Financial and Managerial Accounting 6th edition Wild Test Bank

SKU: 9780078025761-TEST-BANK

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Chapter 02

Accounting for Business Transactions

True / False Questions

1. The first step in the processing of a transaction is to analyze the transaction and source documents.

   True False

2. Preparation of a trial balance is the first step in processing a financial transaction.

   True False

3. Source documents provide evidence of business transactions and are the basis for accounting entries.

   True False

4. Items such as sales tickets, bank statements, checks, and purchase orders are examples of a business's source documents.

   True False

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

   True False

6. A customer's promise to pay on credit is classified as an *account payable* by the seller.

   True False

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7. Dividends paid to the stockholders are a business expense.

True False

8. The purchase of land and buildings will generally be recorded in the same ledger account.

True False

9. Unearned revenues are classified as liabilities.

True False

10. Cash paid to stockholders by the business of a corporation and used for personal expenses, should be treated as an expense of the business.

True False

11. When a company provides services for which cash will not be received until some future date, the company should record the amount charged as accounts receivable.

True False

12. A company's chart of accounts is a list of all the accounts used and includes an identification number assigned to each account.

True False

13. An account's balance is the difference between the total debits and total credits for the account, including any beginning balance.

True False

14. The right side of an account is called the *debit* side.

True False

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

True False

16. Increases in liability accounts are recorded as debits.

True False

17. Debits increase asset and expense accounts.

True False

18. *Credits* always increase account balances.

True False

19. *Crediting* an expense account decreases it.

True False

20. A revenue account normally has a debit balance.

True False

21. Asset accounts are normally decreased by debits.

True False

22. *Debit* means increase and *credit* means decrease for all accounts.

True False

23. Asset accounts normally have debit balances and revenue accounts normally have credit balances.

True False

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24. A dividend normally has a debit balance.

True False

25. A debit entry is always an increase in the account.

True False

26. A transaction that credits an asset account and credits a liability account must also affect one or more other accounts.

True False

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

True False

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

True False

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

True False

30. If a company purchases equipment paying cash, the journal entry to record this transaction will include a debit to Cash.

True False

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

True False

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32. When a company bills a customer for $700 for services rendered, the journal entry to record this transaction will include a $700 debit to Services Revenue.

True False

33. The debt ratio helps to assess the risk a company has of failing to pay its debts and is helpful to both its owners and creditors.

True False

34. The higher a company's debt ratio, the lower the risk of a company not being able to meet its obligations.

True False

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

True False

36. A company that finances a relatively large portion of its assets with liabilities is said to have a high degree of financial leverage.

True False

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

True False

38. Booth Industries has liabilities of $105 million and total assets of $350 million. Its debt ratio is 40.0%.

True False

39. A journal entry that affects <u>no more than two accounts</u> is called a compound entry.

True False

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40. *Posting* is the transfer of journal entry information to the ledger.

True False

41. Transactions are recorded first in the ledger and then transferred to the journal.

True False

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

True False

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

True False

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

True False

45. At a given point in time, a business's trial balance is a list of all of its general ledger accounts and their balances.

True False

46. The ordering of accounts in a trial balance typically follows their identification number from the chart of accounts, that is, assets first, then liabilities, then common stock and dividends, followed by revenues and expenses.

True False

47. The trial balance can serve as a replacement for the balance sheet, since total debits must equal total credits.

True False

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

True False

49. If cash was incorrectly debited for $100 instead of correctly crediting it for $100, the cash account's balance will be overstated (too high).

True False

50. The financial statement that summarizes the changes in retained earnings is called the balance sheet.

True False

51. The heading on every financial statement lists the three W's—Who (the name of the business); What (the name of the statement); and Where (the organization's address).

True False

52. If common stock account had a $10,000 credit balance at the beginning of the period, and during the period, the stockholders invest an additional $5,000, the balance in the common stock account listed on the trial balance will be equal to a debit balance of $5,000.

True False

53. Dividends are not reported on a business's income statement.

True False

54. An income statement reports the revenues earned less the expenses incurred by a business over a period of time.

True False

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55. The balance sheet reports the financial position of a company at a point in time.

True False

56. The same four basic financial statements are prepared by both U.S. GAAP and IFRS.

True False

57. Neither U.S. GAAP nor IFRS require the use of accrual basis accounting.

True False

Multiple Choice Questions

58. The accounting process begins with:

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

59. All of the following statements regarding a sales invoice are true *except*:

A. A sales invoice is a type of source document.
B. A sales invoice is used by sellers to record the sale and for control.
C. A sales invoice is used by buyers to record purchases and monitor purchasing activity.
D. A sales invoice gives rise to an entry in the accounting process.
E. A sales invoice does not provide objective evidence about a transaction.

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60. A business's source documents may include all of the following *except*:

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

61. A business's source documents:

A. include the ledger.
B. Provide objective evidence that a transaction has taken place.
C. must be in electronic form.
D. are prepared internally to ensure accuracy.
E. include the chart of accounts.

62. A business's record of the increases and decreases in a specific asset, liability, equity, revenue, or expense is known as a(n):

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

63. An account used to record the stockholders' investments in a business is called a(n):

A. Dividends account.
B. Common stock account.
C. Revenue account.
D. Expense account.
E. Liability account.

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64. Identify the account used by businesses to record the transfer of assets from a business to its owner for personal use:

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

65. Identify the statement below that is correct.

A. When a future expense is paid in advance, the payment is normally recorded in a liability account called Prepaid Expense.
B. Promises of future payment by the customer are called accounts receivable.
C. Increases and decreases in cash are always recorded in the common stock account.
D. An account called Land is commonly used to record increases and decreases in both the land and buildings owned by a business.
E. Accrued liabilities include accounts receivable.

66. Unearned revenues are generally:

A. Revenues that have been earned and received in cash.
B. Revenues that have been earned but not yet collected in cash.
C. Liabilities created when a customer pays in advance for products or services before the revenue is earned.
D. Recorded as an asset in the accounting records.
E. Increases to stockholders equity.

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67. Prepaid expenses are generally:

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

68. A company's formal promise to pay (in the form of a promissory note) a future amount is a(n):

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

69. The record of all accounts and their balances used by a business is called a:

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

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70. A company's ledger is:

A. A record containing increases and decreases in a specific asset, liability, equity, revenue, or expense item.
B. A journal in which transactions are first recorded.
C. A collection of documents that describe transactions and events entering the accounting process.
D. A list of all accounts a company uses with an assigned identification number.
E. A record containing all accounts and their balances used by the company.

71. A company's list of accounts and the identification numbers assigned to each account is called a:

A. Source document.
B. Journal.
C. Trial balance.
D. Chart of accounts.
E. General Journal.

72. The numbering system used in a company's chart of accounts:

A. Is the same for all companies.
B. Is determined by generally accepted accounting principles.
C. Depends on the source documents used in the accounting process.
D. Typically begins with balance sheet accounts.
E. Typically begins with income statement accounts.

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73. A debit:

A. Always increases an account.
B. Is the right-hand side of a T-account.
C. Always decreases an account.
D. Is the left-hand side of a T-account.
E. Is not need to record a transaction.

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

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

75. Identify the statement below that is *incorrect*.

A. The normal balance of accounts receivable is a debit.
B. The normal balance of dividends is a debit.
C. The normal balance of unearned revenues is a credit.
D. The normal balance of an expense account is a credit.
E. The normal balance of the common stock account is a credit.

76. A credit is used to record an <u>increase</u> in all of the following accounts *except*:

A. Accounts Payable
B. Service Revenue
C. Unearned Revenue
D. Wages Expense
E. Common Stock

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77. A debit is used to record an increase in all of the following accounts *except*:

A. Supplies
B. Cash
C. Accounts Payable
D. Dividends
E. Prepaid Insurance

78. Identify the account below that is classified as a liability in a company's chart of accounts:

A. Cash
B. Unearned Revenue
C. Salaries Expense
D. Accounts Receivable
E. Supplies

79. Identify the account below that is classified as an asset in a company's chart of accounts:

A. Accounts Receivable
B. Accounts Payable
C. Common Stock
D. Unearned Revenue
E. Service Revenue

80. Identify the account below that is classified as an *asset* account:

A. Unearned Revenue
B. Accounts Payable
C. Supplies
D. Common Stock
E. Service Revenue

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81. Identify the account below that is classified as a *liability* account:

A. Cash
B. Accounts Payable
C. Salaries Expense
D. Common Stock
E. Equipment

82. Identify the account below that impacts the *Equity* of a business:

A. Utilities Expense
B. Accounts Payable
C. Accounts Receivable
D. Cash
E. Unearned Revenue

83. A business uses a credit to record:

A. An increase in an expense account.
B. A decrease in an asset account.
C. A decrease in an unearned revenue account.
D. A decrease in a revenue account.
E. A decrease in an equity account.

84. A simple tool that is widely used in accounting to represent a ledger account and to understand how debits and credits affect an account balance is called a:

A. Dividends account.
B. Equity account.
C. Drawing account.
D. T-account.
E. Balance column sheet.

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85. Identify the statement below that is correct.

A. The left side of a T-account is the credit side.
B. Debits decrease asset and expense accounts, and increase liability, equity, and revenue accounts.
C. The left side of a T-account is the debit side.
D. Credits increase asset and expense accounts, and decrease liability, equity, and revenue accounts.
E. In certain circumstances the total amount debited need not equal the total amount credited for a particular transaction.

86. An account balance is:

A. The total of the credit side of the account.
B. The total of the debit side of the account.
C. The difference between the total debits and total credits for an account including the beginning balance.
D. Assets = liabilities + equity.
E. Always a credit.

87. Select the account below that normally has a credit balance.

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

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88. A debit is used to record which of the following?

A. A decrease in an asset account.
B. A decrease in an expense account.
C. An increase in a revenue account.
D. An increase in a contributed capital account.
E. An increase in the dividends account.

89. A credit entry:

A. Increases asset and expense accounts, and decreases liability, stockholders' equity, and revenue accounts.
B. Is always a decrease in an account.
C. Decreases asset and expense accounts, and increases liability, stockholders' equity, and revenue accounts.
D. Is recorded on the left side of a T-account.
E. Is always an increase in an account.

90. A double-entry accounting system is an accounting system:

A. That records each transaction twice.
B. That records the effects of transactions and other events in at least two accounts with equal debits and credits.
C. In which each transaction affects and is recorded in two or more accounts but that could include two debits and no credits.
D. That may only be used if T-accounts are used.
E. That insures that errors never occur.

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91. Ralph Pine Consulting received its telephone bill in the amount of $300, and immediately paid it. Pine's general journal entry to record this transaction will include a:

A. Debit to Telephone Expense for $300.
B. Credit to Accounts Payable for $300.
C. Debit to Cash for $300.
D. Credit to Telephone Expense for $300.
E. Debit to Accounts Payable for $300.

92. Golddigger Services, Inc. provides services to clients. On May 1, a client prepaid Golddigger Services $60,000 for 6-months services in advance. Golddigger Services' general journal entry to record this transaction will include a:

A. Debit to Unearned Management Fees for $60,000.
B. Credit to Management Fees Earned for $60,000.
C. Credit to Cash for $60,000.
D. Credit to Unearned Management Fees for $60,000.
E. Debit to Management Fees Earned for $60,000.

93. Willow Rentals purchased office supplies on credit. The general journal entry made by Willow Rentals will include a:

A. Debit to Accounts Payable.
B. Debit to Accounts Receivable.
C. Credit to Cash.
D. Credit to Accounts Payable.
E. Credit to Common Stock.

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94. An asset created by prepayment of an insurance expense is:

A. Recorded as a debit to Unearned Revenue.
B. Recorded as a debit to Prepaid Insurance.
C. Recorded as a credit to Unearned Revenue.
D. Recorded as a credit to Prepaid Insurance.
E. Not recorded in the accounting records until the insurance period expires.

95. Richard Redden contributed $70,000 in cash and land worth $130,000 to open a new business, RR Consulting, Inc. Which of the following general journal entries will RR Consulting, Inc. make to record this transaction?

A. Debit Assets $200,000; credit Common Stock, $200,000.
B. Debit Cash and Land, $200,000; credit Common Stock, $200,000.
C. Debit Cash $70,000; debit Land $130,000; credit Common Stock, $200,000.
D. Debit Common Stock, $200,000; credit Cash $70,000; credit Land, $130,000.
E. Debit Common Stock, $200,000; credit Assets, $200,000.

96. Wiley Consulting purchased $7,000 worth of supplies and paid cash immediately. Which of the following general journal entries will Wiley Consulting make to record this transaction?

A.

Accounts Payable	7,000	
Supplies		7,000

B.

Cash	7,000	
Supplies		7,000

C.

Supplies	7,000	
Cash		7,000

D.

Supplies	7,000	
Accounts Payable		7,000

E.

Supplies Expense	7,000	
Accounts Payable		7,000

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97. J. Brown Consulting paid $500 cash for utilities for the current month. Given the choices below, determine the general journal entry that J. Brown Consulting will make to record this transaction.

A.

Utilities Expense	500	
Cash		500

B.

Cash	500	
Utilities Expense		500

C.

Cash	500	
Accounts Payable		500

D.

Utilities Expense	500	
Accounts Payable		500

E.

Prepaid Utilities	500	
Accounts Payable		500

98.J. Brown Consulting paid $2,500 cash for a 5-month insurance policy which begins on December 1. Given the choices below, determine the general journal entry that J. Brown Consulting will make to record this transaction.

A.

Insurance Expense	2,500	
Cash		2,500

B.

Cash	2,500	
Insurance Expense		2,500

C.

Cash	2,500	
Prepaid Insurance		2,500

D.

Prepaid Insurance	2,500	
Cash		2,500

E.

Insurance Expense	2,500	
Prepaid Insurance		2,500

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99. ABC Catering received $800 cash from a customer for catering services to be provided next month. Given the choices below, determine the general journal entry that ABC Catering will make to record this transaction.

A.

Unearned Catering Revenue	800	
Catering Revenue		800

B.

Cash	800	
Accounts Receivable		800

C.

Cash	800	
Unearned Catering Revenue		800

D.

Cash	800	
Catering Revenue		800

E.

Accounts Receivable	800	
Catering Revenue		800

100. Grills R Us Catering provided $1,000 of catering services and billed its client for the amount owed. Given the choices below, determine the general journal entry that Grills R Us Catering will make to record this transaction.

A.

Unearned Catering Revenue	1,000	
Catering Revenue		1,000

B.

Catering Revenue	1,000	
Accounts Receivable		1,000

C.

Accounts Receivable	1,000	
Unearned Catering Revenue		1,000

D.

Accounts Receivable	1,000	
Catering Revenue		1,000

E.

Cash	1,000	
Catering Revenue		1,000

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101. Trimble Graphic Design receives $1,500 from a client billed in a previous month for services provided. Which of the following general journal entries will Trimble Graphic Design make to record this transaction?

A.

Cash	1,500	
Accounts Receivable		1,500

B.

Cash	1,500	
Unearned Design Revenue		1,500

C.

Accounts Receivable	1,500	
Unearned Design Revenue		1,500

D.

Cash	1,500	
Design Revenue		1,500

E.

Accounts Receivable	1,500	
Cash		1,500

102. The company paid $100 cash in dividends to J. Smith, the owner. Which of the following general journal entries will Jay's Limo Services, Inc. make to record this transaction?

A.

Dividends	100	
Cash		100

B.

Cash	100	
Dividends		100

C.

Common Stock	100	
Dividends		100

D.

Dividends	100	
Common Stock		100

E.

Cash	100	
Common Stock		100

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103. Jay's Limo Services, Inc. paid $300 cash to employees for work performed in the current period. Which of the following general journal entries will Jay's Limo Services, Inc. make to record this transaction?

A.

Salaries Expense	300	
Accounts Payable		300

B.

Cash	300	
Salaries Expense		300

C.

Salaries Expense	300	
Dividends		300

D.

Salaries Payable	300	
Salaries Expense		300

E.

Salaries Expense	300	
Cash		300

104. Able Graphics received a $400 utility bill for the current month's electricity. It is not due until the end of the next month which is when they intend to pay it. Which of the following general journal entries will Able Graphics make to record this transaction?

A.

Utilities Expense	400	
Cash		400

B.

Cash	400	
Utilities Expense		400

C.

Utilities Expense	400	
Accounts Payable		400

D.

Accounts Payable	400	
Utilities Expense		400

E.

Utilities Payable	400	
Cash		400

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105. HH Consulting & Design provided $800 of consulting work and $100 of design work to the same client. It billed the client for the total amount and is expecting to collect from the customer next month. Which of the following general journal entries will HH Consulting & Design make to record this transaction?

A.

Design Revenue	100	
Consulting Revenue	800	
Accounts Receivable		900

B.

Accounts Payable	800	
Design Revenue		100
Consulting Revenue		800

C.

Cash	900	
Consulting Revenue		800
Design Revenue		100

D.

Cash	900	
Design Revenue		100
Consulting Revenue		800

E.

Accounts Receivable	900	
Consulting Revenue		800
Design Revenue		100

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106. Gi Gi's Dance Studio provided $150 of dance instruction and rented out its dance studio to the same client for another $100. The client paid immediately. Identify the general journal entry below that Gi Gi's will make to record the transaction.

A.

Rental Revenue	100	
Instruction Revenue	150	
Cash		250

B.

Accounts Payable	250	
Rental Revenue		100
Instruction Revenue		150

C.

Cash	250	
Rental Revenue		100
Instruction Revenue		150

D.

Accounts Receivable	250	
Rental Revenue		100
Instruction Revenue		150

E.

Unearned Revenue	250	
Rental Revenue		100
Instruction Revenue		150

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107. Geraldine Parker, the owner of Gi Gi's Dance Studio, Inc., started the business by investing $10,000 cash and donating a building worth $20,000. Identify the general journal entry below that Gi Gi's will make to record the transaction.

A.

Cash	30,000	
Common Stock		30,000

B.

Common Stock	30,000	
Cash		10,000
Building		20,000

C.

Cash	10,000	
Building	20,000	
Common Stock		30,000

D.

Common Stock	30,000	
Retained Earnings		30,000

E.

Cash & Building	30,000	
Common Stock		30,000

108. Mary Martin, the owner of Martin Consulting, Inc., started the business by investing $40,000 cash. Identify the general journal entry below that Martin Consulting, Inc. will make to record the transaction.

A.

Cash	40,000	
Common Stock		40,000

B.

Common Stock	40,000	
Cash		40,000

C.

Investments	40,000	
Cash		40,000

D.

Investments	40,000	
Common Stock		40,000

E.

Cash	40,000	
Increased Equity		40,000

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109. If cash is received from customers in payment for products or services that have not yet been delivered to the customers, the business would record the cash receipt as:

A. A debit to an unearned revenue account.
B. A debit to a prepaid expense account.
C. A credit to an unearned revenue account.
D. A credit to a prepaid expense account.
E. No entry is required at the time of collection.

110. On May 31, the Cash account of Bottle's R Us had a normal balance of $5,000. During May, the account was debited for a total of $12,200 and credited for a total of $11,500. What was the balance in the Cash account at the beginning of May?

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

111. On April 30, Victor Services had an Accounts Receivable balance of $18,000. During the month of May, total credits to Accounts Receivable were $52,000 from customer payments. The May 31 Accounts Receivable balance was $13,000. What was the amount of credit sales during May?

A. $5,000.
B. $47,000.
C. $52,000.
D. $57,000.
E. $32,000.

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112. During the month of February, Victor Services had cash receipts of $7,500 and cash disbursements of $8,600. The February 28 cash balance was $1,800. What was the February 1 beginning cash balance?

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

113. The following transactions occurred during July:

1. Received $900 cash for services provided to a customer during July.
2. Received $2,200 cash investment from Bob Johnson, the stockholder of the business.
3. Received $750 from a customer in partial payment of his account receivable which arose from sales in June.
4. Provided services to a customer on credit, $375.
5. Borrowed $6,000 from the bank by signing a promissory note.
6. Received $1,250 cash from a customer for services to be rendered next year.

What was the amount of revenue for July?

A. $900.
B. $1,275.
C. $2,525.
D. $3,275.
E. $11,100.

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114. If Taylor Willow, the owner of Willow Hardware Inc., uses cash of the business to purchase a family automobile, the business should record this use of cash with an entry to:

A. Debit Automobiles and credit Cash.
B. Debit Cash and credit Salary Expense.
C. Debit Cash and credit Dividends.
D. Debit Dividends and credit Cash.
E. Debit Cash and credit Automobiles.

115. Larry Bar opened a frame shop and completed these transactions:

1. Larry started the shop by investing $40,000 cash and equipment valued at $18,000.
2. Purchased $70 of office supplies on credit.
3. Paid $1,200 cash for the receptionist's salary.
4. Sold a custom frame service and collected a $1,500 cash on the sale.
5. Completed framing services and billed the client $200.

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

A. $300.
B. $41,500.
C. $40,300.
D. $38,500.
E. $38,700.

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116. At the beginning of January of the current year, Little Mikey's Catering ledger reflected a normal balance of $52,000 for accounts receivable. During January, the company collected $14,800 from customers on account and provided additional services to customers on account totaling $12,500. Additionally, during January one customer paid Mikey $5,000 for services to be provided in the future. At the end of January, the balance in the accounts receivable account should be:

A. $54,700.
B. $49,700.
C. $2,300.
D. $54,300.
E. $49,300.

117. During the month of March, Harley's Computer Services made purchases on account totaling $43,500. Also during the month of March, Harley was paid $8,000 by a customer for services to be provided in the future and paid $36,900 of cash on its accounts payable balance. If the balance in the accounts payable account at the beginning of March was $77,300, what is the balance in accounts payable at the end of March?

A. $83,900.
B. $91,900.
C. $6,600.
D. $75,900.
E. $4,900.

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118. On January 1 of the current year, Jimmy's Sandwich Company, Inc. reported stockholders' equity totaling $122,500. During the current year, total revenues were $96,000 while total expenses were $85,500. Also, during the current year the business paid $20,000 to the stockholders. No other changes in equity occurred during the year. If, on December 31 of the current year, total assets are $196,000, the *change* in stockholders' equity during the year was:

A. A decrease of $9,500.
B. An increase of $9,500.
C. An increase of $30,500.
D. A decrease of $30,500.
E. An increase of 73,500.

119. Andrea Apple opened Apple Photography, Inc. on January 1 of the current year. During January, the following transactions occurred and were recorded in the company's books:

1. Andrea, the stockholder, invested $13,500 cash in the business.
2. Andrea contributed $20,000 of photography equipment to the business.
3. The company paid $2,100 cash for an insurance policy covering the next 24 months.
4. The company received $5,700 cash for services provided during January.
5. The company purchased $6,200 of office equipment on credit.
6. The company provided $2,750 of services to customers on account.
7. The company paid cash of $1,500 for monthly rent.
8. The company paid $3,100 on the office equipment purchased in transaction #5 above.
9. Paid $275 cash for January utilities.

Based on this information, the balance in the cash account at the end of January would be:

A. $41,450.
B. $12,225.
C. $18,700.
D. $15,250.
E. $13,500.

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120. Andrea Apple opened Apple Photography, Inc. on January 1 of the current year. During January, the following transactions occurred and were recorded in the company's books:

1. Andrea, the stockholder, invested $13,500 cash in the business.
2. Andrea contributed $20,000 of photography equipment to the business.
3. The company paid $2,100 cash for an insurance policy covering the next 24 months.
4. The company received $5,700 cash for services provided during January.
5. The company purchased $6,200 of office equipment on credit.
6. The company provided $2,750 of services to customers on account.
7. The company paid cash of $1,500 for monthly rent.
8. The company paid $3,100 on the office equipment purchased in transaction #5 above.
9. Paid $275 cash for January utilities.

Based on this information, the balance in the stockholders' equity reported on the Balance Sheet at the end of the month would be:

A. $31,400.
B. $39,200.
C. $31,150.
D. $40,175.
E. $30,875.

121. The debt ratio is used:

A. To measure the ratio of equity to expenses.
B. To assess the risk associated with a company's use of liabilities.
C. Only by banks when a business applies for a loan.
D. To determine how much debt a firm should pay off.
E. To determine how much debt a company should borrow.

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122. Identify the correct formula below used to calculate the debt ratio.

A. Total Equity/Total Liabilities.
B. Total Liabilities/Total Equity.
C. Total Liabilities/Total Assets.
D. Total Assets/Total Liabilities.
E. Total Equity/Total Assets.

123. Lu Lu's Catering has a debt ratio equal to .3 and its competitor, Able's Bakery, has a debt ratio equal to .7. Determine the statement below that is *correct*.

A. Able's Bakery has a smaller percentage of its assets financed with liabilities as compared to Lu Lu's.
B. Able's Bakery's financial leverage is *less* than Lu Lu's.
C. Able's Bakery's financial leverage is *greater* than Lu Lu's.
D. Lu Lu's has a higher risk from its financial leverage.
E. Higher financial leverage involves lower risk.

124. Identify the statement that is incorrect.

A. Higher financial leverage involves higher risk.
B. Risk is higher if a company has more liabilities.
C. Risk is higher if a company has higher assets.
D. The debt ratio is one measure of financial risk.
E. Lower financial leverage involves lower risk.

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125. The debt ratio of Company A is .31 and the debt ratio of Company B is .21. Based on this information, an investor can conclude:

A. Company B has more debt than Company A.
B. Company B has a lower risk from its financial leverage.
C. Company A has a lower risk from its financial leverage.
D. Company A has 10% more assets than Company B.
E. Both companies have too much debt.

126. The debt ratio of Jackson's Shoes is .9 and the debt ratio of Billy's Catering is 1.0. Based on this information, an investor can conclude:

A. Billy's Catering finances a relatively lower portion of its assets with liabilities than Jackson's Shoes.
B. Billy's Catering has a lower risk from its financial leverage.
C. Jackson's Shoes has a higher risk from its financial leverage.
D. Billy's Catering has the exact same dollar amount of total liabilities and total assets.
E. Jackson's Shoes has less equity per dollar of assets than Billy's Catering.

127. Gi Gi's Bakery has total assets of $425 million. Its total liabilities are $110 million. Its equity is $315 million. Calculate the debt ratio.

A. 38.6%.
B. 13.4%.
C. 34.9%.
D. 25.9%.
E. 14.9%.

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128. Happiness Catering has total assets of $385 million. Its total liabilities are $100 million and its equity is $285 million. Calculate its debt ratio.

A. 35.1%.
B. 26.0%.
C. 38.5%.
D. 28.5%.
E. 58.8%.

129. All of the following statements accurately describe the debt ratio *except*:

A. It is use to both internal and external users of accounting information.
B. A relatively high ratio is always desirable.
C. The dividing line for a high and low ratio varies from industry to industry.
D. Many factors such as a company's age, stability, profitability and cash flow influence the determination of what would be interpreted as a high versus a low ratio.
E. The ratio might be used to help determine if a company is capable of increasing its income by obtaining further debt.

130. At the end of the current year, Leer Company reported total liabilities of $300,000 and total equity of $100,000. The company's debt ratio on the last year-end was:

A. 300%.
B. 33.3%.
C. 75.0%.
D. 66.67%.
E. $400,000.

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131. At the beginning of the current year, Trenton Company Inc.'s total assets were $248,000 and its total liabilities were $175,000. During the year, the company reported total revenues of $93,000, total expenses of $76,000 and dividends of $5,000. There were no other changes in stockholders' equity during the year and total assets at the end of the year were $260,000. Trenton Company's debt ratio at the end of the current year is:

A. 70.6%.
B. 67.3%.
C. 32.7%.
D. 48.6%.
E. 1.42%.

132. The process of transferring general journal entry information to the ledger is called:

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

133. A column in journals and ledger accounts that is used to cross reference journal and ledger entries is the:

A. Account balance column.
B. Debit column.
C. Posting reference column.
D. Credit column.
E. Description column.

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134. The chronological record of each complete transaction that has occurred is called the:

A. Account balance.
B. Ledger.
C. Journal.
D. Trial balance.
E. Cash account.

135. A business's general journal provides a place for recording all of the following *except*:

A. The transaction date.
B. The names of the accounts involved.
C. The amount of each debit and credit.
D. An explanation of the transaction.
E. The balance in each account.

136. The balance column in a ledger account is:

A. An account entered on the balance sheet.
B. A column for showing the balance of the account after each entry is posted.
C. Another name for the dividends account.
D. An account used to record the transfers of assets from a business to its stockholders.
E. A simple form of account that is widely used in accounting to illustrate the debits and credits required in recording a transaction.

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137. A general journal is:

A. A ledger in which amounts are posted from a balance column account.
B. Not required if T-accounts are used.
C. A complete record of all transactions in chronological order from which transaction amounts are posted to the ledger accounts.
D. Not necessary in electronic accounting systems.
E. A book of final entry because financial statements are prepared from it.

138. A record in which the effects of transactions are first recorded and from which transaction amounts are posted to the ledger is a(n):

A. Account.
B. Trial balance.
C. Journal.
D. T-account.
E. Balance column account.

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139. Smiles Entertainment had the following accounts and balances at December 31:

Account	Debit	Credit
Cash	$10,000	
Accounts Receivable	2,000	
Prepaid Insurance	2,400	
Supplies	1,000	
Accounts Payable		$5,000
Common Stock		4,900
Service Revenue		7,000
Salaries Expense	500	
Utilities Expense	1,000	
Totals	$16,900	$16,900

Using the information in the table, calculate the company's reported net income for the period.

A. $1,100.

B. $4,000.

C. $4,500.

D. $10,400.

E. $5,500.

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140. Jackson Consulting, Inc. had the following accounts and balances at December 31:

Account	Debit	Credit
Cash	$20,000	
Accounts Receivable	6,000	
Prepaid Insurance	1,500	
Supplies	5,000	
Accounts Payable		$500
Common Stock		16,200
Dividends	1,000	
Service Revenue		20,000
Utilities Expense	2,000	
Salaries Expense	1,200	
Totals	$36,700	$36,700

Using the information in the table, calculate Jackson Consulting Inc.'s reported net income for the period.

A. $16,800.

B. $15,800.

C. $15,300.

D. $10,300.

E. $32,000.

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141. Bologna Lodging, Inc. had the following accounts and balances as of December 31:

Account	Debit	Credit
Cash	$20,000	
Accounts Receivable	2,000	
Salaries Expense	500	
Accounts Payable		$4,000
Lodging Revenue		7,000
Utilities Expense	500	
Prepaid Insurance	1,400	
Supplies	1,500	
Common Stock		14,900
Totals	$25,900	$25,900

Using the information in the table, calculate the **total assets** reported on Bologna's balance sheet for the period.

A. $24,900.

B. $25,400.

C. $22,500.

D. $25,900.

E. $23,400.

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142. At the end of its first month of operations, Michael's Consulting Services, Inc. reported net income of $25,000. They also had account balances of: Cash, $18,000; Office Supplies, $2,000 and Accounts Receivable $10,000. The stockholders' total investment for this first month was $5,000.

Calculate the **ending** balance in Stockholders' Equity to be reported on the Balance Sheet.

A. $30,000
B. $25,000
C. $20,000
D. $5,000
E. $7,000

143. Identify the accounts that would normally have balances in the *debit* column of a business's trial balance.

A. Assets and expenses.
B. Assets and revenues.
C. Revenues and expenses.
D. Liabilities and expenses.
E. Liabilities and dividends.

144. Identify the accounts that would normally have balances in the *credit* column of a business's trial balance.

A. Liabilities and expenses.
B. Assets and revenues.
C. Revenues and expenses.
D. Revenues and liabilities.
E. Dividends and liabilities.

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145. Which of the following is not a step in the accounting process?

A. Record relevant transactions and events in a journal.
B. Post journal information to the ledger accounts.
C. Prepare and analyze the trial balance.
D. Analyzing each transaction.
E. Verify that revenues and expenses are equal.

146. A bookkeeper has debited an account for $3,500 and credited a liability account for $2,000. Which of the following would be an *incorrect* way to complete the recording of this transaction:

A. Credit another asset account for $1,500.
B. Credit another liability account for $1,500.
C. Credit an expense account for $1,500.
D. Credit the common stock account for $1,500.
E. Debit another asset account for $1,500.

147. A report that lists a business's accounts and their balances, in which the total debit balances should equal the total credit balances, is called a(n):

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

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148. Identify the statement below that is *true*.

A. If the trial balance is in balance, it proves that no errors have been made in recording and posting transactions.
B. The trial balance is a book of original entry.
C. Another name for the trial balance is the chart of accounts.
D. The trial balance is a list of all accounts from the ledger with their balances at a point in time.
E. The trial balance is another name for the balance sheet as long as debits balance with credits.

149. While in the process of posting from the journal to the ledger, a company failed to post a $500 debit to the Equipment account. The effect of this error will be that:

A. The Equipment account balance will be overstated.
B. The trial balance will not balance.
C. The error will overstate the debits listed in the journal.
D. The total debits in the trial balance will be larger than the total credits.
E. The error will overstate the credits listed in the journal.

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

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

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151. At year-end, a trial balance showed total credits exceed total debits by $4,950. This difference could have been caused by:

A. An error in the general journal where a $4,950 increase in Accounts Receivable was recorded as an increase in Cash.
B. A net income of $4,950.
C. The balance of $49,500 in Accounts Payable being entered in the trial balance as $4,950.
D. The balance of $5,500 in the Office Equipment account being entered on the trial balance as a debit of $550.
E. An error in the general journal where a $4,950 increase in Accounts Payable was recorded as a decrease in Accounts Payable.

152. Identify the item below that would cause the trial balance to *not* balance.

A. A $1,000 collection of an account receivable was erroneously posted as a debit to Accounts Receivable and a credit to Cash.
B. The purchase of office supplies on account for $3,250 was erroneously recorded in the journal as $2,350 debit to Office Supplies and credit to Accounts Payable.
C. A $50 cash receipt for the performance of a service was not recorded at all.
D. The purchase of office equipment for $1,200 was posted as a debit to Office Supplies and a credit to Cash for $1,200.
E. The cash payment of a $750 account payable was posted as a debit to Accounts Payable and a debit to Cash for $750.

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153. The credit purchase of a new oven for $4,700 was posted to Kitchen Equipment as a $4,700 debit and to Accounts Payable as a $4,700 debit. What effect would this error have on the trial balance?

A. The total of the Debit column of the trial balance will exceed the total of the Credit column by $4,700.
B. The total of the Credit column of the trial balance will exceed the total of the Debit column by $4,700.
C. The total of the Debit column of the trial balance will exceed the total of the Credit column by $9,400.
D. The total of the Credit column of the trial balance will exceed the total of the Debit column by $9,400.
E. The total of the Debit column of the trial balance will equal the total of the Credit column.

154. On a trial balance, if the Debit and Credit column totals are equal, then:

A. All transactions have been recorded correctly.
B. All entries from the journal have been posted to the ledger correctly.
C. All ledger account balances are correct.
D. Equal debits and credits have been recorded for transactions.
E. The balance sheet would be correct.

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155. Given the following errors, identify the one by itself that will cause the trial balance to be out of balance.

A. A $200 cash salary payment posted as a $200 debit to Cash and a $200 credit to Salaries Expense.
B. A $100 cash receipt from a customer in payment of her account posted as a $100 debit to Cash and a $10 credit to Accounts Receivable.
C. A $75 cash receipt from a customer in payment of her account posted as a $75 debit to Cash and a $75 credit to Cash.
D. A $50 cash purchase of office supplies posted as a $50 debit to Office Equipment and a $50 credit to Cash.
E. An $800 prepayment from a customer for services to be rendered in the future was posted as an $800 debit to Unearned Revenue and an $800 credit to Cash.

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

A. Supplies, understated $130; Fees Earned, overstated $130.
B. Supplies, understated $260; Fees Earned, overstated $130.
C. Supplies, overstated $130; Fees Earned, overstated $130.
D. Supplies, overstated $130; Fees Earned, understated $130.
E. Supplies, overstated $260; Fees Earned, understated $130.

157. All of the following are asset accounts *except*:

A. Accounts Receivable.
B. Buildings.
C. Supplies expense.
D. Equipment.
E. Prepaid insurance.

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158. Compare the list of accounts below and choose the list that contains only accounts that would be classified as asset accounts on the Chart of Accounts.

A. Accounts Payable; Cash; Supplies.

B. Unearned Revenue; Accounts Payable; Dividends.

C. Building; Prepaid Insurance; Supplies Expense.

D. Cash; Prepaid Insurance; Equipment.

E. Notes Payable; Cash; Dividends.

159. Which financial statement reports an organization's financial position at a single point in time?

A. Income statement.

B. Balance sheet.

C. Statement of retained earnings.

D. Cash flow statement.

E. Trial balance.

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160. Joe Jackson opened Jackson's Repairs, Inc. on March 1 of the current year. During March, the following transactions occurred and were recorded in the company's books:

1. Jackson invested $25,000 cash in the business.
2. Jackson contributed $100,000 of equipment to the corporation.
3. The company paid $2,000 cash to rent office space for the month.
4. The company received $16,000 cash for repair services provided during March.
5. The company paid $6,200 for salaries for the month.
6. The company provided $3,000 of services to customers on account.
7. The company paid cash of $500 for monthly utilities.
8. The company received $3,100 cash in advance of providing repair services to a customer.

Based on this information, net income for March would be:

A. $10,300.
B. $13,400.
C. $5,300.
D. $8,400.
E. $13,500.

161. Joel Consulting received $3,000 from a customer for services provided. Joel's general journal entry to record this transaction will be:

A. Debit Services Revenue, credit Accounts Receivable.
B. Debit Cash, credit Accounts Payable.
C. Debit Cash, credit Accounts Receivable.
D. Debit Cash, credit Services Revenue.
E. Debit Accounts Payable, credit Services Revenue.

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162. Wiley Hill opened Hill's Repairs, Inc. on March 1 of the current year. During March, the following transactions occurred and were recorded in the company's books:

1. Wiley invested $25,000 cash in the corporation.
2. Wiley contributed $100,000 of equipment to the corporation.
3. The company paid $2,000 cash to rent office space for the month.
4. The company received $16,000 cash for repair services provided during March.
5. The company paid $6,200 for salaries for the month.
6. The company provided $3,000 of services to customers on account.
7. The company paid cash of $500 for monthly utilities.
8. The company received $3,100 cash in advance of providing repair services to a customer.
9. The company paid $5,000 cash in dividends to Wiley. (sole shareholder)

Based on this information, the balance in Stockholders' Equity reported on the Balance Sheet at the end of March would be:

A. $133,400.
B. $130,300.
C. $125,300.
D. $8,400.
E. $13,500.

Matching Questions

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163. Match the following terms with the appropriate definitions.

1. The process of transferring journal entry information to the ledger accounts.	Credit	____
2. A company's chronological record of each transaction in one place that shows debits and credits for each transaction.	Ledger	____
3. An accounting system where each transaction affects and is recorded in at least two accounts; the sum of the debits for each entry must equal the sum of its credits.	Double-entry accounting	____
4. A list of accounts and their balances at a point in time.	Journal	____
5. A representation of a ledger account used to understand the effects of transactions.	Debit	____
6. A record containing all the accounts of a company and their balances.	Account	____
7. Verifiable evidence that transactions have occurred used to record accounting information.	T-account	____
8. A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense item.	Trial balance	____
9. An increase in an asset and expense account, and decrease in a liability, contributed capital, retained earnings, and revenue account; recorded on the left side of a T-account.	Posting	____
10. Decrease in an asset, and expense account, and increase in a liability, contributed capital, retained earnings and revenue account; recorded on the right side of a T-account.	Source documents	____

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164. Match the following terms with the appropriate definitions.

1. A chronological record of each transaction in one place that shows debits and credits for each transaction.	Debit	____
2. An account with debit and credit columns for recording entries and another column for showing the balance of the account after each entry.	Credit	____
3. A record containing all accounts of a company and their balances.	Note payable	____
4. A list of accounts and their balances at a point in time; the total debit balances should equal the total credit balances.	Account balance	____
5. A list of all accounts used by a company and the identification number assigned to each account.	Trial balance	____
6. The ratio of total liabilities to total assets; used to reflect the risk associated with the company's debts.	Chart of accounts	____
7. A decrease in an asset and expense account, and an increase in a liability, contributed capital, retained earnings, and revenue account; recorded on the right side of a T-account.	Debt ratio	____
8. A written promise to pay a definite sum of money on a specified future date.	Balance column account	____
9. The difference between total debits and total credits for an account including the beginning balance.	Journal	____
10. An increase in an asset, dividend, and expense account, and a decrease in a liability, contributed capital, retained earnings, and revenue account; recorded on the left side of a T-account.	Ledger	____

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165. Match the following terms with the appropriate definitions.

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

Essay Questions

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

____ 1. Salary Expense
____ 2. Cash
____ 3. Equipment
____ 4. Common Stock
____ 5. Fees Revenue
____ 6. Accounts Receivable
____ 7. Accounts Payable
____ 8. Dividends
____ 9. Supplies
____ 10. Unearned Revenue
____ 11. Prepaid Insurance
____ 12. Office Furniture

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167. Review the transactions below and identify with an "X" those that would be posted as a *credit* in the ledger (The first one has been done for you):

_X_ 1. Salary Payable was increased.
____ 2. Cash was decreased
____ 3. Equipment was increased
____ 4. Common Stock was increased
____ 5. Salaries Expense was increased
____ 6. Accounts Receivable was decreased
____ 7. Unearned Revenue was increased
____ 8. Dividends was increased
____ 9. Supplies was increased
____ 10. Building was increased
____ 11. Utilities Expense was increased
____ 12. Service Revenue was increased

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168. The following accounts appear on either the Income Statement (IS) or Balance Sheet (BS). In the space to the left of each account, write the letters, IS or BS to identify the statement on which the account appears.

____ 1. Office Equipment
____ 2. Rent Expense
____ 3. Unearned Fees Revenues
____ 4. Rent Expense
____ 5. Accounts Payable
____ 6. Common Stock
____ 7. Fees Revenue
____ 8. Cash
____ 9. Notes Receivable
____ 10. Wages Payable

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169. Miley Block, Inc. is a building consultant. Shown below are (a) several accounts in her ledger with each account preceded by an identification number, and (b) several transactions completed by Block. Indicate the accounts debited and credited when recording each transaction by placing the proper account identification numbers to the right of each transaction.

1.	Accounts Payable	7.	Telephone Expense
2.	Accounts Receivable	8.	Unearned Revenue
3.	Cash	9.	Common Stock
4.	Consulting Fees Earned	10.	Dividends
5.	Office Supplies	11.	Insurance Expense
6.	Office Supplies Expense	12.	Prepaid Insurance

		Debit	Credit
	Example:		
	Completed consulting work for a client who will pay at a later date	2	4
A.	Received cash in advance from a customer for designing a building		
B.	Purchased office supplies on credit		
C.	Paid for the supplies purchased in B		
D.	Received the telephone bill of the business and immediately paid it		
E.	Paid for a 3-year insurance policy		

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170. Drew Castle, Inc. is an insurance appraiser. Shown below are (a) several accounts in his ledger with each account preceded by an identification number, and (b) several transactions completed by Castle. Indicate the accounts debited and credited when recording each transaction by placing the proper account identification numbers to the right of each transaction.

1.	Accounts Payable	8.	Office Supplies Expense
2.	Accounts Receivable	9.	Prepaid Insurance
3.	Appraisal Fees Earned	10.	Salaries Expense
4.	Cash	11.	Telephone Expense
5.	Insurance Expense	12.	Unearned Appraisal Fees
6.	Office Equipment	13.	Common Stock
7.	Office Supplies	14.	Dividends

		Debit	Credit
	Example:		
	Completed an appraisal for a client who promised to pay at a later date.	2	3
A.	Received cash in advance for appraising a hail damage claim		
B.	Purchased office supplies on credit		
C.	The company paid cash in dividends to the Drew Castle. (sole shareholder)		
D.	Received the telephone bill of the business and immediately paid it		
E.	Paid the salary of the office assistant		
F.	Paid for the supplies purchased in transaction B		
G.	Completed an appraisal for a client and immediately collected cash for the work done		

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Short Answer Questions

171. List the steps in processing transactions.

172. Describe what source documents are and the purpose they serve in a business.

173. Explain how accounts are used in recording information about a business's transactions.

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174. Explain the difference between a general ledger and a chart of accounts.

175. Explain debits and credits and their role in the accounting system of a business.

176. Explain the debt ratio and its use in analyzing a company's financial condition.

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177. Explain the recording and posting processes.

178. What is a trial balance? What is its purpose?

179. Describe the link between a business's income statement, the statement of retained earnings, and the balance sheet.

Essay Questions

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180. Identify by marking an X in the appropriate column, whether each of the following items would likely serve as a source document. The first one is done as an example:

		Yes	No
Ex.	Credit card		X
a.	Credit card receipt		
b.	Purchase order		
c.	Invoice		
d.	Balance sheet		
e.	Bank statement		
f.	Journal entry		
g.	Telephone bill		
h.	Employee earnings record		

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181. Indicate whether a debit or credit entry would be required to record the following changes in each account.

a. To decrease Cash.
b. To increase Common Stock.
c. To decrease Accounts Payable.
d. To increase Salaries Expense.
e. To decrease Supplies.
f. To increase Revenue.
g. To decrease Accounts Receivable.
h. To increase Dividends.

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182. Using the following list of accounts and identification letters A through J for Homer's Management Co., Inc., enter the type of account and its normal balance into the table below. The first item is filled in as an example:

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

	Type of Account			Normal Balance	
	Asset	Liability	Equity	Debit	Credit
A			X		X
B					
C					
D					
E					
F					
G					
H					
I					
J					

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183. Rowdy Bolton began Bolton Office Services, Inc. in October and during that month completed these transactions:

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

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

184. BBB Company sends a $2,500 invoice to a customer for catering services it provided during the month. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.

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185. ABC Company made a $2,500 payment on account, to satisfy a previously recorded account payable. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.

186. The business paid $100 cash dividend to Charles Nice (the sole stockholder of the corporation). Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.

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187. On December 3, the ABBJ Company paid $1,400 cash in salaries to office personnel. Prepare the general journal entry to record this transaction.

188. On February 5, Teddy's Catering purchased an oven that cost $35,000. The firm made a down payment of $5,000 cash and signed a long-term note payable for the balance. Show the general journal entry to record this transaction.

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189. Jarrod Automotive, Inc. owned and operated by Jarrod Johnson, began business in September of the current year. Jarrod, a mechanic, had no experience with recording business transactions. As a result, Jarrod entered all of September's transactions directly into the ledger accounts. When he tried to locate a particular entry he found it confusing and time consuming. He has hired you to improve his accounting procedures. The accounts in his General Ledger follow:

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

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

Accounts Receivable				Revenue			
9/9	(c) 275	9/15	(e) 190			9/9	(c) 275
						9/11	(d) 150

Prepare the general journal entries, in chronological order (a) through (e), from the T-account entries shown. Include a brief description of the probable nature of each transaction.

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190. Pippa's Paralegal Services, Inc. completed these transactions in February:

a. Purchased office supplies on account, $300.
b. Completed work for a client on credit, $500.
c. Paid cash for the office supplies purchased in (*a*).
d. Completed work for a client and received $800 cash.
e. Received $500 cash for the work described in (*b*).
f. Received $1,000 from a client for paralegal services to be performed in March.

Prepare journal entries to record the above transactions. Explanations are not necessary.

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191. Larry Matt, Inc. completed these transactions during December of the current year:

Dec. 1	Began a financial services practice by investing $15,000 cash and office equipment having a $5,000 value.
2	Purchased $1,200 of office equipment on credit.
3	Purchased $300 of office supplies on credit.
4	Completed work for a client and immediately received a payment of $900 cash.
8	Completed work for Precept Paper Co. on credit, $1,700.
10	Paid for the supplies purchased on credit on December 3.
14	Paid for the annual $960 premium on an insurance policy.
18	Received payment in full from Precept Paper Co. for the work completed on December 8.
27	The company paid $650 cash in dividends to the owner. (sole shareholder)
30	Paid $175 cash for the December utility bills.
30	Received $2,000 from a client for financial services to be rendered next year.

Prepare general journal entries to record these transactions.

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192. Mary Sunny began business as Sunny Law Firm, Inc. on November 1. Record the following November transactions by making entries directly to the T-accounts provided. Then, prepare a trial balance, as of November 30.

a) Mary invested $15,000 cash and a law library valued at $6,000.
b) Purchased $7,500 of office equipment from John Bronx on credit.
c) Completed legal work for a client and received $1,500 cash in full payment.
d) Paid John Bronx. $3,500 cash in partial settlement of the amount owed.
e) Completed $4,000 of legal work for a client on credit.
f) The company paid $2,000 cash in dividends to the owner. (sole shareholder)
g) Received $2,500 cash as partial payment for the legal work completed for the client in (*e*).
h) Paid $2,500 cash for the legal secretary's salary.

Cash		Office Equipment		Dividends	
Accounts Receivable		**Accounts Payable**		**Legal Fees Earned**	
Law Library		**Common Stock**		**Salaries Expense**	

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193. Jerry's Butcher Shop, Inc. had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	$114,000	$68,000
End of the year	135,000	73,000

If Jerry made no investments in the business and withdrew no assets during the year, what was the amount of net income earned by Jerry's Butcher Shop, Inc.?

194. Jerry's Butcher Shop, Inc. had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	$114,000	$68,000
End of the year	135,000	73,000

If Jerry invested an additional $12,000 in the business during the year, but withdrew no assets during the year, what was the amount of net income earned by Jerry's Butcher Shop, Inc.?

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195. Jerry's Butcher Shop, Inc. had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	$114,000	$68,000
End of the year	135,000	73,000

If Jerry made no investments in the business but withdrew $5,000 during the year, what was the amount of net income earned by Jerry's Butcher Shop, Inc.?

196. Jerry's Butcher Shop, Inc. had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	$114,000	$68,000
End of the year	135,000	73,000

If Jerry invested an additional $12,000 in the business and withdrew $5,000 during the year, what was the amount of net income earned by Jerry's Butcher Shop, Inc.?

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197. A company had total assets of $350,000, total liabilities of $101,500 and total equity of $248,500. Calculate the company's debt ratio.

198. Jackson Advertising Co. had assets of $475,000; liabilities of $275,500; and equity of $199,500. Calculate its debt ratio.

199. List the four steps in recording transactions.

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200. Given each of the following errors, indicate on the table below the amount by which the trial balance will be out of balance and which trial balance column (debit or credit) will have the larger total as a result of the error.

a. $100 debit to Cash was debited to the Cash account twice.
b. $1,900 credit to Sales was posted as a $190 credit.
c. $5,000 debit to Office Equipment was debited to Office Supplies.
d. $625 debit to Prepaid Insurance was posted as a $62.50 debit.
e. $520 credit to Accounts Payable was not posted.

Error	Amount Out of Balance	Column Having Larger Total
a.		
b.		
c.		
d.		
e.		

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201. After preparing an (unadjusted) trial balance at year-end, R. Chang of Chang Window Company, Inc. discovered the following errors:

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

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

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

Would the error cause the trial balance to be out of balance?

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202. The balances for the accounts of Milo's Management Co., Inc. for the year ended December 31 are shown below. Each account shown had a normal balance.

Accounts payable	$6,500	Wages expense	36,000
Accounts receivable	7,000	Rent expense	6,000
Cash	?		
Office supplies	1,200		
Building	125,000		
Supplies expense	21,500	Land	50,000
Common stock	118,700	Unearned management fees	4,000
Management revenue	175,000	Dividends	48,000

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

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203.At year-end, Henry Laundry Service, Inc. noted the following errors in its trial balance:

1. It understated the total debits to the Cash account by $500 when computing the account balance.
2. A credit sale for $311 was recorded as a credit to the revenue account, but the offsetting debit was not posted.
3. A cash payment to a creditor for $2,600 was never recorded.
4. The $680 balance of the Prepaid Insurance account was listed in the credit column of the trial balance.
5. A $24,900 van purchase was recorded as a $24,090 debit to Equipment and a $24,090 credit to Notes Payable.
6. A purchase of office supplies for $150 was recorded as a debit to Office Equipment. The offsetting credit entry was correct.
7. An additional investment of $4,000 by Del Henry was recorded as a debit to Common Stock and as a credit to Cash.
8. The cash payment of the $510 utility bill for December was recorded (but not paid) twice.
9. The revenue account balance of $79,817 was listed on the trial balance as $97,817.
10. A $1,000 cash withdrawal by the stockholder was recorded as a $100 debit to Dividends and $100 credit to cash.

Using the form below, indicate whether each error would cause the trial balance to be out of balance, the amount of any imbalance, and whether a correcting journal entry is required.

	Would the error cause the trial balance to be out of balance?		Amount of Imbalance	Correcting Journal Entry Required	
Error	Yes	No		Yes	No
1.					
2.					
3.					
4.					
5.					

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6.					
7.					
8.					
9.					
10.					

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204.The following trial balance is prepared from the general ledger of HG's Auto Maintenance, Inc.

HG'S AUTO MAINTENANCE, Inc. Trial Balance October 31		
	Debit	Credit
Cash	$1,975	
Accounts receivable	2,800	
Supplies	500	
Shop equipment	13,000	
Office equipment	6,600	
Accounts payable		$4,510
Common stock		22,000
Dividends	4,200	
Repair fees earned		11,875
Supplies expense	8,600	
Totals	$37,675	$38,385

Because the trial balance did not balance, you decided to examine the accounting records. You found that the following errors had been made:

1. A purchase of supplies on account for $245 was posted as a debit to Supplies and as a debit to Accounts Payable.
2. An investment of $500 cash by the owner was debited to Common Stock and credited to Cash.
3. In computing the balance of the Accounts Receivable account, a debit of $600 was omitted from the computation.
4. One debit of $300 to the Dividends account was posted as a credit.
5. Office equipment purchased for $800 was posted to the Shop Equipment account.
6. One entire entry was not posted to the general ledger. The transaction involved the receipt of $125 cash for repair services performed for cash.

Prepare a corrected trial balance for the HG's Auto Maintenance, Inc. as of October 31.

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205.Figgaro Company Inc.'s accounts and their balances, as of the end of August, are included below. All accounts have normal balances:

Accounts receivable	$36,000	Cash	$28,000
		Common stock	1,000
Equipment	59,000	Advertising expense	5,000
Service revenues earned	75,000	Accounts payable	31,000
Rent expense	3,600	Dividends	24,000
Office supplies	1,500	Salaries expense	30,000
Notes payable	22,000	Retained earnings	58,100

a. Calculate net income.

b. Determine the amount of retained earnings to be shown on the August 31 balance sheet.

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206. Based on the following trial balance for Sally's Salon, Inc, prepare an income statement, statement of retained earnings, and a balance sheet. Sally Crawford made no additional investments in the company during the year.

Sally's Salon, Inc. Trial Balance December 31		
Cash	$7,500	
Accounts receivable	475	
Beauty supplies	2,500	
Beauty shop equipment	17,000	
Accounts payable		$745
Common stock		1,000
Retained earnings		21,155
Dividends	36,000	
Revenue earned		72,000
Beauty supplies expense	3,425	
Rent expense	6,000	
Wages expense	22,000	
Totals	$94,900	$94,900

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207. George Butler owned a tugboat and was tired of his current job. He decided to open a business, Butler, Inc., that provides day tugboat tours to tourists along the Mississippi River near his hometown. Prepare journal entries to record the following transactions.

May 1	Butler invested $20,000 cash and his tugboat valued at $90,000 in the business.
May 2	Butler paid $3,000 cash for office equipment to help him keep track of business activities.
May 3	Butler bought boating supplies costing $2,500 on credit.
May 4	Butler paid the river master $500 cash for the first month's dock rental.
May 5	Butler paid $1,800 cash for a six-month insurance policy.
May 10	Butler received $2,000 cash from clients for his first tour.
May 12	Butler provided a $3,500 tour on credit, the customer has agreed to pay within 10 days.
May 19	Butler paid for the boating supplies originally purchased on May 3.
May 22	Butler receives payment on the account from the client entry on May 12.
May 25	Butler received $2,750 cash for additional tours.
May 31	Butler paid his crew member a salary of $1,000.
May 31	The company paid $2,000 cash in dividends to the owner. (sole shareholder)

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

Barry's Automotive Shop, Inc. Trial Balance December 31		
Cash	$13,500	
Accounts receivable	1,500	
Supplies	500	
Repair shop equipment	27,000	
Service truck	33,000	
Accounts payable		$2,600
Common stock		1,000
Retained earnings		38,525
Dividends	36,000	
Service revenue		125,000
Supplies expense	3,425	
Rent expense	18,000	
Utilities expense	5,000	
Gas expense	7,200	
Wages expense	22,000	
Totals	$167,125	$167,125

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209. For each of the accounts in the following table (1) identify the type of account as an asset, liability, equity, revenue, or expense, and (2) identify the normal balance of the account.

	Account Type	Normal Balance
a. Wages Expense		
b. Accounts Receivable		
c. Commissions Earned		
d. Salaries Payable		
e. Common Stock		
f. Unearned Advertising Revenue		
g. Salaries Expense		
h. Magazine Subscription Revenue		
i. Dividends		
j. Prepaid Insurance		

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210. For each of the following accounts, identify whether a debit or credit yields the indicated change.

a. To increase Fees Earned	
b. To decrease Cash	
c. To decrease Unearned Revenue	
d. To increase Accounts Receivable	
e. To increase Common Stock	
f. To decrease Notes Payable	
g. To increase Prepaid Rent	
h. To increase Salaries Expense	
i. To increase Accounts Payable	
j. To decrease Prepaid Insurance	

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211. Indicate on which of the financial statements the following items appears. Use I for income statement, E for statement of retained earnings, and B for balance sheet. More than one statement may be appropriate for some items.

a. Fees Earned	
b. Cash	
c. Unearned Revenue	
d. Rent expense	
e. Retained Earnings	
f. Notes Payable	
g. Prepaid Rent	
h. Salaries Expense	
i. Notes Payable	
j. Dividends	

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212. Jason Hope decided to open a hotel, set up as a corporation, in his hometown. Prepare journal entries to record the following transactions. Hope uses the accounts Room Rental Revenue and Event Revenue. All expenses for special events are recorded as Event Expense.

June 1	Hope invested $400,000 into the business.
June 2	Hope purchased an existing building and land for the hotel costing $900,000. The purchase appraisal allocated $100,000 for land and $800,000 to the building. Hope paid $250,000 and financed the remainder with a mortgage note payable.
June 3	Paid $6,000 for a six month insurance policy on the hotel.
June 5	Purchased linens and other supplies costing $4,000 on account.
June 10	Received advance payments of $12,000 from customers that will be staying at the hotel in July. Payments will be refunded if the customer cancels within 7 days of their scheduled arrival time.
June 14	Received cash payments of $13,000 from current customers staying at the hotel in June.
June 15	Paid the staff $2,000 for the first semi-monthly payroll.
June 16	Paid $500 for general maintenance and repairs expense.
June 17	Received $10,000 payment for a wedding reception during the weekend.
June 18	Paid the caterer $2,500 for providing catering services for the wedding reception.
June 18	Paid Fixture Rentals $1,000 for table and chair rental.
June 19	Paid the florist $2,000 for flowers for the event.
June 24	Paid for the linens and supplies purchased on June 5.
June 25	Recorded an additional $5,000 from current hotel customers for June.
June 30	Paid the staff $2,000 for the second semi-monthly payroll.
June 30	The company paid $4,000 cash in dividends to the owner. (sole shareholder)

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213. For each of the following (1) identify the type of account as an asset, liability, equity, revenue, or expense, and (2) identify the normal balance of the account.

Account Title	Account Type	Normal Balance (Debit or Credit)
a. Prepaid Insurance		
b. Accounts Payable		
c. Common Stock		
d. Utilities expense		
e. Land		
f. Services revenue		
g. Notes Receivable		
h. Advertising expense		
i. Unearned Revenue		
j. Service Revenue		

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214. The steps in the accounting process focus on analyzing and recording financial transactions and events within a company. Those steps are shown below. Using the number system of 1 as the first step and 4 as the last step in the process, number the steps in the correct order in which they would occur (1 thru 4).

_____ Record relevant transactions and events in a journal
_____ Post journal information to the ledger accounts
_____ Prepare and analyze the trial balance
_____ Analyzing each transaction

Fill in the Blank Questions

215. _____ and _____ are the starting points for the *analyzing and recording* process.

_____

216. The second step in the analyzing and recording process is to record the transactions and events in the book of original entry, called the _____.

_____

217. The third step in the analyzing and recording process is to post the information to the _____.

_____

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218. _____ documents identify and describe transactions and events and provide objective evidence and amounts for recording.

_____

219. Revenues and expenses are two categories of _____ accounts.

_____

220. The _____ is a record containing all accounts used by a company as well as the transactions and ending balances of each of the accounts.

_____

221. _____ are promises of payment from customers to sellers.

_____

222. Unearned revenue is classified as a(an) _____ on a business's balance sheet.

_____

223. The four categories of equity accounts are _____, _____, _____, and _____.

_____

224. A _____ is a *list* of all the accounts used by a company and their identification codes but does not contain the balances.

_____

225. A record containing all the separate accounts for a company as well as all of their balances is called the _____.

_____

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226._____ requires that each transaction affect, and be recorded in, at least two accounts. It also means that total amounts debited must equal total amounts credited for each transaction.

_____

227.The _____ is found by determining the difference between total debits and total credits for an account, including any beginning balance.

_____

228.To increase an asset account we would _____ it and to increase a liability account, we would _____ it.

_____

229.Funky Music purchased $25,000 of equipment for cash. The Equipment asset account is _____ for $25,000 and the cash account is _____ for $25,000.

_____

230.Jackson Brown Footwear had total liabilities of $130 million and total assets of $375 million. Its debt ratio was _____.

_____

231._____ is the process of transferring journal entry information from the journal to the ledger.

_____

232.A _____ gives a complete record of each transaction in one place, and shows debits and credits for each transaction.

_____

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233. A more structured format that is similar to a T-account in that it has columns for debits and credits, but that is different in that it has columns for transaction date, explanation, and the account balance is the _____.

_____

234. The posting process is the link between the _____ and the _____.

_____

235. You increase the *Service Revenue* account on the _____ side of its account.

_____

236. You decrease the *Accounts Payable* account on the _____ side of its account.

_____

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Chapter 02 Accounting for Business Transactions Answer Key

True / False Questions

1. The first step in the processing of a transaction is to analyze the transaction and source documents.

   TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Topic: Analyzing and Recording Process

2. Preparation of a trial balance is the first step in processing a financial transaction.

   FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Topic: Analyzing and Recording Process

3. Source documents provide evidence of business transactions and are the basis for accounting entries.

   TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making

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Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Topic: Analyzing and Recording Process

4. Items such as sales tickets, bank statements, checks, and purchase orders are examples of a business's source documents.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Topic: Analyzing and Recording Process

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

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

6. A customer's promise to pay on credit is classified as an *account payable* by the seller.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember

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Difficulty: 1 Easy
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

7. Dividends paid to the stockholders are a business expense.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

8. The purchase of land and buildings will generally be recorded in the same ledger account.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

9. Unearned revenues are classified as liabilities.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

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10. Cash paid to stockholders by the business of a corporation and used for personal expenses, should be treated as an expense of the business.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

11. When a company provides services for which cash will not be received until some future date, the company should record the amount charged as accounts receivable.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

12. A company's chart of accounts is a list of all the accounts used and includes an identification number assigned to each account.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Topic: Ledger and Chart of Accounts

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13. An account's balance is the difference between the total debits and total credits for the account, including any beginning balance.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

14. The right side of an account is called the *debit* side.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

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

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

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16. Increases in liability accounts are recorded as debits.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

17. Debits increase asset and expense accounts.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

18. *Credits* always increase account balances.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

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19. *Crediting* an expense account decreases it.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

20. A revenue account normally has a debit balance.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

21. Asset accounts are normally decreased by debits.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

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22. *Debit* means increase and *credit* means decrease for all accounts.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

23. Asset accounts normally have debit balances and revenue accounts normally have credit balances.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

24. A dividend normally has a debit balance.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

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25. A debit entry is always an increase in the account.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

26. A transaction that credits an asset account and credits a liability account must also affect one or more other accounts.

TRUE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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

TRUE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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

TRUE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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

TRUE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

30. If a company purchases equipment paying cash, the journal entry to record this transaction will include a debit to Cash.

FALSE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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

FALSE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

32. When a company bills a customer for $700 for services rendered, the journal entry to record this transaction will include a $700 debit to Services Revenue.

FALSE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

33. The debt ratio helps to assess the risk a company has of failing to pay its debts and is helpful to both its owners and creditors.

TRUE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

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34. The higher a company's debt ratio, the lower the risk of a company not being able to meet its obligations.

FALSE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

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

FALSE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

36. A company that finances a relatively large portion of its assets with liabilities is said to have a high degree of financial leverage.

TRUE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

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

TRUE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

38. Booth Industries has liabilities of $105 million and total assets of $350 million. Its debt ratio is 40.0%.

FALSE

Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = $105 million/$350 million = 30%

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

39. A journal entry that affects no more than two accounts is called a compound entry.

FALSE

AACSB: Reflective Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.

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Topic: Analyzing Transactions

40. *Posting* is the transfer of journal entry information to the ledger.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

41. Transactions are recorded first in the ledger and then transferred to the journal.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

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

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

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

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

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

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

45. At a given point in time, a business's trial balance is a list of all of its general ledger accounts and their balances.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Preparing a Trial Balance

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46. The ordering of accounts in a trial balance typically follows their identification number from the chart of accounts, that is, assets first, then liabilities, then common stock and dividends, followed by revenues and expenses.

TRUE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Preparing a Trial Balance

47. The trial balance can serve as a replacement for the balance sheet, since total debits must equal total credits.

FALSE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Preparing a Trial Balance

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

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Preparing a Trial Balance

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49. If cash was incorrectly debited for $100 instead of correctly crediting it for $100, the cash account's balance will be overstated (too high).

TRUE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

50. The financial statement that summarizes the changes in retained earnings is called the balance sheet.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Financial Statements

51. The heading on every financial statement lists the three W's—Who (the name of the business); What (the name of the statement); and Where (the organization's address).

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Financial Statements

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52. If common stock account had a $10,000 credit balance at the beginning of the period, and during the period, the stockholders invest an additional $5,000, the balance in the common stock account listed on the trial balance will be equal to a debit balance of $5,000.

FALSE

$10,000cr + $5,000cr = $15,000 credit balance

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Debits and Credits
Topic: Preparing a Trial Balance

53. Dividends are **not** reported on a business's income statement.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Financial Statements

54. An income statement reports the revenues earned less the expenses incurred by a business over a period of time.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand

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Difficulty: 2 Medium
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Financial Statements

55. The balance sheet reports the financial position of a company at a point in time.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Financial Statements

56. The same four basic financial statements are prepared by both U.S. GAAP and IFRS.

TRUE

AACSB: Communication
AICPA: BB Global
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Financial Statements

57. Neither U.S. GAAP nor IFRS require the use of accrual basis accounting.

FALSE

AACSB: Communication
AICPA: BB Global
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Financial Statements

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Multiple Choice Questions

58. The accounting process begins with:

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

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Topic: Analyzing and Recording Process

59. All of the following statements regarding a sales invoice are true *except*:

A. A sales invoice is a type of source document.
B. A sales invoice is used by sellers to record the sale and for control.
C. A sales invoice is used by buyers to record purchases and monitor purchasing activity.
D. A sales invoice gives rise to an entry in the accounting process.
E. A sales invoice does not provide objective evidence about a transaction.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Topic: Analyzing and Recording Process

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60. A business's source documents may include all of the following *except*:

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

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Topic: Analyzing and Recording Process

61. A business's source documents:

A. include the ledger.
B. Provide objective evidence that a transaction has taken place.
C. must be in electronic form.
D. are prepared internally to ensure accuracy.
E. include the chart of accounts.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Topic: Analyzing and Recording Process

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62. A business's record of the increases and decreases in a specific asset, liability, equity, revenue, or expense is known as a(n):

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

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

63. An account used to record the stockholders' investments in a business is called a(n):

A. Dividends account.
B. Common stock account.
C. Revenue account.
D. Expense account.
E. Liability account.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

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64. Identify the account used by businesses to record the transfer of assets from a business to its owner for personal use:

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

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

65. Identify the statement below that is correct.

A. When a future expense is paid in advance, the payment is normally recorded in a liability account called Prepaid Expense.
B. Promises of future payment by the customer are called accounts receivable.
C. Increases and decreases in cash are always recorded in the common stock account.
D. An account called Land is commonly used to record increases and decreases in both the land and buildings owned by a business.
E. Accrued liabilities include accounts receivable.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

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66. Unearned revenues are generally:

A. Revenues that have been earned and received in cash.
B. Revenues that have been earned but not yet collected in cash.
C. Liabilities created when a customer pays in advance for products or services before the revenue is earned.
D. Recorded as an asset in the accounting records.
E. Increases to stockholders equity.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

67. Prepaid expenses are generally:

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

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

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68. A company's formal promise to pay (in the form of a promissory note) a future amount is a(n):

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

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

69. The record of all accounts and their balances used by a business is called a:

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

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Topic: Ledger and Chart of Accounts

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70. A company's ledger is:

A. A record containing increases and decreases in a specific asset, liability, equity, revenue, or expense item.
B. A journal in which transactions are first recorded.
C. A collection of documents that describe transactions and events entering the accounting process.
D. A list of all accounts a company uses with an assigned identification number.
E. A record containing all accounts and their balances used by the company.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Topic: Ledger and Chart of Accounts

71. A company's list of accounts and the identification numbers assigned to each account is called a:

A. Source document.
B. Journal.
C. Trial balance.
D. Chart of accounts.
E. General Journal.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Topic: Ledger and Chart of Accounts

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72. The numbering system used in a company's chart of accounts:

A. Is the same for all companies.
B. Is determined by generally accepted accounting principles.
C. Depends on the source documents used in the accounting process.
D. Typically begins with balance sheet accounts.
E. Typically begins with income statement accounts.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Topic: Ledger and Chart of Accounts

73. A debit:

A. Always increases an account.
B. Is the right-hand side of a T-account.
C. Always decreases an account.
D. Is the left-hand side of a T-account.
E. Is not need to record a transaction.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

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

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

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

75. Identify the statement below that is *incorrect*.

A. The normal balance of accounts receivable is a debit.
B. The normal balance of dividends is a debit.
C. The normal balance of unearned revenues is a credit.
D. The normal balance of an expense account is a credit.
E. The normal balance of the common stock account is a credit.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

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76. A credit is used to record an increase in all of the following accounts *except*:

A. Accounts Payable
B. Service Revenue
C. Unearned Revenue
D. Wages Expense
E. Common Stock

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

77. A debit is used to record an increase in all of the following accounts *except*:

A. Supplies
B. Cash
C. Accounts Payable
D. Dividends
E. Prepaid Insurance

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

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78. Identify the account below that is classified as a liability in a company's chart of accounts:

A. Cash
B. Unearned Revenue
C. Salaries Expense
D. Accounts Receivable
E. Supplies

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Topic: Chart of Accounts

79. Identify the account below that is classified as an asset in a company's chart of accounts:

A. Accounts Receivable
B. Accounts Payable
C. Common Stock
D. Unearned Revenue
E. Service Revenue

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Topic: Chart of Accounts

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80. Identify the account below that is classified as an *asset* account:

A. Unearned Revenue
B. Accounts Payable
C. Supplies
D. Common Stock
E. Service Revenue

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

81. Identify the account below that is classified as a *liability* account:

A. Cash
B. Accounts Payable
C. Salaries Expense
D. Common Stock
E. Equipment

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

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82. Identify the account below that impacts the *Equity* of a business:

A. Utilities Expense
B. Accounts Payable
C. Accounts Receivable
D. Cash
E. Unearned Revenue

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

83. A business uses a credit to record:

A. An increase in an expense account.
B. A decrease in an asset account.
C. A decrease in an unearned revenue account.
D. A decrease in a revenue account.
E. A decrease in an equity account.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

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84. A simple tool that is widely used in accounting to represent a ledger account and to understand how debits and credits affect an account balance is called a:

A. Dividends account.
B. Equity account.
C. Drawing account.
D. T-account.
E. Balance column sheet.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

85. Identify the statement below that is correct.

A. The left side of a T-account is the credit side.
B. Debits decrease asset and expense accounts, and increase liability, equity, and revenue accounts.
C. The left side of a T-account is the debit side.
D. Credits increase asset and expense accounts, and decrease liability, equity, and revenue accounts.
E. In certain circumstances the total amount debited need not equal the total amount credited for a particular transaction.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

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86. An account balance is:

A. The total of the credit side of the account.
B. The total of the debit side of the account.
C. The difference between the total debits and total credits for an account including the beginning balance.
D. Assets = liabilities + equity.
E. Always a credit.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

87. Select the account below that normally has a credit balance.

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

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

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88. A debit is used to record which of the following?

A. A decrease in an asset account.
B. A decrease in an expense account.
C. An increase in a revenue account.
D. An increase in a contributed capital account.
E. An increase in the dividends account.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

89. A credit entry:

A. Increases asset and expense accounts, and decreases liability, stockholders' equity, and revenue accounts.
B. Is always a decrease in an account.
C. Decreases asset and expense accounts, and increases liability, stockholders' equity, and revenue accounts.
D. Is recorded on the left side of a T-account.
E. Is always an increase in an account.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

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90. A double-entry accounting system is an accounting system:

A. That records each transaction twice.
B. That records the effects of transactions and other events in at least two accounts with equal debits and credits.
C. In which each transaction affects and is recorded in two or more accounts but that could include two debits and no credits.
D. That may only be used if T-accounts are used.
E. That insures that errors never occur.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits or Credits

91. Ralph Pine Consulting received its telephone bill in the amount of $300, and immediately paid it. Pine's general journal entry to record this transaction will include a:

A. Debit to Telephone Expense for $300.
B. Credit to Accounts Payable for $300.
C. Debit to Cash for $300.
D. Credit to Telephone Expense for $300.
E. Debit to Accounts Payable for $300.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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92. Golddigger Services, Inc. provides services to clients. On May 1, a client prepaid Golddigger Services $60,000 for 6-months services in advance. Golddigger Services' general journal entry to record this transaction will include a:

A. Debit to Unearned Management Fees for $60,000.
B. Credit to Management Fees Earned for $60,000.
C. Credit to Cash for $60,000.
D. Credit to Unearned Management Fees for $60,000.
E. Debit to Management Fees Earned for $60,000.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

93. Willow Rentals purchased office supplies on credit. The general journal entry made by Willow Rentals will include a:

A. Debit to Accounts Payable.
B. Debit to Accounts Receivable.
C. Credit to Cash.
D. Credit to Accounts Payable.
E. Credit to Common Stock.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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94. An asset created by prepayment of an insurance expense is:

A. Recorded as a debit to Unearned Revenue.
B. Recorded as a debit to Prepaid Insurance.
C. Recorded as a credit to Unearned Revenue.
D. Recorded as a credit to Prepaid Insurance.
E. Not recorded in the accounting records until the insurance period expires.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

95. Richard Redden contributed $70,000 in cash and land worth $130,000 to open a new business, RR Consulting, Inc. Which of the following general journal entries will RR Consulting, Inc. make to record this transaction?

A. Debit Assets $200,000; credit Common Stock, $200,000.
B. Debit Cash and Land, $200,000; credit Common Stock, $200,000.
C. Debit Cash $70,000; debit Land $130,000; credit Common Stock, $200,000.
D. Debit Common Stock, $200,000; credit Cash $70,000; credit Land, $130,000.
E. Debit Common Stock, $200,000; credit Assets, $200,000.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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96. Wiley Consulting purchased $7,000 worth of supplies and paid cash immediately. Which of the following general journal entries will Wiley Consulting make to record this transaction?

A.

Accounts Payable	7,000	
Supplies		7,000

B.

Cash	7,000	
Supplies		7,000

C.

Supplies	7,000	
Cash		7,000

D.

Supplies	7,000	
Accounts Payable		7,000

E.

Supplies Expense	7,000	
Accounts Payable		7,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Analyzing Transactions
Topic: Journal Entries

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97. J. Brown Consulting paid $500 cash for utilities for the current month. Given the choices below, determine the general journal entry that J. Brown Consulting will make to record this transaction.

A.

Utilities Expense	500	
Cash		500

B.

Cash	500	
Utilities Expense		500

C.

Cash	500	
Accounts Payable		500

D.

Utilities Expense	500	
Accounts Payable		500

E.

Prepaid Utilities	500	
Accounts Payable		500

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Analyzing Transactions
Topic: Journal Entries

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Financial and Managerial Accounting 6th edition Wild Test Bank

98. J. Brown Consulting paid $2,500 cash for a 5-month insurance policy which begins on December 1. Given the choices below, determine the general journal entry that J. Brown Consulting will make to record this transaction.

A.

Insurance Expense	2,500	
Cash		2,500

B.

Cash	2,500	
Insurance Expense		2,500

C.

Cash	2,500	
Prepaid Insurance		2,500

D.

Prepaid Insurance	2,500	
Cash		2,500

E.

Insurance Expense	2,500	
Prepaid Insurance		2,500

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Analyzing Transactions
Topic: Journal Entries

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Financial and Managerial Accounting 6th edition Wild Test Bank

99. ABC Catering received $800 cash from a customer for catering services to be provided next month. Given the choices below, determine the general journal entry that ABC Catering will make to record this transaction.

A.

Unearned Catering Revenue	800	
Catering Revenue		800

B.

Cash	800	
Accounts Receivable		800

C.

Cash	800	
Unearned Catering Revenue		800

D.

Cash	800	
Catering Revenue		800

E.

Accounts Receivable	800	
Catering Revenue		800

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Analyzing Transactions
Topic: Journal Entries

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Financial and Managerial Accounting 6th edition Wild Test Bank

100. Grills R Us Catering provided $1,000 of catering services and billed its client for the amount owed. Given the choices below, determine the general journal entry that Grills R Us Catering will make to record this transaction.

A.

Unearned Catering Revenue	1,000	
Catering Revenue		1,000

B.

Catering Revenue	1,000	
Accounts Receivable		1,000

C.

Accounts Receivable	1,000	
Unearned Catering Revenue		1,000

D.

Accounts Receivable	1,000	
Catering Revenue		1,000

E.

Cash	1,000	
Catering Revenue		1,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Analyzing Transactions
Topic: Journal Entries

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Financial and Managerial Accounting 6th edition Wild Test Bank

101. Trimble Graphic Design receives $1,500 from a client billed in a previous month for services provided. Which of the following general journal entries will Trimble Graphic Design make to record this transaction?

A.

Cash	1,500	
Accounts Receivable		1,500

B.

Cash	1,500	
Unearned Design Revenue		1,500

C.

Accounts Receivable	1,500	
Unearned Design Revenue		1,500

D.

Cash	1,500	
Design Revenue		1,500

E.

Accounts Receivable	1,500	
Cash		1,500

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Analyzing Transactions
Topic: Journal Entries

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Financial and Managerial Accounting 6th edition Wild Test Bank

102. The company paid $100 cash in dividends to J. Smith, the owner. Which of the following general journal entries will Jay's Limo Services, Inc. make to record this transaction?

A.

Dividends	100	
Cash		100

B.

Cash	100	
Dividends		100

C.

Common Stock	100	
Dividends		100

D.

Dividends	100	
Common Stock		100

E.

Cash	100	
Common Stock		100

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Analyzing Transactions
Topic: Journal Entries

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Financial and Managerial Accounting 6th edition Wild Test Bank

103. Jay's Limo Services, Inc. paid $300 cash to employees for work performed in the current period. Which of the following general journal entries will Jay's Limo Services, Inc. make to record this transaction?

A.

Salaries Expense	300	
Accounts Payable		300

B.

Cash	300	
Salaries Expense		300

C.

Salaries Expense	300	
Dividends		300

D.

Salaries Payable	300	
Salaries Expense		300

E.

Salaries Expense	300	
Cash		300

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Analyzing Transactions
Topic: Journal Entries

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Financial and Managerial Accounting 6th edition Wild Test Bank

104. Able Graphics received a $400 utility bill for the current month's electricity. It is not due until the end of the next month which is when they intend to pay it. Which of the following general journal entries will Able Graphics make to record this transaction?

A.

Utilities Expense	400	
Cash		400

B.

Cash	400	
Utilities Expense		400

C.

Utilities Expense	400	
Accounts Payable		400

D.

Accounts Payable	400	
Utilities Expense		400

E.

Utilities Payable	400	
Cash		400

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Analyzing Transactions
Topic: Journal Entries

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Financial and Managerial Accounting 6th edition Wild Test Bank

105. HH Consulting & Design provided $800 of consulting work and $100 of design work to the same client. It billed the client for the total amount and is expecting to collect from the customer next month. Which of the following general journal entries will HH Consulting & Design make to record this transaction?

A.

Design Revenue	100	
Consulting Revenue	800	
Accounts Receivable		900

B.

Accounts Payable	800	
Design Revenue		100
Consulting Revenue		800

C.

Cash	900	
Consulting Revenue		800
Design Revenue		100

D.

Cash	900	
Design Revenue		100
Consulting Revenue		800

E.

Accounts Receivable	900	
Consulting Revenue		800
Design Revenue		100

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Analyzing Transactions
Topic: Journal Entries

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Financial and Managerial Accounting 6th edition Wild Test Bank

106. Gi Gi's Dance Studio provided $150 of dance instruction and rented out its dance studio to the same client for another $100. The client paid immediately. Identify the general journal entry below that Gi Gi's will make to record the transaction.

A.

Rental Revenue	100	
Instruction Revenue	150	
Cash		250

B.

Accounts Payable	250	
Rental Revenue		100
Instruction Revenue		150

C.

Cash	250	
Rental Revenue		100
Instruction Revenue		150

D.

Accounts Receivable	250	
Rental Revenue		100
Instruction Revenue		150

E.

Unearned Revenue	250	
Rental Revenue		100
Instruction Revenue		150

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Analyzing Transactions
Topic: Journal Entries

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Financial and Managerial Accounting 6th edition Wild Test Bank

107. Geraldine Parker, the owner of Gi Gi's Dance Studio, Inc., started the business by investing $10,000 cash and donating a building worth $20,000. Identify the general journal entry below that Gi Gi's will make to record the transaction.

A.

Cash	30,000	
Common Stock		30,000

B.

Common Stock	30,000	
Cash		10,000
Building		20,000

C.

Cash	10,000	
Building	20,000	
Common Stock		30,000

D.

Common Stock	30,000	
Retained Earnings		30,000

E.

Cash & Building	30,000	
Common Stock		30,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Analyzing Transactions
Topic: Journal Entries

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Financial and Managerial Accounting 6th edition Wild Test Bank

108. Mary Martin, the owner of Martin Consulting, Inc., started the business by investing $40,000 cash. Identify the general journal entry below that Martin Consulting, Inc. will make to record the transaction.

A.

Cash	40,000	
Common Stock		40,000

B.

Common Stock	40,000	
Cash		40,000

C.

Investments	40,000	
Cash		40,000

D.

Investments	40,000	
Common Stock		40,000

E.

Cash	40,000	
Increased Equity		40,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Analyzing Transactions
Topic: Journal Entries

109. If cash is received from customers in payment for products or services that have not yet been delivered to the customers, the business would record the cash receipt as:

A. A debit to an unearned revenue account.
B. A debit to a prepaid expense account.
C. A credit to an unearned revenue account.
D. A credit to a prepaid expense account.
E. No entry is required at the time of collection.

AACSB: Analytical Thinking
AICPA: BB Industry

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Financial and Managerial Accounting 6th edition Wild Test Bank

AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

110. On May 31, the Cash account of Bottle's R Us had a normal balance of $5,000. During May, the account was debited for a total of $12,200 and credited for a total of $11,500. What was the balance in the Cash account at the beginning of May?

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

Beginning Cash Balance + Debits - Credits = Ending Cash Balance
Beginning Cash Balance + $12,200 - $11,500 = $5,000
Beginning Cash Balance + $700 = $5,000; Beginning Balance = $4,300 debit balance

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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Financial and Managerial Accounting 6th edition Wild Test Bank

111. On April 30, Victor Services had an Accounts Receivable balance of $18,000. During the month of May, total credits to Accounts Receivable were $52,000 from customer payments. The May 31 Accounts Receivable balance was $13,000. What was the amount of credit sales during May?

A. $5,000.
B. $47,000.
C. $52,000.
D. $57,000.
E. $32,000.

Beginning Accounts Receivable Balance + Credit Sales (Debits) - Customer Payments (Credits) = Ending Accounts Receivable Balance
$18,000 + Credit Sales (Debits) - $52,000 = $13,000
Credit Sales (Debits) - $34,000 = $13,000
Credit Sales (Debits) = $47,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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112. During the month of February, Victor Services had cash receipts of $7,500 and cash disbursements of $8,600. The February 28 cash balance was $1,800. What was the February 1 beginning cash balance?

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

Beginning Cash Balance + Cash Receipts - Cash Disbursements = Ending Cash Balance
Beginning Cash Balance + $7,500 - $8,600 = $1,800
Beginning Cash Balance - $1,100 = $1,800
Beginning Cash Balance = $2,900

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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Financial and Managerial Accounting 6th edition Wild Test Bank

113. The following transactions occurred during July:

1. Received $900 cash for services provided to a customer during July.
2. Received $2,200 cash investment from Bob Johnson, the stockholder of the business.
3. Received $750 from a customer in partial payment of his account receivable which arose from sales in June.
4. Provided services to a customer on credit, $375.
5. Borrowed $6,000 from the bank by signing a promissory note.
6. Received $1,250 cash from a customer for services to be rendered next year.

What was the amount of revenue for July?

A. $900.
B. $1,275.
C. $2,525.
D. $3,275.
E. $11,100.

Revenues = $900 (from #1) + $375 (from #4) = $1,275

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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Financial and Managerial Accounting 6th edition Wild Test Bank

114. If Taylor Willow, the owner of Willow Hardware Inc., uses cash of the business to purchase a family automobile, the business should record this use of cash with an entry to:

A. Debit Automobiles and credit Cash.
B. Debit Cash and credit Salary Expense.
C. Debit Cash and credit Dividends.
D. Debit Dividends and credit Cash.
E. Debit Cash and credit Automobiles.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

115. Larry Bar opened a frame shop and completed these transactions:

1. Larry started the shop by investing $40,000 cash and equipment valued at $18,000.
2. Purchased $70 of office supplies on credit.
3. Paid $1,200 cash for the receptionist's salary.
4. Sold a custom frame service and collected a $1,500 cash on the sale.
5. Completed framing services and billed the client $200.

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

A. $300.
B. $41,500.
C. $40,300.
D. $38,500.
E. $38,700.

Ending Cash Balance = $40,000 (#1) - $1,200 (#3) + $1,500 (#4) = $40,300

AACSB: Analytical Thinking

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AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

116. At the beginning of January of the current year, Little Mikey's Catering ledger reflected a normal balance of $52,000 for accounts receivable. During January, the company collected $14,800 from customers on account and provided additional services to customers on account totaling $12,500. Additionally, during January one customer paid Mikey $5,000 for services to be provided in the future. At the end of January, the balance in the accounts receivable account should be:

A. $54,700.
B. $49,700.
C. $2,300.
D. $54,300.
E. $49,300.

Beginning Accounts Receivable Balance + Services on Account - Collections from Customers = Ending Accounts Receivable Balance
$52,000 + $12,500 - $14,800 = Ending Accounts Receivable Balance
Ending Accounts Receivable = $49,700

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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117. During the month of March, Harley's Computer Services made purchases on account totaling $43,500. Also during the month of March, Harley was paid $8,000 by a customer for services to be provided in the future and paid $36,900 of cash on its accounts payable balance. If the balance in the accounts payable account at the beginning of March was $77,300, what is the balance in accounts payable at the end of March?

A. $83,900.
B. $91,900.
C. $6,600.
D. $75,900.
E. $4,900.

Beginning Accounts Payable Balance + Purchases on Account - Payments on Accounts = Ending Accounts Payable Balance
$77,300 + $43,500 - $36,900 = Ending Accounts Payable Balance
Ending Accounts Payable = $83,900

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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Financial and Managerial Accounting 6th edition Wild Test Bank

118. On January 1 of the current year, Jimmy's Sandwich Company, Inc. reported stockholders' equity totaling $122,500. During the current year, total revenues were $96,000 while total expenses were $85,500. Also, during the current year the business paid $20,000 to the stockholders. No other changes in equity occurred during the year. If, on December 31 of the current year, total assets are $196,000, the ***change*** in stockholders' equity during the year was:

A. A decrease of $9,500.
B. An increase of $9,500.
C. An increase of $30,500.
D. A decrease of $30,500.
E. An increase of 73,500.

Beg. Stockholders' Equity + Revenues - Expenses - Dividends = End. Stockholders' Equity
$122,500 + $96,000 - $85,500 - $20,000 = Ending Stockholders' Equity
Ending Stockholders' Equity = $113,000

Change in Equity = Beginning Stockholders' Equity - Ending Stockholders' Equity
Change in Equity = $122,500 - $113,000 = $9,500 Decrease

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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Financial and Managerial Accounting 6th edition Wild Test Bank

119. Andrea Apple opened Apple Photography, Inc. on January 1 of the current year. During January, the following transactions occurred and were recorded in the company's books:

1. Andrea, the stockholder, invested $13,500 cash in the business.
2. Andrea contributed $20,000 of photography equipment to the business.
3. The company paid $2,100 cash for an insurance policy covering the next 24 months.
4. The company received $5,700 cash for services provided during January.
5. The company purchased $6,200 of office equipment on credit.
6. The company provided $2,750 of services to customers on account.
7. The company paid cash of $1,500 for monthly rent.
8. The company paid $3,100 on the office equipment purchased in transaction #5 above.
9. Paid $275 cash for January utilities.

Based on this information, the balance in the cash account at the end of January would be:

A. $41,450.
B. $12,225.
C. $18,700.
D. $15,250.
E. $13,500.

Ending Cash Balance = $13,500 (#1) - $2,100 (#3) + $5,700 (#4) - $1,500 (#7) - $3,100 (#8) - $275 (#9) = $12,225

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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Financial and Managerial Accounting 6th edition Wild Test Bank

120. Andrea Apple opened Apple Photography, Inc. on January 1 of the current year. During January, the following transactions occurred and were recorded in the company's books:

1. Andrea, the stockholder, invested $13,500 cash in the business.
2. Andrea contributed $20,000 of photography equipment to the business.
3. The company paid $2,100 cash for an insurance policy covering the next 24 months.
4. The company received $5,700 cash for services provided during January.
5. The company purchased $6,200 of office equipment on credit.
6. The company provided $2,750 of services to customers on account.
7. The company paid cash of $1,500 for monthly rent.
8. The company paid $3,100 on the office equipment purchased in transaction #5 above.
9. Paid $275 cash for January utilities.

Based on this information, the balance in the stockholders' equity reported on the Balance Sheet at the end of the month would be:

A. $31,400.
B. $39,200.
C. $31,150.
D. $40,175.
E. $30,875.

Ending Stockholders' Equity = $13,500 (#1) + $20,000 (#2) + $5,700 (#4) + $2,750 (#6) - $1,500 (#7) - $275 (#9) = $40,175

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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Financial and Managerial Accounting 6th edition Wild Test Bank

121. The debt ratio is used:

A. To measure the ratio of equity to expenses.
B. To assess the risk associated with a company's use of liabilities.
C. Only by banks when a business applies for a loan.
D. To determine how much debt a firm should pay off.
E. To determine how much debt a company should borrow.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

122. Identify the correct formula below used to calculate the debt ratio.

A. Total Equity/Total Liabilities.
B. Total Liabilities/Total Equity.
C. Total Liabilities/Total Assets.
D. Total Assets/Total Liabilities.
E. Total Equity/Total Assets.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

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Financial and Managerial Accounting 6th edition Wild Test Bank

123. Lu Lu's Catering has a debt ratio equal to .3 and its competitor, Able's Bakery, has a debt ratio equal to .7. Determine the statement below that is *correct*.

A. Able's Bakery has a smaller percentage of its assets financed with liabilities as compared to Lu Lu's.
B. Able's Bakery's financial leverage is *less* than Lu Lu's.
C. Able's Bakery's financial leverage is *greater* than Lu Lu's.
D. Lu Lu's has a higher risk from its financial leverage.
E. Higher financial leverage involves lower risk.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

124. Identify the statement that is incorrect.

A. Higher financial leverage involves higher risk.
B. Risk is higher if a company has more liabilities.
C. Risk is higher if a company has higher assets.
D. The debt ratio is one measure of financial risk.
E. Lower financial leverage involves lower risk.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

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125. The debt ratio of Company A is .31 and the debt ratio of Company B is .21. Based on this information, an investor can conclude:

A. Company B has more debt than Company A.
B. Company B has a lower risk from its financial leverage.
C. Company A has a lower risk from its financial leverage.
D. Company A has 10% more assets than Company B.
E. Both companies have too much debt.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

126. The debt ratio of Jackson's Shoes is .9 and the debt ratio of Billy's Catering is 1.0. Based on this information, an investor can conclude:

A. Billy's Catering finances a relatively lower portion of its assets with liabilities than Jackson's Shoes.
B. Billy's Catering has a lower risk from its financial leverage.
C. Jackson's Shoes has a higher risk from its financial leverage.
D. Billy's Catering has the exact same dollar amount of total liabilities and total assets.
E. Jackson's Shoes has less equity per dollar of assets than Billy's Catering.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

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127. Gi Gi's Bakery has total assets of $425 million. Its total liabilities are $110 million. Its equity is $315 million. Calculate the debt ratio.

A. 38.6%.
B. 13.4%.
C. 34.9%.
D. 25.9%.
E. 14.9%.

Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = $110 million/$425 million; Debt Ratio = 0.2588 = 25.9%

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

128. Happiness Catering has total assets of $385 million. Its total liabilities are $100 million and its equity is $285 million. Calculate its debt ratio.

A. 35.1%.
B. 26.0%.
C. 38.5%.
D. 28.5%.
E. 58.8%.

Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = $100 million/$385 million; Debt Ratio = 0.2597 = 26.0%

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Risk Analysis

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Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

129. All of the following statements accurately describe the debt ratio *except*.

A. It is use to both internal and external users of accounting information.
B. A relatively high ratio is always desirable.
C. The dividing line for a high and low ratio varies from industry to industry.
D. Many factors such as a company's age, stability, profitability and cash flow influence the determination of what would be interpreted as a high versus a low ratio.
E. The ratio might be used to help determine if a company is capable of increasing its income by obtaining further debt.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

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130. At the end of the current year, Leer Company reported total liabilities of $300,000 and total equity of $100,000. The company's debt ratio on the last year-end was:

A. 300%.
B. 33.3%.
C. 75.0%.
D. 66.67%.
E. $400,000.

Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = $300,000/$400,000*; Debt Ratio = 0.75 = 75%

*Total Assets = Total Liabilities + Total Equity
Total Assets = $300,000 + $100,000; Total Assets = $400,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

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131. At the beginning of the current year, Trenton Company Inc.'s total assets were $248,000 and its total liabilities were $175,000. During the year, the company reported total revenues of $93,000, total expenses of $76,000 and dividends of $5,000. There were no other changes in stockholders' equity during the year and total assets at the end of the year were $260,000. Trenton Company's debt ratio at the end of the current year is:

A. 70.6%.
B. 67.3%.
C. 32.7%.
D. 48.6%.
E. 1.42%.

Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = $175,000**/$260,000; Debt Ratio = 0.6730 = 67.3%

*Beginning Total Assets = Beginning Total Liabilities + Beginning Total Equity
$248,000 = $175,000 + Beginning Total Equity; Beginning Total Equity = $73,000
**Ending Total Assets = Ending Total Liabilities + Ending Total Equity
$260,000 = Ending Total Liabilities + (Beginning Equity + Revenues - Expenses - Dividends)
$260,000 = Ending Total Liabilities + ($73,000 + $93,000 - $76,000 - $5,000)
$260,000 = Ending Total Liabilities + $85,000; Ending Total Liabilities = $175,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

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Financial and Managerial Accounting 6th edition Wild Test Bank

132. The process of transferring general journal entry information to the ledger is called:

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

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

133. A column in journals and ledger accounts that is used to cross reference journal and ledger entries is the:

A. Account balance column.
B. Debit column.
C. Posting reference column.
D. Credit column.
E. Description column.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

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134. The chronological record of each complete transaction that has occurred is called the:

A. Account balance.
B. Ledger.
C. Journal.
D. Trial balance.
E. Cash account.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

135. A business's general journal provides a place for recording all of the following ***except***:

A. The transaction date.
B. The names of the accounts involved.
C. The amount of each debit and credit.
D. An explanation of the transaction.
E. The balance in each account.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

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136. The balance column in a ledger account is:

A. An account entered on the balance sheet.
B. A column for showing the balance of the account after each entry is posted.
C. Another name for the dividends account.
D. An account used to record the transfers of assets from a business to its stockholders.
E. A simple form of account that is widely used in accounting to illustrate the debits and credits required in recording a transaction.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

137. A general journal is:

A. A ledger in which amounts are posted from a balance column account.
B. Not required if T-accounts are used.
C. A complete record of all transactions in chronological order from which transaction amounts are posted to the ledger accounts.
D. Not necessary in electronic accounting systems.
E. A book of final entry because financial statements are prepared from it.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

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138. A record in which the effects of transactions are first recorded and from which transaction amounts are posted to the ledger is a(n):

A. Account.
B. Trial balance.
C. Journal.
D. T-account.
E. Balance column account.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

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139. Smiles Entertainment had the following accounts and balances at December 31:

Account	Debit	Credit
Cash	$10,000	
Accounts Receivable	2,000	
Prepaid Insurance	2,400	
Supplies	1,000	
Accounts Payable		$5,000
Common Stock		4,900
Service Revenue		7,000
Salaries Expense	500	
Utilities Expense	1,000	
Totals	$16,900	$16,900

Using the information in the table, calculate the company's reported net income for the period.

A. $1,100.
B. $4,000.
C. $4,500.
D. $10,400.
E. $5,500.

Net Income = Total Revenues - Total Expenses.
(Service Revenue $7,000 - Salaries Expense $500 - Utilities Expense $1,000 = $5,500)

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Financial Statements

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140. Jackson Consulting, Inc. had the following accounts and balances at December 31:

Account	Debit	Credit
Cash	$20,000	
Accounts Receivable	6,000	
Prepaid Insurance	1,500	
Supplies	5,000	
Accounts Payable		$500
Common Stock		16,200
Dividends	1,000	
Service Revenue		20,000
Utilities Expense	2,000	
Salaries Expense	1,200	
Totals	$36,700	$36,700

Using the information in the table, calculate Jackson Consulting Inc.'s reported net income for the period.

A. $16,800.
B. $15,800.
C. $15,300.
D. $10,300.
E. $32,000.

Net Income = Total Revenues - Total Expenses.
Service Revenue $20,000 - Utilities Expense $2,000 - Salaries Expense $1,200 = $16,800

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Financial Statements

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Financial and Managerial Accounting 6th edition Wild Test Bank

141. Bologna Lodging, Inc. had the following accounts and balances as of December 31:

Account	Debit	Credit
Cash	$20,000	
Accounts Receivable	2,000	
Salaries Expense	500	
Accounts Payable		$4,000
Lodging Revenue		7,000
Utilities Expense	500	
Prepaid Insurance	1,400	
Supplies	1,500	
Common Stock		14,900
Totals	$25,900	$25,900

Using the information in the table, calculate the **total assets** reported on Bologna's balance sheet for the period.

A. $24,900.
B. $25,400.
C. $22,500.
D. $25,900.
E. $23,400.

(Cash $20,000 + Accounts Receivable $2,000 + Prepaid Insurance $1,400 + Supplies $1,500 = $24,900)

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Financial Statements
Topic: The Account and Its Analysis

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142. At the end of its first month of operations, Michael's Consulting Services, Inc. reported net income of $25,000. They also had account balances of: Cash, $18,000; Office Supplies, $2,000 and Accounts Receivable $10,000. The stockholders' total investment for this first month was $5,000.

Calculate the **ending** balance in Stockholders' Equity to be reported on the Balance Sheet.

A. $30,000
B. $25,000
C. $20,000
D. $5,000
E. $7,000

Common Stock $5,000 + Net Income $25,000 = $30,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Financial Statements

143. Identify the accounts that would normally have balances in the *debit* column of a business's trial balance.

A. Assets and expenses.
B. Assets and revenues.
C. Revenues and expenses.
D. Liabilities and expenses.
E. Liabilities and dividends.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand

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Difficulty: 2 Medium
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Preparing a Trial Balance

144. Identify the accounts that would normally have balances in the *credit* column of a business's trial balance.

A. Liabilities and expenses.
B. Assets and revenues.
C. Revenues and expenses.
D. Revenues and liabilities.
E. Dividends and liabilities.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Preparing a Trial Balance

145. Which of the following is not a step in the accounting process?

A. Record relevant transactions and events in a journal.
B. Post journal information to the ledger accounts.
C. Prepare and analyze the trial balance.
D. Analyzing each transaction.
E. Verify that revenues and expenses are equal.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Topic: Analyzing and Recording Process

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146. A bookkeeper has debited an account for $3,500 and credited a liability account for $2,000. Which of the following would be an *incorrect* way to complete the recording of this transaction:

A. Credit another asset account for $1,500.
B. Credit another liability account for $1,500.
C. Credit an expense account for $1,500.
D. Credit the common stock account for $1,500.
E. Debit another asset account for $1,500.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

147. A report that lists a business's accounts and their balances, in which the total debit balances should equal the total credit balances, is called a(n):

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

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Preparing a Trial Balance

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148. Identify the statement below that is *true*.

A. If the trial balance is in balance, it proves that no errors have been made in recording and posting transactions.
B. The trial balance is a book of original entry.
C. Another name for the trial balance is the chart of accounts.
D. The trial balance is a list of all accounts from the ledger with their balances at a point in time.
E. The trial balance is another name for the balance sheet as long as debits balance with credits.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Preparing a Trial Balance

149. While in the process of posting from the journal to the ledger, a company failed to post a $500 debit to the Equipment account. The effect of this error will be that:

A. The Equipment account balance will be overstated.
B. The trial balance will not balance.
C. The error will overstate the debits listed in the journal.
D. The total debits in the trial balance will be larger than the total credits.
E. The error will overstate the credits listed in the journal.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Preparing a Trial Balance

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

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

$150 - 15 = $135

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

151. At year-end, a trial balance showed total credits exceed total debits by $4,950. This difference could have been caused by:

A. An error in the general journal where a $4,950 increase in Accounts Receivable was recorded as an increase in Cash.
B. A net income of $4,950.
C. The balance of $49,500 in Accounts Payable being entered in the trial balance as $4,950.
D. The balance of $5,500 in the Office Equipment account being entered on the trial balance as a debit of $550.
E. An error in the general journal where a $4,950 increase in Accounts Payable was recorded as a decrease in Accounts Payable.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.

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152. Identify the item below that would cause the trial balance to *not* balance.

A. A $1,000 collection of an account receivable was erroneously posted as a debit to Accounts Receivable and a credit to Cash.
B. The purchase of office supplies on account for $3,250 was erroneously recorded in the journal as $2,350 debit to Office Supplies and credit to Accounts Payable.
C. A $50 cash receipt for the performance of a service was not recorded at all.
D. The purchase of office equipment for $1,200 was posted as a debit to Office Supplies and a credit to Cash for $1,200.
E. The cash payment of a $750 account payable was posted as a debit to Accounts Payable and a debit to Cash for $750.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Preparing a Trial Balance

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153. The credit purchase of a new oven for $4,700 was posted to Kitchen Equipment as a $4,700 debit and to Accounts Payable as a $4,700 debit. What effect would this error have on the trial balance?

A. The total of the Debit column of the trial balance will exceed the total of the Credit column by $4,700.
B. The total of the Credit column of the trial balance will exceed the total of the Debit column by $4,700.
C. The total of the Debit column of the trial balance will exceed the total of the Credit column by $9,400.
D. The total of the Credit column of the trial balance will exceed the total of the Debit column by $9,400.
E. The total of the Debit column of the trial balance will equal the total of the Credit column.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Preparing a Trial Balance

154. On a trial balance, if the Debit and Credit column totals are equal, then:

A. All transactions have been recorded correctly.
B. All entries from the journal have been posted to the ledger correctly.
C. All ledger account balances are correct.
D. Equal debits and credits have been recorded for transactions.
E. The balance sheet would be correct.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.

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Topic: Preparing a Trial Balance

155. Given the following errors, identify the one by itself that will cause the trial balance to be out of balance.

A. A $200 cash salary payment posted as a $200 debit to Cash and a $200 credit to Salaries Expense.
B. A $100 cash receipt from a customer in payment of her account posted as a $100 debit to Cash and a $10 credit to Accounts Receivable.
C. A $75 cash receipt from a customer in payment of her account posted as a $75 debit to Cash and a $75 credit to Cash.
D. A $50 cash purchase of office supplies posted as a $50 debit to Office Equipment and a $50 credit to Cash.
E. An $800 prepayment from a customer for services to be rendered in the future was posted as an $800 debit to Unearned Revenue and an $800 credit to Cash.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Preparing a Trial Balance

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

A. Supplies, understated $130; Fees Earned, overstated $130.
B. Supplies, understated $260; Fees Earned, overstated $130.
C. Supplies, overstated $130; Fees Earned, overstated $130.
D. Supplies, overstated $130; Fees Earned, understated $130.
E. Supplies, overstated $260; Fees Earned, understated $130.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation

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Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Preparing a Trial Balance

157. All of the following are asset accounts *except*:

A. Accounts Receivable.
B. Buildings.
C. Supplies expense.
D. Equipment.
E. Prepaid insurance.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Topic: Ledger and Chart of Accounts

158. Compare the list of accounts below and choose the list that contains only accounts that would be classified as asset accounts on the Chart of Accounts.

A. Accounts Payable; Cash; Supplies.
B. Unearned Revenue; Accounts Payable; Dividends.
C. Building; Prepaid Insurance; Supplies Expense.
D. Cash; Prepaid Insurance; Equipment.
E. Notes Payable; Cash; Dividends.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Topic: Ledger and Chart of Accounts

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159. Which financial statement reports an organization's financial position at a single point in time?

A. Income statement.
B. Balance sheet.
C. Statement of retained earnings.
D. Cash flow statement.
E. Trial balance.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Using a Trial Balance to Prepare Financial Statements

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Financial and Managerial Accounting 6th edition Wild Test Bank

160. Joe Jackson opened Jackson's Repairs, Inc. on March 1 of the current year. During March, the following transactions occurred and were recorded in the company's books:

1. Jackson invested $25,000 cash in the business.
2. Jackson contributed $100,000 of equipment to the corporation.
3. The company paid $2,000 cash to rent office space for the month.
4. The company received $16,000 cash for repair services provided during March.
5. The company paid $6,200 for salaries for the month.
6. The company provided $3,000 of services to customers on account.
7. The company paid cash of $500 for monthly utilities.
8. The company received $3,100 cash in advance of providing repair services to a customer.

Based on this information, net income for March would be:

A. $10,300.
B. $13,400.
C. $5,300.
D. $8,400.
E. $13,500.

Net Income = Revenues - Expenses
Net Income = $16,000 (#4) - $2,000 (#3) - $6,200 (#5) + $3,000 (#6) - $500 (#7) = $10,300

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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Financial and Managerial Accounting 6th edition Wild Test Bank

161. Joel Consulting received $3,000 from a customer for services provided. Joel's general journal entry to record this transaction will be:

A. Debit Services Revenue, credit Accounts Receivable.
B. Debit Cash, credit Accounts Payable.
C. Debit Cash, credit Accounts Receivable.
D. Debit Cash, credit Services Revenue.
E. Debit Accounts Payable, credit Services Revenue.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

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Financial and Managerial Accounting 6th edition Wild Test Bank

162. Wiley Hill opened Hill's Repairs, Inc. on March 1 of the current year. During March, the following transactions occurred and were recorded in the company's books:

1. Wiley invested $25,000 cash in the corporation.
2. Wiley contributed $100,000 of equipment to the corporation.
3. The company paid $2,000 cash to rent office space for the month.
4. The company received $16,000 cash for repair services provided during March.
5. The company paid $6,200 for salaries for the month.
6. The company provided $3,000 of services to customers on account.
7. The company paid cash of $500 for monthly utilities.
8. The company received $3,100 cash in advance of providing repair services to a customer.
9. The company paid $5,000 cash in dividends to Wiley. (sole shareholder)

Based on this information, the balance in Stockholders' Equity reported on the Balance Sheet at the end of March would be:

A. $133,400.
B. $130,300.
C. $125,300.
D. $8,400.
E. $13,500.

Ending Stockholders' Equity = $25,000 (#1) + $100,000 (#2) + $16,000 (#4) + $3,000 (#6) - $2,000 (#3) - $6,200 (#5) - $500 (#7) - $5,000 (#9) = $130,300

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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Matching Questions

163. Match the following terms with the appropriate definitions.

1. The process of transferring journal entry information to the ledger accounts.	Credit	10
2. A company's chronological record of each transaction in one place that shows debits and credits for each transaction.	Ledger	6
3. An accounting system where each transaction affects and is recorded in at least two accounts; the sum of the debits for each entry must equal the sum of its credits.	Double-entry accounting	3
4. A list of accounts and their balances at a point in time.	Journal	2
5. A representation of a ledger account used to understand the effects of transactions.	Debit	9
6. A record containing all the accounts of a company and their balances.	Account	8
7. Verifiable evidence that transactions have occurred used to record accounting information.	T-account	5
8. A record of the increases and decreases in a specific asset, liability, equity, revenue, or expense item.	Trial balance	4
9. An increase in an asset and expense account, and decrease in a liability, contributed capital, retained earnings, and revenue account; recorded on the left side of a T-account.	Posting	1
10. Decrease in an asset, and expense account, and increase in a liability, contributed capital, retained earnings and revenue account; recorded on the right side of a T-account.	Source documents	7

AACSB: Communication
AICPA: BB Industry

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AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Analyzing and Recording Process
Topic: Debits and Credits
Topic: Ledger and Chart of Accounts
Topic: The Account and Its Analysis
Topic: Trial Balance

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Financial and Managerial Accounting 6th edition Wild Test Bank

164. Match the following terms with the appropriate definitions.

1. A chronological record of each transaction in one place that shows debits and credits for each transaction.	Debit	10
2. An account with debit and credit columns for recording entries and another column for showing the balance of the account after each entry.	Credit	7
3. A record containing all accounts of a company and their balances.	Note payable	8
4. A list of accounts and their balances at a point in time; the total debit balances should equal the total credit balances.	Account balance	9
5. A list of all accounts used by a company and the identification number assigned to each account.	Trial balance	4
6. The ratio of total liabilities to total assets; used to reflect the risk associated with the company's debts.	Chart of accounts	5
7. A decrease in an asset and expense account, and an increase in a liability, contributed capital, retained earnings, and revenue account; recorded on the right side of a T-account.	Debt ratio	6
8. A written promise to pay a definite sum of money on a specified future date.	Balance column account	2
9. The difference between total debits and total credits for an account including the beginning balance.	Journal	1
10. An increase in an asset, dividend, and expense account, and a decrease in a liability, contributed capital, retained earnings, and revenue account; recorded on the left side of a T-account.	Ledger	3

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember

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Financial and Managerial Accounting 6th edition Wild Test Bank

Difficulty: 1 Easy

Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.

Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.

Learning Objective: 02-C2 Describe an account and its use in recording transactions.

Learning Objective: 02-C3 Describe a ledger and a chart of accounts.

Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

Topic: Analyzing and Recording Process

Topic: Debits and Credits

Topic: Debt Ratio

Topic: Ledger and Chart of Accounts

Topic: The Account and Its Analysis

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165. Match the following terms with the appropriate definitions.

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

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Learning Objective: 02-C2 Describe an account and its use in recording transactions.

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Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Analyzing and Recording Process
Topic: Debits and Credits
Topic: Ledger and Chart of Accounts
Topic: The Account and Its Analysis

Essay Questions

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

____ 1. Salary Expense
____ 2. Cash
____ 3. Equipment
____ 4. Common Stock
____ 5. Fees Revenue
____ 6. Accounts Receivable
____ 7. Accounts Payable
____ 8. Dividends
____ 9. Supplies
____ 10. Unearned Revenue
____ 11. Prepaid Insurance
____ 12. Office Furniture

1. E; 2. A; 3. A; 4. SE; 5. R; 6. A; 7. L; 8. SE; 9. A; 10. L; 11. A; 12. A

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Topic: Ledger and Chart of Accounts

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167. Review the transactions below and identify with an "X" those that would be posted as a *credit* in the ledger (The first one has been done for you):

_X_ 1. Salary Payable was increased.
____ 2. Cash was decreased
____ 3. Equipment was increased
____ 4. Common Stock was increased
____ 5. Salaries Expense was increased
____ 6. Accounts Receivable was decreased
____ 7. Unearned Revenue was increased
____ 8. Dividends was increased
____ 9. Supplies was increased
____ 10. Building was increased
____ 11. Utilities Expense was increased
____ 12. Service Revenue was increased

_X_ 1. Salary Payable was increased
_X_ 2. Cash was decreased
____ 3. Equipment was increased
_X_ 4. Common Stock was increased
____ 5. Salaries Expense was increased
_X_ 6. Accounts Receivable was decreased
_X_ 7. Unearned Revenue was increased
____ 8. Dividends was increased
____ 9. Supplies was increased
____ 10. Building was increased
____ 11. Utilities Expense was increased
_X_ 12. Service Revenue was increased

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

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168. The following accounts appear on either the Income Statement (IS) or Balance Sheet (BS). In the space to the left of each account, write the letters, IS or BS to identify the statement on which the account appears.

____ 1. Office Equipment
____ 2. Rent Expense
____ 3. Unearned Fees Revenues
____ 4. Rent Expense
____ 5. Accounts Payable
____ 6. Common Stock
____ 7. Fees Revenue
____ 8. Cash
____ 9. Notes Receivable
____ 10. Wages Payable

1. BS; 2. IS; 3. BS; 4. IS; 5. BS; 6. BS; 7. IS; 8. BS; 9. BS; 10. BS

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Using a Trial Balance to Prepare Financial Statements

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169. Miley Block, Inc. is a building consultant. Shown below are (a) several accounts in her ledger with each account preceded by an identification number, and (b) several transactions completed by Block. Indicate the accounts debited and credited when recording each transaction by placing the proper account identification numbers to the right of each transaction.

1.	Accounts Payable	7.	Telephone Expense
2.	Accounts Receivable	8.	Unearned Revenue
3.	Cash	9.	Common Stock
4.	Consulting Fees Earned	10.	Dividends
5.	Office Supplies	11.	Insurance Expense
6.	Office Supplies Expense	12.	Prepaid Insurance

		Debit	Credit
	Example:		
	Completed consulting work for a client who will pay at a later date	2	4
A.	Received cash in advance from a customer for designing a building		
B.	Purchased office supplies on credit		
C.	Paid for the supplies purchased in B		
D.	Received the telephone bill of the business and immediately paid it		
E.	Paid for a 3-year insurance policy		

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

AACSB: Analytical Thinking

AICPA: BB Industry

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AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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Financial and Managerial Accounting 6th edition Wild Test Bank

170. Drew Castle, Inc. is an insurance appraiser. Shown below are (a) several accounts in his ledger with each account preceded by an identification number, and (b) several transactions completed by Castle. Indicate the accounts debited and credited when recording each transaction by placing the proper account identification numbers to the right of each transaction.

1.	Accounts Payable	8.	Office Supplies Expense
2.	Accounts Receivable	9.	Prepaid Insurance
3.	Appraisal Fees Earned	10.	Salaries Expense
4.	Cash	11.	Telephone Expense
5.	Insurance Expense	12.	Unearned Appraisal Fees
6.	Office Equipment	13.	Common Stock
7.	Office Supplies	14.	Dividends

		Debit	Credit
	Example:		
	Completed an appraisal for a client who promised to pay at a later date.	2	3
A.	Received cash in advance for appraising a hail damage claim		
B.	Purchased office supplies on credit		
C.	The company paid cash in dividends to the Drew Castle. (sole shareholder)		
D.	Received the telephone bill of the business and immediately paid it		
E.	Paid the salary of the office assistant		
F.	Paid for the supplies purchased in transaction B		
G.	Completed an appraisal for a client and immediately collected cash for the work done		

	Debit	Credit
A	4	12
B	7	1
C	14	4
D	11	4

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E	10	4
F	1	4
G	4	3

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

Short Answer Questions

171. List the steps in processing transactions.

Business transactions and events are the starting point. Source documents are analyzed for the effects of the transactions and events on the accounting records. The information is recorded into the journal. The information is then posted to the accounts and a trial balance is prepared from the ledger balances. The final step is the preparation of financial statements for decision makers.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Topic: Analyzing and Recording Process

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172. Describe what source documents are and the purpose they serve in a business.

Source documents are the proof that transactions and events have occurred and should be recorded in the accounting records. They provide objective and reliable evidence about transactions and their amounts. Examples of source documents include checks, invoices, sales receipts, credit card statements, and bank statements. They can be in hard copy or electronic form.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Topic: Analyzing and Recording Process

173. Explain how accounts are used in recording information about a business's transactions.

Accounts are classified into three general categories: assets, liabilities, equity (including dividends, revenue and expenses). Accounts are records of increases and decreases in specific items in these categories. Information from an account is analyzed, summarized, and presented in reports and financial statements.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

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174. Explain the difference between a general ledger and a chart of accounts.

A ledger is a record containing all of the accounts of a business and their balances. The chart of accounts is a list of all of the accounts a company uses that includes an identification number for the accounts.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Topic: Ledger and Chart of Accounts

175. Explain debits and credits and their role in the accounting system of a business.

Debit refers to the left side of an account and credit refers to the right side of an account. Debits and credits are part of the double-entry accounting system. This system is based on the concept that all transactions and events affect at least two accounts. The double entry system is organized around the accounting equation which states that assets = liabilities + equity. Assets and expenses have normal debit balances, and liabilities, stockholders' equity and revenues have normal credit balances.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

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176. Explain the debt ratio and its use in analyzing a company's financial condition.

The debt ratio is calculated by dividing total liabilities by total assets. It reveals the percentage of the company's assets that are financed by creditors. The higher the ratio, the more risk a company has in trying to repay the debt and interest.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Risk Analysis
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

177. Explain the recording and posting processes.

Information from business transactions and events is recorded in the journal in the form of journal entries. The journal entries include the date, the account titles, and debit and credit amounts. Journal entries may also include a further description of the transaction. During the posting process the debit and credit amounts recorded in the journal are transferred to the individual accounts in the ledger.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

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178. What is a trial balance? What is its purpose?

The trial balance is a list of all of the accounts in the ledger with balances at a point in time presented in debit and credit columns according to their balance. The purpose of the trial balance is to summarize the account totals and to verify the accuracy of the total debits and credits. If the total debits and credits are not equal, it indicates an error in the accounting records. However, even if debits do equal credits this is no guarantee that no errors were made in recording and posting transactions.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Preparing a Trial Balance

179. Describe the link between a business's income statement, the statement of retained earnings, and the balance sheet.

The income statement shows the amount of net income the company has earned. That income is carried to the statement of retained earnings. The net income is added to the beginning retained earnings, and dividends are subtracted to determine the ending retained earnings. The ending retained earnings is then carried to the balance sheet.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Financial Statements

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Essay Questions

180. Identify by marking an X in the appropriate column, whether each of the following items would likely serve as a source document. The first one is done as an example:

		Yes	No
Ex.	Credit card		X
a.	Credit card receipt		
b.	Purchase order		
c.	Invoice		
d.	Balance sheet		
e.	Bank statement		
f.	Journal entry		
g.	Telephone bill		
h.	Employee earnings record		

		Yes	No
Ex.	Credit card		X
a.	Credit card receipt	X	
b.	Purchase order	X	
c.	Invoice	X	
d.	Balance sheet		X
e.	Bank statement	X	
f.	Journal entry		X
g.	Telephone bill	X	
h.	Employee earnings record	X	

AACSB: Analytical Thinking
AICPA: BB Industry

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AICPA: FN Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Topic: Analyzing and Recording Process

181. Indicate whether a debit or credit entry would be required to record the following changes in each account.

a. To decrease Cash.
b. To increase Common Stock.
c. To decrease Accounts Payable.
d. To increase Salaries Expense.
e. To decrease Supplies.
f. To increase Revenue.
g. To decrease Accounts Receivable.
h. To increase Dividends.

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

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

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182. Using the following list of accounts and identification letters A through J for Homer's Management Co., Inc., enter the type of account and its normal balance into the table below. The first item is filled in as an example:

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

	Type of Account			Normal Balance	
	Asset	Liability	Equity	Debit	Credit
A			X		X
B					
C					
D					
E					
F					
G					
H					
I					
J					

	Type of Account			Normal Balance	
	Asset	Liability	Equity	Debit	Credit
A			X		X
B		X			X
C	X			X	
D			X	X	
E			X		X

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F	X			X	
G			X	X	
H		X			X
I			X		X
J	X			X	

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Accounts
Topic: Debits and Credits
Topic: Ledger and Chart of Accounts

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183. Rowdy Bolton began Bolton Office Services, Inc. in October and during that month completed these transactions:

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

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

a.	Cash	10,000	
	Computer Equipment	15,000	
	Common Stock		25,000
b.	Prepaid Insurance	500	
	Cash		500
c.	Cash	1,000	
	Office Services Revenue		1,000
d.	Office Supplies	200	
	Cash		200
e.	Rent Expense	2,000	
	Cash		2,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

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Financial and Managerial Accounting 6th edition Wild Test Bank

184. BBB Company sends a $2,500 invoice to a customer for catering services it provided during the month. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.

Accounts Receivable		Catering Fees Earned	
2,500			2,500

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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185. ABC Company made a $2,500 payment on account, to satisfy a previously recorded account payable. Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.

Accounts Payable		Cash	
2,500			2,500

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

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186. The business paid $100 cash dividend to Charles Nice (the sole stockholder of the corporation). Set up the necessary T-accounts below and show how this transaction would be recorded directly in those accounts.

Dividends		Cash	
100			100

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Topic: Analyzing Transactions

187. On December 3, the ABBJ Company paid $1,400 cash in salaries to office personnel. Prepare the general journal entry to record this transaction.

12/3	Office Salaries Expense	1,400	
	Cash		1,400

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.

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188. On February 5, Teddy's Catering purchased an oven that cost $35,000. The firm made a down payment of $5,000 cash and signed a long-term note payable for the balance. Show the general journal entry to record this transaction.

2/5	Oven	35,000	
	Cash		5,000
	Note Payable		30,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

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189. Jarrod Automotive, Inc. owned and operated by Jarrod Johnson, began business in September of the current year. Jarrod, a mechanic, had no experience with recording business transactions. As a result, Jarrod entered all of September's transactions directly into the ledger accounts. When he tried to locate a particular entry he found it confusing and time consuming. He has hired you to improve his accounting procedures. The accounts in his General Ledger follow:

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

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

Accounts Receivable				Revenue			
9/9	(c) 275	9/15	(e) 190			9/9	(c) 275
						9/11	(d) 150

Prepare the general journal entries, in chronological order (a) through (e), from the T-account entries shown. Include a brief description of the probable nature of each transaction.

a.	Sept. 1	Cash	4,200	
		Equipment	800	
		Common Stock		5,000
		To record initial investment.		
b.	4	Equipment	2,550	
		Cash		550

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		Notes Payable		2,000
		To record purchase of equipment, paying $550 in cash and paying a $2,000 note payable for the balance due.		
c.	9	Accounts Receivable	275	
		Revenue		275
		To record credit sale of services.		
d.	11	Cash	150	
		Revenue		150
		To record cash sale of services.		
e.	15	Cash	190	
		Accounts Receivable		190
		To record collection from customer.		

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

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190. Pippa's Paralegal Services, Inc. completed these transactions in February:

a. Purchased office supplies on account, $300.
b. Completed work for a client on credit, $500.
c. Paid cash for the office supplies purchased in (*a*).
d. Completed work for a client and received $800 cash.
e. Received $500 cash for the work described in (*b*).
f. Received $1,000 from a client for paralegal services to be performed in March.

Prepare journal entries to record the above transactions. Explanations are not necessary.

a.	Office Supplies	300	
	Accounts Payable		300
b.	Accounts Receivable	500	
	Services Revenue		500
c.	Accounts Payable	300	
	Cash		300
d.	Cash	800	
	Services Revenue		800
e.	Cash	500	
	Accounts Receivable		500
f.	Cash	1,000	
	Unearned Revenue		1,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

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191. Larry Matt, Inc. completed these transactions during December of the current year:

Dec. 1	Began a financial services practice by investing $15,000 cash and office equipment having a $5,000 value.
2	Purchased $1,200 of office equipment on credit.
3	Purchased $300 of office supplies on credit.
4	Completed work for a client and immediately received a payment of $900 cash.
8	Completed work for Precept Paper Co. on credit, $1,700.
10	Paid for the supplies purchased on credit on December 3.
14	Paid for the annual $960 premium on an insurance policy.
18	Received payment in full from Precept Paper Co. for the work completed on December 8.
27	The company paid $650 cash in dividends to the owner. (sole shareholder)
30	Paid $175 cash for the December utility bills.
30	Received $2,000 from a client for financial services to be rendered next year.

Prepare general journal entries to record these transactions.

Dec. 1	Cash	15,000	
	Office Equipment	5,000	
	Common Stock		20,000
	Stockholder invested in business.		
2	Office Equipment	1,200	
	Accounts Payable		1,200
	Purchased office equipment and supplies on credit.		
3	Office Supplies	300	
	Accounts Payable		300
4	Cash	900	
	Fees Earned		900
	Rendered services for cash.		
8	Accounts Receivable	1,700	
	Fees Earned		1,700

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	Rendered services on account.		
10	Accounts Payable	300	
	Cash		300
	Paid amount owed for supplies.		
14	Prepaid Insurance	960	
	Cash		960
	Paid insurance premium for one year.		
18	Cash	1,700	
	Accounts Receivable		1,700
	Received payment on account.		
27	Dividends	650	
	Cash		650
	Stockholder withdrew cash.		
30	Utility Expense	175	
	Cash		175
	Paid utility bills.		
30	Cash	2,000	
	Unearned Fees		2,000
	Received cash for services to be provided next year		

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

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192. Mary Sunny began business as Sunny Law Firm, Inc. on November 1. Record the following November transactions by making entries directly to the T-accounts provided. Then, prepare a trial balance, as of November 30.

a) Mary invested $15,000 cash and a law library valued at $6,000.
b) Purchased $7,500 of office equipment from John Bronx on credit.
c) Completed legal work for a client and received $1,500 cash in full payment.
d) Paid John Bronx. $3,500 cash in partial settlement of the amount owed.
e) Completed $4,000 of legal work for a client on credit.
f) The company paid $2,000 cash in dividends to the owner. (sole shareholder)
g) Received $2,500 cash as partial payment for the legal work completed for the client in (*e*).
h) Paid $2,500 cash for the legal secretary's salary.

Cash		Office Equipment		Dividends	
Accounts Receivable		Accounts Payable		Legal Fees Earned	
Law Library		Common Stock		Salaries Expense	

Cash		Office Equipment		Dividends	
(a) 15,000	(d) 3,500	(b) 7,500		(f) 2,000	
(c) 1,500	(f) 2,000				
(g) 2,500	(h) 2,500				
Accounts Receivable		Accounts Payable		Legal Fees Earned	

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(e) 4,000	(g) 2,500	(d) 3,500	(b) 7,500		(c) 1,500
					(e) 4,000
Law Library		Common Stock		Salaries Expense	
(a) 6,000		(a) 21,000		(h) 2,500	

Sunny Law Firm, Inc. Trial Balance November 30		
Account	Debit	Credit
Cash	$11,000	
Accounts Receivable	1,500	
Law Library	6,000	
Office Equipment	7,500	
Accounts Payable		4,000
Dividends	2,000	
Legal Fees Earned		5,500
Salaries Expense	2,500	
Totals	$30,500	$30,500

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Analyzing Transactions
Topic: Journalizing and Posting Transactions
Topic: Preparing a Trial Balance

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Financial and Managerial Accounting 6th edition Wild Test Bank

193. Jerry's Butcher Shop, Inc. had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	$114,000	$68,000
End of the year	135,000	73,000

If Jerry made no investments in the business and withdrew no assets during the year, what was the amount of net income earned by Jerry's Butcher Shop, Inc.?

Beginning stockholders' equity = $114,000 - $68,000 = $46,000
Ending stockholders' equity = $135,000 - $73,000 = $62,000
Increase in stockholders' equity = $62,000 - $46,000 = $16,000
Since there were no investments or dividends during the year, the net income is $16,000.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Analyzing Transactions
Topic: Using a Trial Balance to Prepare Financial Statements

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Financial and Managerial Accounting 6th edition Wild Test Bank

194. Jerry's Butcher Shop, Inc. had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	$114,000	$68,000
End of the year	135,000	73,000

If Jerry invested an additional $12,000 in the business during the year, but withdrew no assets during the year, what was the amount of net income earned by Jerry's Butcher Shop, Inc.?

Beginning stockholders' equity = $114,000 - $68,000 = $46,000
Ending stockholders' equity = $135,000 - $73,000 = $62,000
Increase in stockholders' equity = $62,000 - $46,000 = $16,000
Net income = $16,000 - $12,000 = $4,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Analyzing Transactions
Topic: Financial Statements

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Financial and Managerial Accounting 6th edition Wild Test Bank

195. Jerry's Butcher Shop, Inc. had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	$114,000	$68,000
End of the year	135,000	73,000

If Jerry made no investments in the business but withdrew $5,000 during the year, what was the amount of net income earned by Jerry's Butcher Shop, Inc.?

Beginning stockholders' equity = $114,000 - $68,000 = $46,000
Ending stockholders' equity = $135,000 - $73,000 = $62,000
Increase in stockholders' equity = $62,000 - $46,000 = $16,000
Net income = $16,000 + $5,000 = $21,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Analyzing Transactions
Topic: Financial Statements

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Financial and Managerial Accounting 6th edition Wild Test Bank

196. Jerry's Butcher Shop, Inc. had the following assets and liabilities at the beginning and end of the current year:

	Assets	Liabilities
Beginning of the year	$114,000	$68,000
End of the year	135,000	73,000

If Jerry invested an additional $12,000 in the business and withdrew $5,000 during the year, what was the amount of net income earned by Jerry's Butcher Shop, Inc.?

Beginning stockholders' equity = $114,000 - $68,000 = $46,000
Ending stockholders' equity = $135,000 - $73,000 = $62,000
Increase in stockholders' equity = $62,000 - $46,000 = $16,000
Net income = $16,000 - $12,000 + $5,000 = $9,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Analyzing Transactions
Topic: Financial Statements

197. A company had total assets of $350,000, total liabilities of $101,500 and total equity of $248,500. Calculate the company's debt ratio.

Debt Ratio = Total Liabilities/Total Assets = $101,500/$350,000 = 29%

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
AICPA: FN Risk Analysis
Blooms: Apply
Difficulty: 3 Hard

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Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

198. Jackson Advertising Co. had assets of $475,000; liabilities of $275,500; and equity of $199,500. Calculate its debt ratio.

Debt Ratio = Total Liabilities/Total Assets = $275,500/$475,000 = 58%

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
AICPA: FN Risk Analysis
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

199. List the four steps in recording transactions.

1. Analyze each transaction and event from source documents.
2. Record relevant transactions and events in a journal.
3. Post journal entry information to ledger accounts.
4. Prepare and analyze the trial balance.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Topic: Analyzing and Recording Process

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200. Given each of the following errors, indicate on the table below the amount by which the trial balance will be out of balance and which trial balance column (debit or credit) will have the larger total as a result of the error.

a. $100 debit to Cash was debited to the Cash account twice.
b. $1,900 credit to Sales was posted as a $190 credit.
c. $5,000 debit to Office Equipment was debited to Office Supplies.
d. $625 debit to Prepaid Insurance was posted as a $62.50 debit.
e. $520 credit to Accounts Payable was not posted.

Error	Amount Out of Balance	Column Having Larger Total
a.		
b.		
c.		
d.		
e.		

Error	Amount Out of Balance	Column With Larger Total
a.	$100	Debit
b.	$1,710	Debit
c.	____	____
d.	$562.50	Credit
e.	$520	Debit

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Preparing a Trial Balance

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201. After preparing an (unadjusted) trial balance at year-end, R. Chang of Chang Window Company, Inc. discovered the following errors:

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

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

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

Would the error cause the trial balance to be out of balance?

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

Yes, the trial balance will be out of balance.

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AACSB: Analytical Thinking
AICPA: BB Industry
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Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Preparing a Trial Balance

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202. The balances for the accounts of Milo's Management Co., Inc. for the year ended December 31 are shown below. Each account shown had a normal balance.

Accounts payable	$6,500	Wages expense	36,000
Accounts receivable	7,000	Rent expense	6,000
Cash	?		
Office supplies	1,200		
Building	125,000		
Supplies expense	21,500	Land	50,000
Common stock	118,700	Unearned management fees	4,000
Management revenue	175,000	Dividends	48,000

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

MILOS MANAGEMENT CO., Inc. Trial Balance For Year Ended December 31		
Cash**	$9,500	
Accounts receivable	7,000	
Office supplies	1,200	
Land	50,000	
Building	125,000	
Accounts payable		$6,500
Unearned management fees		4,000
Common stock		118,700
Dividends	48,000	
Management revenue		175,000
Wages expense	36,000	
Rent expense	6,000	
Supplies expense	21,500	

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Totals	$304,200	$304,200
**Total credits	$304,200	
Total debits (excluding cash)	294,700	
Cash	$9,500	

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Preparing a Trial Balance

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203. At year-end, Henry Laundry Service, Inc. noted the following errors in its trial balance:

1. It understated the total debits to the Cash account by $500 when computing the account balance.
2. A credit sale for $311 was recorded as a credit to the revenue account, but the offsetting debit was not posted.
3. A cash payment to a creditor for $2,600 was never recorded.
4. The $680 balance of the Prepaid Insurance account was listed in the credit column of the trial balance.
5. A $24,900 van purchase was recorded as a $24,090 debit to Equipment and a $24,090 credit to Notes Payable.
6. A purchase of office supplies for $150 was recorded as a debit to Office Equipment. The offsetting credit entry was correct.
7. An additional investment of $4,000 by Del Henry was recorded as a debit to Common Stock and as a credit to Cash.
8. The cash payment of the $510 utility bill for December was recorded (but not paid) twice.
9. The revenue account balance of $79,817 was listed on the trial balance as $97,817.
10. A $1,000 cash withdrawal by the stockholder was recorded as a $100 debit to Dividends and $100 credit to cash.

Using the form below, indicate whether each error would cause the trial balance to be out of balance, the amount of any imbalance, and whether a correcting journal entry is required.

	Would the error cause the trial balance to be out of balance?		Amount of Imbalance	Correcting Journal Entry Required	
Error	Yes	No		Yes	No
1.					
2.					
3.					
4.					
5.					

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6.					
7.					
8.					
9.					
10.					

	Would the error cause the trial balance to be out of balance?		Amount of Imbalance	Correcting Journal Entry Required	
Error	Yes	No		Yes	No
1.	X		$500		X
2.	X		311		X
3.		X	0	X	
4.	X		1,360		X
5.		X	0	X	
6.		X	0	X	
7.		X	0	X	
8.		X	0	X	
9.	X		18,000		X
10.		X	0	X	

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Journalizing and Posting Transactions
Topic: Preparing a Trial Balance

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204. The following trial balance is prepared from the general ledger of HG's Auto Maintenance, Inc.

HG'S AUTO MAINTENANCE, Inc. Trial Balance October 31		
	Debit	Credit
Cash	$1,975	
Accounts receivable	2,800	
Supplies	500	
Shop equipment	13,000	
Office equipment	6,600	
Accounts payable		$4,510
Common stock		22,000
Dividends	4,200	
Repair fees earned		11,875
Supplies expense	8,600	
Totals	$37,675	$38,385

Because the trial balance did not balance, you decided to examine the accounting records. You found that the following errors had been made:

1. A purchase of supplies on account for $245 was posted as a debit to Supplies and as a debit to Accounts Payable.
2. An investment of $500 cash by the owner was debited to Common Stock and credited to Cash.
3. In computing the balance of the Accounts Receivable account, a debit of $600 was omitted from the computation.
4. One debit of $300 to the Dividends account was posted as a credit.
5. Office equipment purchased for $800 was posted to the Shop Equipment account.
6. One entire entry was not posted to the general ledger. The transaction involved the receipt of $125 cash for repair services performed for cash.

Prepare a corrected trial balance for the HG's Auto Maintenance, Inc. as of October 31.

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HG'S AUTO MAINTENANCE, Inc. Trial Balance October 31		
	Debit	Credit
Cash[a]	$3,100	
Accounts receivable[b]	3,400	
Supplies	500	
Shop equipment[c]	12,200	
Office equipment[d]	7,400	
Accounts payable[e]		$5,000
Common stock[f]		23,000
Dividends[g]	4,800	
Repair fees earned[h]		12,000
Supplies expense	8,600	
Totals	$40,000	$40,000

[a]Cash: Balance $1,975 + $1,000 (#2) + 125 (#6) = $3,100

[b]Accounts Receivable: Bal. $2,800 + 600 (#3) = $3,400

[c]Shop Equipment: Bal. $13,000 - 800 (#5) = $12,200

[d]Office Equipment: Bal. $6,600 + 800 (#5) = $7,400

[e]Accounts Payable: Bal. $4,510 + 490 (#1) = $5,000

[f]Common Stock: Bal. $22,000 + 1,000 (#2) = $23,000

[g]Dividends: Bal. $4,200 + 600 (#4) = $4,800

[h]Repair fees earned: Bal. $11,875 + 125 (#6) = $12,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A1 Analyze the impact of transactions on accounts and financial statements.
Learning Objective: 02-P2 Prepare and explain the use of a trial balance.
Topic: Analyzing Transactions
Topic: Preparing a Trial Balance

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205. Figgaro Company Inc.'s accounts and their balances, as of the end of August, are included below. All accounts have normal balances:

Accounts receivable	$36,000	Cash	$28,000
		Common stock	1,000
Equipment	59,000	Advertising expense	5,000
Service revenues earned	75,000	Accounts payable	31,000
Rent expense	3,600	Dividends	24,000
Office supplies	1,500	Salaries expense	30,000
Notes payable	22,000	Retained earnings	58,100

a. Calculate net income.

b. Determine the amount of retained earnings to be shown on the August 31 balance sheet.

A.	$75,000	Service revenues earned
	(3,600)	Rent expense
	(5,000)	Advertising expense
	(30,000)	Salaries expense
	$36,400	Net income
B.	$58,100	Retained earnings (beginning)
	36,400	Net income
	(24,000)	Dividends
	$70,500	Retained earnings (ending)

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Using a Trial Balance to Prepare Financial Statements

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206. Based on the following trial balance for Sally's Salon, Inc, prepare an income statement, statement of retained earnings, and a balance sheet. Sally Crawford made no additional investments in the company during the year.

Sally's Salon, Inc. Trial Balance December 31		
Cash	$7,500	
Accounts receivable	475	
Beauty supplies	2,500	
Beauty shop equipment	17,000	
Accounts payable		$745
Common stock		1,000
Retained earnings		21,155
Dividends	36,000	
Revenue earned		72,000
Beauty supplies expense	3,425	
Rent expense	6,000	
Wages expense	22,000	
Totals	$94,900	$94,900

Sally's Salon, Inc. Income Statement For Year Ended December 31		
Revenue earned		$72,000
Expenses:		
Beauty supplies expense	$3,425	
Rent expense	6,000	
Wages expense	22,000	
Total expenses		31,425

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Net Income		$40,575

Sally's Salon, Inc. Statement of Retained Earnings For Year Ended December 31	
Retained earnings, January 1	$21,155
Plus: Net income	40,575
	$61,730
Less: Dividends	(36,000)
Retained earnings, December 31	$25,730

Sally's Salon, Inc. Balance Sheet At December 31			
Assets		Liabilities	
Cash	$7,500	Accounts payable	$745
Accounts receivable	475		
Beauty supplies	2,500	Equity	
		Retained earnings	$25,730
Beauty shop equipment	17,000	Common stock	1,000
Total assets	$27,475	Total liabilities and equity	$27,475

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Using a Trial Balance to Prepare Financial Statements

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207. George Butler owned a tugboat and was tired of his current job. He decided to open a business, Butler, Inc., that provides day tugboat tours to tourists along the Mississippi River near his hometown. Prepare journal entries to record the following transactions.

May 1	Butler invested $20,000 cash and his tugboat valued at $90,000 in the business.
May 2	Butler paid $3,000 cash for office equipment to help him keep track of business activities.
May 3	Butler bought boating supplies costing $2,500 on credit.
May 4	Butler paid the river master $500 cash for the first month's dock rental.
May 5	Butler paid $1,800 cash for a six-month insurance policy.
May 10	Butler received $2,000 cash from clients for his first tour.
May 12	Butler provided a $3,500 tour on credit, the customer has agreed to pay within 10 days.
May 19	Butler paid for the boating supplies originally purchased on May 3.
May 22	Butler receives payment on the account from the client entry on May 12.
May 25	Butler received $2,750 cash for additional tours.
May 31	Butler paid his crew member a salary of $1,000.
May 31	The company paid $2,000 cash in dividends to the owner. (sole shareholder)

May 1	Cash	20,000	
	Tugboat	90,000	
	Common Stock		110,000
	Stockholder invested in business.		
2	Office Equipment	3,000	
	Cash		3,000
	Purchased office equipment.		
3	Boating Supplies	2,500	
	Accounts Payable		2,500
	Purchased supplies on account.		
4	Rent expense	500	
	Cash		500

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	Paid for dock rent.		
5	Prepaid Insurance	1,800	
	Cash		1,800
	Paid for six month insurance policy.		
10	Cash	2,000	
	Tugboat Tour Revenue		2,000
	Recorded tour revenue.		
12	Accounts Receivable	3,500	
	Tugboat Tour Revenue		3,500
	Recorded tour revenue provided on account.		
19	Accounts Payable	2,500	
	Cash		2,500
	Paid on account.		
22	Cash	3,500	
	Accounts Receivable		3,500
	Record collection on account.		
25	Cash	2,750	
	Tugboat Tour Revenue		2,750
	Recorded tour revenue.		
31	Salary expense	1,000	
	Cash		1,000
	Paid assistant's salary.		
31	Dividends	2,000	
	Cash		2,000
	Record dividends.		

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

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

Barry's Automotive Shop, Inc. Trial Balance December 31		
Cash	$13,500	
Accounts receivable	1,500	
Supplies	500	
Repair shop equipment	27,000	
Service truck	33,000	
Accounts payable		$2,600
Common stock		1,000
Retained earnings		38,525
Dividends	36,000	
Service revenue		125,000
Supplies expense	3,425	
Rent expense	18,000	
Utilities expense	5,000	
Gas expense	7,200	
Wages expense	22,000	
Totals	$167,125	$167,125

Barry's Automotive Shop, Inc. Income Statement For Year Ended December 31		
Service revenue		$125,000
Expenses:		

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Supplies expense	$3,425	
Rent expense	18,000	
Utilities expense	5,000	
Gas expense	7,200	
Wages expense	22,000	
Total expenses		55,625
Net Income		$69,375

Barry's Automotive Shop, Inc. Statement of Retained Earnings For Year Ended December 31	
Retained Earnings, January 1	$38,525
Plus: Net income	69,375
	$107,900
Less: Withdrawals by owner	(36,000)
Retained Earnings, December 31	$71,900

Barry's Automotive Shop, Inc. Balance Sheet December 31			
Assets		Liabilities	
Cash	$13,500	Accounts payable	$2,600
Accounts receivable	1,500		
Supplies	500	Equity	
Repair shop equipment	27,000	Common stock	$1,000
Service truck	33,000	Retained earnings	71,900
Total assets	$75,500	Total liabilities and equity	$75,500

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-P3 Prepare financial statements from business transactions.
Topic: Financial Statements

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209. For each of the accounts in the following table (1) identify the type of account as an asset, liability, equity, revenue, or expense, and (2) identify the normal balance of the account.

	Account Type	Normal Balance
a. Wages Expense		
b. Accounts Receivable		
c. Commissions Earned		
d. Salaries Payable		
e. Common Stock		
f. Unearned Advertising Revenue		
g. Salaries Expense		
h. Magazine Subscription Revenue		
i. Dividends		
j. Prepaid Insurance		

	Account Type	Normal Balance
a. Wages Expense	expense	debit
b. Accounts Receivable	asset	debit
c. Commissions Earned	revenue	credit
d. Salaries Payable	liability	credit
e. Common Stock	equity	credit
f. Unearned Advertising Revenue	liability	credit
g. Salaries Expense	expense	debit
h. Magazine Subscription Revenue	revenue	credit
i. Dividends	equity	debit
j. Prepaid Insurance	asset	debit

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AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits
Topic: Ledger and Chart of Accounts

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210. For each of the following accounts, identify whether a debit or credit yields the indicated change.

a. To increase Fees Earned	
b. To decrease Cash	
c. To decrease Unearned Revenue	
d. To increase Accounts Receivable	
e. To increase Common Stock	
f. To decrease Notes Payable	
g. To increase Prepaid Rent	
h. To increase Salaries Expense	
i. To increase Accounts Payable	
j. To decrease Prepaid Insurance	

a. To increase Fees Earned	credit
b. To decrease Cash	credit
c. To decrease Unearned Revenue	debit
d. To increase Accounts Receivable	debit
e. To increase Common Stock	credit
f. To decrease Notes Payable	debit
g. To increase Prepaid Rent	debit
h. To increase Salaries Expense	debit
i. To increase Accounts Payable	credit
j. To decrease Prepaid Insurance	credit

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

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211. Indicate on which of the financial statements the following items appears. Use I for income statement, E for statement of retained earnings, and B for balance sheet. More than one statement may be appropriate for some items.

a. Fees Earned	
b. Cash	
c. Unearned Revenue	
d. Rent expense	
e. Retained Earnings	
f. Notes Payable	
g. Prepaid Rent	
h. Salaries Expense	
i. Notes Payable	
j. Dividends	

a. Fees Earned	I
b. Cash	B
c. Unearned Revenue	B
d. Rent expense	I
e. Retained Earnings	E,B
f. Notes Payable	B
g. Prepaid Rent	B
h. Salaries Expense	I
i. Notes Payable	B
j. Dividends	E

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember

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Difficulty: 2 Medium

Learning Objective: 02-P3 Prepare financial statements from business transactions.

Topic: Using a Trial Balance to Prepare Financial Statements

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212. Jason Hope decided to open a hotel, set up as a corporation, in his hometown. Prepare journal entries to record the following transactions. Hope uses the accounts Room Rental Revenue and Event Revenue. All expenses for special events are recorded as Event Expense.

June 1	Hope invested $400,000 into the business.
June 2	Hope purchased an existing building and land for the hotel costing $900,000. The purchase appraisal allocated $100,000 for land and $800,000 to the building. Hope paid $250,000 and financed the remainder with a mortgage note payable.
June 3	Paid $6,000 for a six month insurance policy on the hotel.
June 5	Purchased linens and other supplies costing $4,000 on account.
June 10	Received advance payments of $12,000 from customers that will be staying at the hotel in July. Payments will be refunded if the customer cancels within 7 days of their scheduled arrival time.
June 14	Received cash payments of $13,000 from current customers staying at the hotel in June.
June 15	Paid the staff $2,000 for the first semi-monthly payroll.
June 16	Paid $500 for general maintenance and repairs expense.
June 17	Received $10,000 payment for a wedding reception during the weekend.
June 18	Paid the caterer $2,500 for providing catering services for the wedding reception.
June 18	Paid Fixture Rentals $1,000 for table and chair rental.
June 19	Paid the florist $2,000 for flowers for the event.
June 24	Paid for the linens and supplies purchased on June 5.
June 25	Recorded an additional $5,000 from current hotel customers for June.
June 30	Paid the staff $2,000 for the second semi-monthly payroll.
June 30	The company paid $4,000 cash in dividends to the owner. (sole shareholder)

June 1	Cash	400,000	
	Common Stock		400,000
June 2	Land	100,000	
	Building	800,000	
	Cash		250,000

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	Mortgage Note Payable		650,000
June 3	Prepaid Insurance	6,000	
	Cash		6,000
June 5	Supplies	4,000	
	Accounts Payable		4,000
June 10	Cash	12,000	
	Unearned Rental Revenue		12,000
June 14	Cash	13,000	
	Room Rental Revenue		13,000
June 15	Salaries expense	2,000	
	Cash		2,000
June 16	Maintenance and repairs expense	500	
	Cash		500
June 17	Cash	10,000	
	Event Revenue		10,000
June 18	Catering expense	2,500	
	Cash		2,500
June 18	Event expense	1,000	
	Cash		1,000
June 19	Event expense	2,000	
	Cash		2,000
June 24	Accounts Payable	4,000	
	Cash		4,000
June 25	Cash	5,000	
	Room Rental Revenue		5,000
June 30	Salaries expense	2,000	
	Cash		2,000
June 30	Dividends	4,000	
	Cash		4,000

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Blooms: Apply

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Financial and Managerial Accounting 6th edition Wild Test Bank

Difficulty: 3 Hard

Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.

Topic: Journalizing and Posting Transactions

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213. For each of the following (1) identify the type of account as an asset, liability, equity, revenue, or expense, and (2) identify the normal balance of the account.

Account Title	Account Type	Normal Balance (Debit or Credit)
a. Prepaid Insurance		
b. Accounts Payable		
c. Common Stock		
d. Utilities expense		
e. Land		
f. Services revenue		
g. Notes Receivable		
h. Advertising expense		
i. Unearned Revenue		
j. Service Revenue		

Account Title	Account Type	Normal Balance
a. Prepaid Insurance	asset	debit
b. Accounts Payable	liability	credit
c. Common Stock	equity	credit
d. Utilities expense	expense	debit
e. Land	asset	debit
f. Services revenue	revenue	credit
g. Notes Receivable	asset	debit
h. Advertising expense	expense	debit
i. Unearned Revenue	liability	credit
j. Service Revenue	revenue	credit

AACSB: Communication
AICPA: BB Industry

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AICPA: FN Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits
Topic: Ledger and Chart of Accounts

214. The steps in the accounting process focus on analyzing and recording financial transactions and events within a company. Those steps are shown below. Using the number system of 1 as the first step and 4 as the last step in the process, number the steps in the correct order in which they would occur (1 thru 4).

_____ Record relevant transactions and events in a journal
_____ Post journal information to the ledger accounts
_____ Prepare and analyze the trial balance
_____ Analyzing each transaction

__2__ Record relevant transactions and events in a journal
__3__ Post journal information to the ledger accounts
__4__ Prepare and analyze the trial balance
__1__ Analyzing each transaction

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Topic: Analyzing and Recording Process

Fill in the Blank Questions

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215. _____ and _____ are the starting points for the *analyzing and recording* process.

Business transactions; Events

Answers can appear in either order

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Topic: Analyzing and Recording Process

216. The second step in the analyzing and recording process is to record the transactions and events in the book of original entry, called the _____.

journal

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Topic: Analyzing and Recording Process

217. The third step in the analyzing and recording process is to post the information to the _____.

ledger accounts

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Topic: Analyzing and Recording Process

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218. _____ documents identify and describe transactions and events and provide objective evidence and amounts for recording.

Source

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C1 Explain the steps in processing transactions and the role of source documents.
Topic: Analyzing and Recording Process

219. Revenues and expenses are two categories of _____ accounts.

equity

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

220. The _____ is a record containing all accounts used by a company as well as the transactions and ending balances of each of the accounts.

general ledger (or ledger)

Either answer is acceptable

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Topic: Ledger and Chart of Accounts

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221. _____ are promises of payment from customers to sellers.

Accounts receivable

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

222. Unearned revenue is classified as a(an) _____ on a business's balance sheet.

liability

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

223. The four categories of equity accounts are _____, _____, _____, and _____.

contributed capital; dividends; revenues; expenses

Answers can appear in any order

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

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224. A _____ is a *list* of all the accounts used by a company and their identification codes but does not contain the balances.

chart of accounts

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Topic: Ledger and Chart of Accounts

225. A record containing all the separate accounts for a company as well as all of their balances is called the _____.

ledger

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C3 Describe a ledger and a chart of accounts.
Topic: Ledger and Chart of Accounts

226. _____ requires that each transaction affect, and be recorded in, at least two accounts. It also means that total amounts debited must equal total amounts credited for each transaction.

Double-entry accounting

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

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227. The _____ is found by determining the difference between total debits and total credits for an account, including any beginning balance.

<u>account balance</u>

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

228. To increase an asset account we would _____ it and to increase a liability account, we would _____ it.

<u>debit; credit</u>

Answers need to appear in the order shown above

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

229. Funky Music purchased $25,000 of equipment for cash. The Equipment asset account is _____ for $25,000 and the cash account is _____ for $25,000.

<u>debited; credited</u>

Answers need to appear in the order as shown above

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Understand
Difficulty: 2 Medium

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Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

230. Jackson Brown Footwear had total liabilities of $130 million and total assets of $375 million. Its debt ratio was _____.

34.7%

Debt Ratio = Total Liabilities/Total Assets
Debt Ratio = $130 million/$375 million = 34.7%

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-A2 Compute the debt ratio and describe its use in analyzing financial condition.
Topic: Debt Ratio

231. _____ is the process of transferring journal entry information from the journal to the ledger.

Posting

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

232. A _____ gives a complete record of each transaction in one place, and shows debits and credits for each transaction.

journal

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember

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Difficulty: 1 Easy
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

233. A more structured format that is similar to a T-account in that it has columns for debits and credits, but that is different in that it has columns for transaction date, explanation, and the account balance is the _____.

balance column account

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C2 Describe an account and its use in recording transactions.
Topic: The Account and Its Analysis

234. The posting process is the link between the _____ and the _____.

journal; ledger

Answers can be recorded in either order

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-P1 Record transactions in a journal and post entries to a ledger.
Topic: Journalizing and Posting Transactions

235. You increase the *Service Revenue* account on the _____ side of its account.

right or credit

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.

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Topic: Debits and Credits

236. You decrease the *Accounts Payable* account on the _____ side of its account.

<u>left or debit</u>

AACSB: Communication
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-C4 Define debits and credits and explain double-entry accounting.
Topic: Debits and Credits

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