="border-bottom: 1px solid black;">a. 6,500</td> <td></td> </tr> <tr> <td style="border-bottom: 1px solid black;">Bike Fees Earned</td> <td style="text-align: right;">411</td> </tr> <tr> <td style="border-bottom: 1px solid black;">c. 1,000</td> <td></td> </tr> </table> | Cash | 111 | a. 6,500 b. 900 | | e. 500 f. 300 | | 5,800 | | Office Equipment | 112 | b. 900 | | Tyler, Capital | 311 | a. 6,500 | | Bike Fees Earned | 411 | c. 1,000 | | <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;">Accounts Receivable</td> <td style="width: 50%; text-align: right;">112</td> </tr> <tr> <td style="border-bottom: 1px solid black;">e. 1,000 e. 500</td> <td></td> </tr> <tr> <td style="border-bottom: 1px solid black;">500</td> <td></td> </tr> <tr> <td style="border-bottom: 1px solid black;">Accounts Payable</td> <td style="text-align: right;">211</td> </tr> <tr> <td style="border-bottom: 1px solid black;">d. 80</td> <td></td> </tr> <tr> <td style="border-bottom: 1px solid black;">Tyler, Withdrawals</td> <td style="text-align: right;">312</td> </tr> <tr> <td style="border-bottom: 1px solid black;">f. 300</td> <td></td> </tr> <tr> <td style="border-bottom: 1px solid black;">Telephone Expense</td> <td style="text-align: right;">512</td> </tr> <tr> <td style="border-bottom: 1px solid black;">d. 80</td> <td></td> </tr> </table> | Accounts Receivable | 112 | e. 1,000 e. 500 | | 500 | | Accounts Payable | 211 | d. 80 | | Tyler, Withdrawals | 312 | f. 300 | | Telephone Expense | 512 | d. 80 | |
| Cash | 111 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| a. 6,500 b. 900 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| e. 500 f. 300 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5,800 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Office Equipment | 112 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| b. 900 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Tyler, Capital | 311 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| a. 6,500 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bike Fees Earned | 411 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| c. 1,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Accounts Receivable | 112 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| e. 1,000 e. 500 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 500 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Accounts Payable | 211 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| d. 80 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Tyler, Withdrawals | 312 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| f. 300 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Telephone Expense | 512 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| d. 80 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Diff: 2

LO: 2-2

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

For each of the following, identify in Column 1 the category to which the account belongs, in Column 2 the normal balance for the account, and in Column 3 the financial statement that the account appears upon.

79)

| | Column 1 | Column 2 | Column 3 |
|-----------------|----------|----------|----------|
| Postage Expense | | | |

Answer:

| | Column 1 | Column 2 | Column 3 |
|-----------------|----------|----------|------------------|
| Postage Expense | expense | debit | income statement |

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

80)

| | Column 1 | Column 2 | Column 3 |
|-----------|----------|----------|----------|
| Equipment | | | |

Answer:

| | Column 1 | Column 2 | Column 3 |
|-----------|----------|----------|---------------|
| Equipment | asset | debit | balance sheet |

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

81)

| | Column 1 | Column 2 | Column 3 |
|-------|----------|----------|----------|
| Truck | | | |

Answer:

| | Column 1 | Column 2 | Column 3 |
|-------|----------|----------|---------------|
| Truck | asset | debit | balance sheet |

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

82)

| | Column 1 | Column 2 | Column 3 |
|------------------|----------|----------|----------|
| Cleaning Expense | | | |

Answer:

| | Column 1 | Column 2 | Column 3 |
|------------------|----------|----------|------------------|
| Cleaning Expense | expense | debit | income statement |

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

83)

| | Column 1 | Column 2 | Column 3 |
|----------------------|----------|----------|----------|
| Cleaning Fees Earned | | | |

Answer:

| | Column 1 | Column 2 | Column 3 |
|----------------------|----------|----------|------------------|
| Cleaning Fees Earned | revenue | credit | income statement |

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

84)

| | Column 1 | Column 2 | Column 3 |
|------------------|----------|----------|----------|
| Salaries Payable | | | |

Answer:

| | Column 1 | Column 2 | Column 3 |
|------------------|-----------|----------|---------------|
| Salaries Payable | liability | credit | balance sheet |

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

85)

| | Column 1 | Column 2 | Column 3 |
|---------------------|----------|----------|----------|
| Service Fees Earned | | | |

Answer:

| | Column 1 | Column 2 | Column 3 |
|---------------------|----------|----------|------------------|
| Service Fees Earned | revenue | credit | income statement |

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

86)

| | Column 1 | Column 2 | Column 3 |
|-----------------------|----------|----------|----------|
| Tree Care Fees Earned | | | |

Answer:

| | Column 1 | Column 2 | Column 3 |
|-----------------------|----------|----------|------------------|
| Tree Care Fees Earned | revenue | credit | income statement |

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

87)

| | Column 1 | Column 2 | Column 3 |
|----------|----------|----------|----------|
| Supplies | | | |

Answer:

| | Column 1 | Column 2 | Column 3 |
|----------|----------|----------|---------------|
| Supplies | asset | debit | balance sheet |

Diff: 2

LO: 2-2

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

2.3 Learning Objective 2-3

1) Which of the following is a financial statement?

- A) Balance Sheet
- B) Income Statement
- C) Statement of Owner's Equity
- D) All of the above

Answer: D

Diff: 1

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

2) A list of all the accounts from the ledger with their ending balances is called a:

- A) normal balance.
- B) trial balance.
- C) chart of accounts.
- D) bank statement.

Answer: B

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

3) Which of the following is prepared first?

- A) Balance Sheet
- B) Income Statement
- C) Statement of Owner's Equity
- D) Trial Balance

Answer: D

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

4) Given the following list of accounts with normal balances, what are the trial balance totals of the debits and credits?

| | |
|---------------------|---------|
| Cash | \$1,100 |
| Accounts Receivable | 800 |
| Capital | 2,000 |
| Accounts Payable | 900 |
| Service Fees Earned | 1,000 |
| Rent Expense | 2,000 |

- A) \$3,900 debit, \$3,900 credit
- B) \$4,800 debit, \$4,800 credit
- C) \$1,900 debit, \$1,900 credit
- D) \$1,100 debit, \$1,100 credit

Answer: A

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

5) Given the following list of accounts with normal balances, what are the trial balance totals of the debits and credits?

| | |
|---------------------|---------|
| Cash | \$1,000 |
| Equipment | 900 |
| Accounts Payable | 350 |
| Capital | 900 |
| Service Fees Earned | 1,000 |
| Salaries Expense | 350 |

- A) \$3,250 debit, \$3,250 credit
- B) \$1,900 debit, \$1,900 credit
- C) \$4,500 debit, \$4,500 credit
- D) \$2,250 debit, \$2,250 credit

Answer: D

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

6) Which type of account would NOT be reported on the income statement?

- A) Revenue
- B) Expenses
- C) Liabilities
- D) None of the above answers are correct.

Answer: C

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

7) Prepaid expense would appear on which financial statement?

- A) Balance Sheet
- B) Income Statement
- C) Owner's Equity Statement
- D) None of the above answers are correct.

Answer: A

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

8) A multi-step income statement:

- A) shows debits.
- B) shows credits.
- C) shows debt owed.
- D) shows subtotal amounts.

Answer: D

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

9) The beginning balance in the Capital account would appear on which financial statement?

- A) Statement of Owner's Equity
- B) Balance Sheet
- C) Income Statement
- D) All of the above are correct.

Answer: A

Diff: 3

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

10) The income statement contains:

- A) Liabilities.
- B) Revenues.
- C) Expenses.
- D) Both B and C are correct.

Answer: D

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

11) On which financial statement would you find the ending balance in the Capital account?

- A) Income Statement
- B) Balance Sheet
- C) Statement of Owner's Equity
- D) Both B and C are correct.

Answer: D

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

12) Which of the following is prepared last?

- A) Balance Sheet
- B) Income Statement
- C) Statement of Owner's Equity
- D) Trial Balance

Answer: A

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

13) Net income or net loss for a period is calculated by the following formula:

- A) total liabilities - total revenue.
- B) total revenues + total expenses - total withdrawals - assets.
- C) total revenues - total expenses.
- D) total revenues - total expenses + capital.

Answer: C

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

14) Which type of account would NOT be reported on the balance sheet?

- A) Expense
- B) Cash
- C) Accounts Payable
- D) Equipment

Answer: A

Diff: 1

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

15) What is X-cel Company's net income or net loss if it had Revenue of \$2,200, Salary Expense of \$700, Utility Expense of \$350, and Withdrawals of \$3,000 during October?

- A) \$1,850 net income
- B) \$1,150 net loss
- C) \$1,150 net income
- D) \$1,850 net loss

Answer: C

Explanation: $\$2,200 - \$700 - \$350 = \$1,150$

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

16) The income statement is a financial statement.

Answer: TRUE

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

17) The financial statements contain debit and credit columns.

Answer: FALSE

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

18) Withdrawals and expenses are reported on the income statement.

Answer: FALSE

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

19) Accounts Payable appears on the income statement.

Answer: FALSE

Diff: 1

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

20) Wages Expense appears on the balance sheet.

Answer: FALSE

Diff: 1

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Describe the components of and prepare the four basic financial statements

21) Determine the ending owner's equity of a business having a beginning owner's equity of \$8,500, additional investments of \$600, withdrawals of \$1,000, and net income of \$1,200.

\$ _____

Answer: \$9,300 [$\$8,500 + \$600 - \$1,000 + 1,200$]

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

22) Determine the beginning owner's equity of a business having an ending owner's equity of \$3,500, additional investments of \$600, withdrawals of \$500, and net loss of \$750.

\$ _____

Answer: \$4,150 [$\$3,500 - \$600 + \$500 + \750]

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

23) Determine the beginning owner's equity of a business having beginning assets of \$9,000 and ending liabilities of \$5,000. During the year the liabilities decreased by \$1,000.

\$ _____

Answer: \$3,000 [$\$9,000 - (\$5,000 + \$1,000)$]

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

24) Number the following types of accounts (1-6) as they would appear on the Trial Balance.

- _____ Assets
- _____ Capital
- _____ Revenue
- _____ Liabilities
- _____ Withdrawals
- _____ Expenses

Answer:

- 1 Assets
- 3 Capital
- 5 Revenue
- 2 Liabilities
- 4 Withdrawals
- 6 Expenses

Diff: 2

LO: 2-3

AACSB: Reflective Thinking

Learning Outcome: Define accounting terms, accounting concepts and principles

25) The following is a list of accounts and their balances for Myra's Company for the month ended May 31, 20xx. Prepare a trial balance in good form.

| | | | |
|------------------|---------|---------------------|-------|
| Cash | \$1,710 | Myra, Withdrawals | \$980 |
| Accounts Payable | 1,000 | Accounts Receivable | 1,200 |
| Office Equipment | 1,760 | Service Fees Earned | 1,835 |
| Myra, Capital | 3,465 | Rent Expense | 650 |

Answer:

Myra's Company
Trial Balance
May 31, 20xx

| | Debit | Credit |
|---------------------|--------------|--------------|
| Cash | 1,710 | |
| Accounts Receivable | 1,200 | |
| Office Equipment | 1,760 | |
| Accounts Payable | | 1,000 |
| Myra, Capital | | 3,465 |
| Myra, Withdrawals | 980 | |
| Service Fees Earned | | 1,835 |
| Rent Expense | <u>650</u> | <u> </u> |
| Totals | <u>6,300</u> | <u>6,300</u> |

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements

26) The following is a list of accounts and their balances for Benson Company for the month ended June 30, 20xx. Prepare a trial balance in good form.

| | | | |
|------------------|---------|---------------------|--------|
| Cash | \$1,170 | Benson, Withdrawals | \$ 500 |
| Accounts Payable | 1,270 | Accounts Receivable | 1,100 |
| Office Equipment | 1,600 | Service Fees Earned | 2,230 |
| Benson, Capital | 1,500 | Salaries Expense | 630 |

Answer:

Benson Company
Trial Balance
June 30, 20xx

| | Debit | Credit |
|---------------------|--------------|--------------|
| Cash | 1,170 | |
| Accounts Receivable | 1,100 | |
| Office Equipment | 1,600 | |
| Accounts Payable | | 1,270 |
| Benson, Capital | | 1,500 |
| Benson, Withdrawals | 500 | |
| Service Fees Earned | | 2,230 |
| Salaries Expense | <u>630</u> | <u> </u> |
| Totals | <u>5,000</u> | <u>5,000</u> |

Diff: 2

LO: 2-3

AACSB: Analytical Thinking

Learning Outcome: Analyze and record transactions and their effects on the financial statements