

## Chapter 2—The Accounting Information System

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### TRUE/FALSE

1. The time period assumption assumes that a company prepares its financial statements every month.

ANS: F                    PTS: 1                    DIF: Moderate            OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

2. Because it tends to provide the most reliable measure of activity, all assets are reported on the balance sheet at their fair market values.

ANS: F                    PTS: 1                    DIF: Moderate            OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

3. The term used to refer to an asset's original cost is book value.

ANS: F                    PTS: 1                    DIF: Easy                OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

4. The going-concern assumption infers that a company will continue to operate into the near future.

ANS: T                    PTS: 1                    DIF: Easy                OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

5. A company in the process of liquidation is considered to be under the going-concern assumption.

ANS: F                    PTS: 1                    DIF: Moderate            OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

6. The International Accounting Standards Board (IASB) was created in order to develop worldwide accounting standards that are required for all financial statements, regardless of what country the financial statements are prepared in.

ANS: F                    PTS: 1                    DIF: Moderate            OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

7. The initial step in the recording process is sometimes referred to as journalizing.

ANS: T                    PTS: 1                    DIF: Moderate            OBJ: 2-6  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

8. The issuance of common shares increases both a company's assets and shareholders' equity.

ANS: T                    PTS: 1                    DIF: Moderate            REF: CS2-1  
OBJ: 2-3  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

9. The payment of a dividend increases both cash and shareholders' equity of the distributing entity.

ANS: F                      PTS: 1                      DIF: Moderate                      REF: CS2-1

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

10. According to the historical cost principle, assets are always carried at their current market value.

ANS: F                      PTS: 1                      DIF: Easy                      OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

11. An accounting transaction may impact only a single financial statement or multiple statements.

ANS: T                      PTS: 1                      DIF: Moderate                      OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

12. The accounting equation must balance before and after every accounting transaction.

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

13. A chart of accounts is prepared to determine whether the books have gotten out of balance.

ANS: F                      PTS: 1                      DIF: Easy                      OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

14. GAAP established a universal chart of accounts that is applicable to all businesses in Canada.

ANS: F                      PTS: 1                      DIF: Easy                      OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

15. A T-account for cash cannot contain any credits.

ANS: F                      PTS: 1                      DIF: Easy                      REF: CS2-2

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

16. A debit entry increases assets and revenue accounts.

ANS: F                      PTS: 1                      DIF: Easy                      REF: CS2-2

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

17. The dividends account has a normal debit balance.

ANS: T                      PTS: 1                      DIF: Easy                      REF: CS2-3

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

18. Under the double-entry system of accounting, every transaction is entered in at least two accounts on opposite sides of a T-account.

ANS: T                   PTS: 1                   DIF: Easy                   OBJ: 2-4  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

19. Under the double-entry system of accounting, a debit is always a negative entry.

ANS: F                   PTS: 1                   DIF: Easy                   OBJ: 2-4  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

20. Income statement accounts have normal credit balances.

ANS: F                   PTS: 1                   DIF: Moderate                   OBJ: 2-4  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

21. Only events that can be measured with sufficient reliability will be recognized in the accounting system.

ANS: T                   PTS: 1                   DIF: Moderate                   OBJ: 2-2  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle

22. The general ledger is an example of a book of original entry.

ANS: F                   PTS: 1                   DIF: Easy                   OBJ: 2-5  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle

23. The general ledger is often used for the initial recording of repetitive transactions.

ANS: F                   PTS: 1                   DIF: Easy                   OBJ: 2-6  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle

24. A trial balance is the listing of each active account and its corresponding debit or credit balance at a particular point in time.

ANS: T                   PTS: 1                   DIF: Easy                   OBJ: 2-7  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle

25. Even though a trial balance reveals that the debits equal the credits, there may still be errors in the company's books.

ANS: T                   PTS: 1                   DIF: Easy                   OBJ: 2-7  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle

26. The purchase of office supplies from a supplier is an example of an external event.

ANS: T                   PTS: 1                   DIF: Easy                   OBJ: 2-2  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

27. The conservatism principle is concerned with the possibility of understating assets or income.

ANS: F                      PTS: 1                      DIF: Easy                      OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

28. A full disclosure policy stipulates that all information that would make a difference to financial statement users should be revealed.

ANS: T                      PTS: 1                      DIF: Easy                      OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

29. If a company performed services for credit, then the debit side of the journal entry would be to accounts payable and the credit would be to service revenue.

ANS: F                      PTS: 1                      DIF: Moderate                      REF: CS2-4  
OBJ: 2-5  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

30. If a company made a payment on account, then assets and liabilities would both decrease.

ANS: T                      PTS: 1                      DIF: Moderate                      REF: CS2-1  
OBJ: 2-3  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

## COMPLETION

1. The various rules and conventions that have evolved over time to guide the preparation of financial statements in Canada are called \_\_\_\_\_.

ANS:  
IASB  
International Accounting Standards Board

PTS: 1                      DIF: Moderate                      OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

2. The concept that assumes that assets are recorded at the amount to acquire them is called the \_\_\_\_\_ principle.

ANS: historical cost

PTS: 1                      DIF: Easy                      OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

3. The concept that assumes that an entity is NOT in the process of bankruptcy is called the \_\_\_\_\_ concept.

ANS: going-concern (or “continuity”)

PTS: 1                      DIF: Moderate                      OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

4. The \_\_\_\_\_ includes the procedures used to transform the results of a company's activities into financial statements.

ANS: accounting cycle

PTS: 1                    DIF: Easy                    OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

5. Information is \_\_\_\_\_ if it adds either predictive or confirmatory value.

ANS:  
relevance  
relevant

PTS: 1                    DIF: Easy                    OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

6. \_\_\_\_\_ is the magnitude of an omission or misstatement in accounting information that will influence the decision of someone relying on the information.

ANS: Materiality

PTS: 1                    DIF: Moderate                    OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

7. \_\_\_\_\_ is the capacity of information to make a difference in a decision by helping make timely predictions or provide timely feedback.

ANS: Relevance

PTS: 1                    DIF: Moderate                    OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

8. When preparing the financial statements, the accountant must estimate the balances of certain accounts. When two possible estimates are available and when these estimates are about equally likely, the accountant's prudent reaction is to select the least optimistic estimate in terms of the recorded amounts of assets or income statement accounts. This is referred to as the principle of \_\_\_\_\_.

ANS: conservatism

PTS: 1                    DIF: Moderate                    OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

9. \_\_\_\_\_ is the quality of accounting information that makes it dependable in representing the events that it purports to represent.

ANS: Reliability

PTS: 1                    DIF: Moderate                    OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

10. \_\_\_\_\_ is the quality of accounting information that allows a user to analyze two or more companies and look for similarities and differences.

ANS: Comparability

PTS: 1 DIF: Moderate OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

11. \_\_\_\_\_ is the quality of accounting information that allows a user to compare two or more accounting periods for a single company.

ANS: Consistency

PTS: 1 DIF: Moderate OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

12. In order for an internal or external event to be recognized in an accounting system, the items making up the event must impact the financial statements and they must be sufficiently reliable and \_\_\_\_\_.

ANS: measurable

PTS: 1 DIF: Moderate OBJ: 2-2

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

13. \_\_\_\_\_ documents provide the evidence needed in an accounting system to record a transaction.

ANS: Source

PTS: 1 DIF: Moderate OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

14. The issuance of common shares increases both \_\_\_\_\_ and shareholders' equity.

ANS: assets

PTS: 1 DIF: Moderate REF: CS2-1 OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

15. Borrowing from the bank in order to acquire computer equipment for \$1,500 has the effect of increasing both assets and \_\_\_\_\_.

ANS: liabilities

PTS: 1 DIF: Moderate REF: CS2-1 OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

16. If a law firm provides services on account for its clients, both \_\_\_\_\_ and retained earnings will increase.

ANS: assets

PTS: 1                    DIF: Moderate                    REF: CS2-1                    OBJ: 2-3  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

17. The payment of salaries to employees will result in a debit to an expense account and a credit to the \_\_\_\_\_ account.

ANS: cash

PTS: 1                    DIF: Moderate                    REF: CS2-4                    OBJ: 2-5  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

18. The \_\_\_\_\_ principle says that assets of a company are initially recorded at their original cost.

ANS: historical cost

PTS: 1                    DIF: Moderate                    OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

19. The \_\_\_\_\_ is a list of all the accounts used by an entity.

ANS: chart of accounts

PTS: 1                    DIF: Easy                    OBJ: 2-4  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

20. The \_\_\_\_\_ is the file or book that contains all of the company's accounts.

ANS: general ledger

PTS: 1                    DIF: Easy                    OBJ: 2-6  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

21. The \_\_\_\_\_ side, or left side, of a liability account is used to record decreases in the account balance.

ANS: debit

PTS: 1                    DIF: Easy                    REF: CS2-2                    OBJ: 2-4  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

22. For assets, expenses, and dividend accounts, a credit will \_\_\_\_\_ the balance in the account.

ANS: decrease

PTS: 1                    DIF: Easy                    REF: CS2-2 | CS2-3

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

23. For liabilities, shareholders' equity, and revenue accounts, debits will \_\_\_\_\_ the account balance.

ANS: decrease

PTS: 1                    DIF: Easy                    REF: CS2-2 | CS2-3

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

24. Credits are always on the \_\_\_\_\_ side of a T-account.

ANS: right

PTS: 1                    DIF: Easy                    OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

25. A revenue account has a normal \_\_\_\_\_ balance.

ANS: credit

PTS: 1                    DIF: Easy                    REF: CS2-3                    OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

26. The \_\_\_\_\_ is a chronological record of all transactions entered into by a business.

ANS: journal

PTS: 1                    DIF: Easy                    OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

27. The \_\_\_\_\_ is a list of each active account and its debit or credit balance at a specific point in time.

ANS: trial balance

PTS: 1                    DIF: Easy                    OBJ: 2-7

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

**MATCHING**

For each transaction provided, choose the appropriate account from the list that would receive a debit entry as a result of the transaction. (*Choices may be used more than once.*)

- a. Cash
- b. Accounts Receivable
- c. Supplies
- d. Prepaid Insurance
- e. Land
- f. Equipment
- g. Accounts Payable
- h. Unearned Revenues
- i. Notes Payable
- j. Common Shares
- k. Retained Earnings
- l. Service Revenue
- m. Salary Expense
- n. Insurance Expense
- o. Utilities Expense
- p. Dividends

1. issuing common shares
2. borrowing cash
3. purchasing equipment for cash
4. purchasing a six-month insurance policy
5. purchasing supplies on credit
6. providing services to customers for cash
7. providing services to customers for credit
8. receiving cash from a customer in advance of providing any services
9. paying for items previously purchased on credit
10. paying salaries to employees
11. collecting from customers for services sold previously on credit
12. paying utilities
13. paying dividends

1. ANS: A                      PTS: 1                      DIF: Easy                      REF: CS2-4  
OBJ: 2-5  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
2. ANS: A                      PTS: 1                      DIF: Easy                      REF: CS2-4  
OBJ: 2-5  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
3. ANS: F                      PTS: 1                      DIF: Easy                      REF: CS2-4  
OBJ: 2-5  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
4. ANS: D                      PTS: 1                      DIF: Easy                      REF: CS2-4  
OBJ: 2-5  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
5. ANS: C                      PTS: 1                      DIF: Easy                      REF: CS2-4  
OBJ: 2-5

- NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
6. ANS: A                   PTS: 1                   DIF: Easy                   REF: CS2-4  
OBJ: 2-5  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
7. ANS: B                   PTS: 1                   DIF: Easy                   REF: CS2-4  
OBJ: 2-5  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
8. ANS: A                   PTS: 1                   DIF: Easy                   REF: CS2-4  
OBJ: 2-5  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
9. ANS: G                   PTS: 1                   DIF: Easy                   REF: CS2-4  
OBJ: 2-5  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
10. ANS: M                   PTS: 1                   DIF: Easy                   REF: CS2-4  
OBJ: 2-5  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
11. ANS: A                   PTS: 1                   DIF: Easy                   REF: CS2-4  
OBJ: 2-5  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
12. ANS: O                   PTS: 1                   DIF: Easy                   REF: CS2-4  
OBJ: 2-5  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
13. ANS: P                   PTS: 1                   DIF: Easy                   REF: CS2-4  
OBJ: 2-5  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

Several transactions are listed. Use the choices to identify the effect on the accounting equation for each transaction listed. (*Choices may be used more than once.*)

- a. assets and liabilities increase
  - b. assets and contributed capital increase
  - c. assets and retained earnings increase
  - d. two asset accounts are impacted, but there is no net effect on total assets
  - e. assets and liabilities decrease
  - f. assets and retained earnings decrease
  - g. liabilities increase and retained earnings decrease
  - h. liabilities decrease and retained earnings increase
14. issuing common shares to investors
  15. borrowing cash from a bank
  16. purchasing a building for cash
  17. purchasing insurance
  18. purchasing supplies on credit
  19. providing services for customers for cash
  20. providing services for customers for credit
  21. receiving cash from customers in advance for services to be provided next month
  22. paying for a previous purchase on credit
  23. paying salaries to employees
  24. collecting cash from customers on credit
  25. paying utilities
  26. paying dividends to investors

14. ANS: B                   PTS: 1                   DIF: Moderate           REF: CS2-1  
OBJ: 2-3  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
15. ANS: A                   PTS: 1                   DIF: Moderate           REF: CS2-1  
OBJ: 2-3  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
16. ANS: D                   PTS: 1                   DIF: Moderate           REF: CS2-1  
OBJ: 2-3  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
17. ANS: D                   PTS: 1                   DIF: Moderate           REF: CS2-1  
OBJ: 2-3  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
18. ANS: A                   PTS: 1                   DIF: Moderate           REF: CS2-1  
OBJ: 2-3  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
19. ANS: C                   PTS: 1                   DIF: Moderate           REF: CS2-1  
OBJ: 2-3  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
20. ANS: C                   PTS: 1                   DIF: Moderate           REF: CS2-1  
OBJ: 2-3  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
21. ANS: A                   PTS: 1                   DIF: Moderate           REF: CS2-1  
OBJ: 2-3  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
22. ANS: E                   PTS: 1                   DIF: Moderate           REF: CS2-1  
OBJ: 2-3  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
23. ANS: F                   PTS: 1                   DIF: Moderate           REF: CS2-1  
OBJ: 2-3  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
24. ANS: D                   PTS: 1                   DIF: Moderate           REF: CS2-1  
OBJ: 2-3  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
25. ANS: F                   PTS: 1                   DIF: Moderate           REF: CS2-1  
OBJ: 2-3  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
26. ANS: F                   PTS: 1                   DIF: Moderate           REF: CS2-1  
OBJ: 2-3  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions



NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

Several accounts from the financial records of Wynn Linders, Inc. are listed. Indicate its normal balance and the debit/credit rules for increasing the account. *(Choices may be used more than once.)*

- a. debit
- b. credit

- 39. Income Tax Expense
- 40. Accounts Payable
- 41. Retained Earnings
- 42. Prepaid Insurance
- 43. Service Revenues
- 44. Notes Payable
- 45. Intangibles
- 46. Common Shares
- 47. Dividends
- 48. Unearned Revenues

39. ANS: A                      PTS: 1                      DIF: Easy                      REF: CS2-3  
 OBJ: 2-4  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
40. ANS: B                      PTS: 1                      DIF: Easy                      REF: CS2-2  
 OBJ: 2-4  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
41. ANS: B                      PTS: 1                      DIF: Easy                      REF: CS2-2  
 OBJ: 2-4  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
42. ANS: A                      PTS: 1                      DIF: Easy                      REF: CS2-2  
 OBJ: 2-4  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
43. ANS: B                      PTS: 1                      DIF: Easy                      REF: CS2-3  
 OBJ: 2-4  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
44. ANS: B                      PTS: 1                      DIF: Easy                      REF: CS2-2  
 OBJ: 2-4  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
45. ANS: A                      PTS: 1                      DIF: Easy                      REF: CS2-2  
 OBJ: 2-4  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
46. ANS: B                      PTS: 1                      DIF: Easy                      REF: CS2-2  
 OBJ: 2-4  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
47. ANS: A                      PTS: 1                      DIF: Easy                      REF: CS2-3  
 OBJ: 2-4  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
48. ANS: B                      PTS: 1                      DIF: Easy                      REF: CS2-2  
 OBJ: 2-4  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

Match the following principles with their correct definition.

- a. comparability
  - b. conservatism
  - c. double-entry accounting
  - d. economic entity
  - e. going-concern
  - f. full disclosure
  - g. historical cost
  - h. matching
  - i. monetary unit
  - j. revenue recognition
  - k. time period
49. This principle requires that the activities of a company be initially measured at their exchange price at the time the activity occurs.
  50. This principle states that accountants should take care to avoid overstating assets or income when they prepare financial statements.
  51. This assumption states that in the absence of information to the contrary, it should be assumed that a company will continue to operate indefinitely.
  52. This principle states that users should be able to make meaningful comparisons of different companies.
  53. This principle divides the life of a company into artificial time periods such as quarters and years.
  54. This system is used by companies to record the effects of transactions on the accounting equation.
  55. This assumption requires that financial information be reported in monetary terms.
  56. Any information that would make a difference to financial statement users should be reported.
  57. This principle is used to determine when revenue is recorded and reported.
  58. This principle requires that an expense be recorded and reported in the same period as the revenue it helped generate.
  59. This assumption states that each company will be accounted for separately from its owners.

49. ANS: G                   PTS: 1                   DIF: Moderate       OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP
50. ANS: B                   PTS: 1                   DIF: Moderate       OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP
51. ANS: E                   PTS: 1                   DIF: Moderate       OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP
52. ANS: A                   PTS: 1                   DIF: Moderate       OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP
53. ANS: K                   PTS: 1                   DIF: Moderate       OBJ: 2-4  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP
54. ANS: C                   PTS: 1                   DIF: Moderate       OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP
55. ANS: I                   PTS: 1                   DIF: Moderate       OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP
56. ANS: F                   PTS: 1                   DIF: Moderate       OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP
57. ANS: J                   PTS: 1                   DIF: Moderate       OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP
58. ANS: H                   PTS: 1                   DIF: Moderate       OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

59. ANS: D                   PTS: 1                   DIF: Moderate           OBJ: 2-1  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

Match the following terms with their correct definition.

- a. account
  - b. accounting cycle
  - c. chart of accounts
  - d. cost vs. benefit
  - e. credit
  - f. debit
  - g. event
  - h. general ledger
  - i. journal
  - j. trial balance
60. a list of all the accounts maintained by the business
61. the sequence of procedures used by companies to transform the effects of business activities into financial statements
62. a device used to record increases and decreases in each of the basic elements of the financial statements
63. a collection of all the individual financial statement accounts that a company uses
64. a chronological record showing the debit and credit effects of transactions on a company
65. a list of all active accounts and each account's debit or credit balance
66. term used to refer to the left side of an account
67. consideration of an expenditure of \$100 for a savings of \$75
68. something that happens to the business that may or may not require a journal entry
69. term used to refer to the right side of an account

60. ANS: C                   PTS: 1                   DIF: Easy               OBJ: 2-4  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
61. ANS: B                   PTS: 1                   DIF: Easy               OBJ: 2-2  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
62. ANS: A                   PTS: 1                   DIF: Easy               OBJ: 2-4  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
63. ANS: H                   PTS: 1                   DIF: Easy               OBJ: 2-6  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
64. ANS: I                   PTS: 1                   DIF: Easy               OBJ: 2-5  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
65. ANS: J                   PTS: 1                   DIF: Easy               OBJ: 2-7  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
66. ANS: F                   PTS: 1                   DIF: Easy               OBJ: 2-4  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
67. ANS: D                   PTS: 1                   DIF: Easy               OBJ: 2-1  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
68. ANS: G                   PTS: 1                   DIF: Easy               OBJ: 2-2  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions
69. ANS: E                   PTS: 1                   DIF: Easy               OBJ: 2-4  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

**MULTIPLE CHOICE**

1. Which of the following statements describes an economic event from an accounting perspective?
  - a. The signing of a service contract is an example of an external event that is recorded in the accounting records.
  - b. Every event that affects an entity can be identified from a source document.
  - c. All internal and external events must be measured with sufficient reliability.
  - d. External events involve exchanges between an entity and another entity outside the company.

ANS: D                      PTS: 1                      DIF: Moderate                      REF: page 61

OBJ: 2-2

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Remember

2. Which of these underlying assumptions for the conceptual framework is the reason why the dollar is used when preparing financial statements?
  - a. economic entity
  - b. continuity
  - c. time period
  - d. monetary unit

ANS: D                      PTS: 1                      DIF: Easy                      REF: page 58

OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

BLM: Understand

3. Which of the following is an assumption made when preparing the financial statements?
  - a. Financial statements are prepared for a specific entity that is distinct from the entity's owners.
  - b. The current market value is assumed to be more relevant than the original cost paid.
  - c. The preparation of financial statements for a specific time period assumes that the balance sheet covers a designated period of time.
  - d. Financial statements are prepared assuming that inflation has a distinct effect on the monetary unit.

ANS: A                      PTS: 1                      DIF: Moderate                      REF: page 58

OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

BLM: Understand

4. For which of the following reasons is the time-period assumption necessary?
- Inflation exists and causes confusing swings in financial statement amounts over time.
  - External users of financial statements want accurately reported net income for a specific fiscal year.
  - Financial statement users expect full disclosure of all economic events throughout the entire time period.
  - It is required by the federal government.

ANS: B                      PTS: 1                      DIF: Easy                      REF: page 58  
OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP  
BLM: Understand

5. Which of the following statements is characteristic of assets?
- Assets are measured using a time-period approach.
  - Assets are initially recorded at market value and then adjusted for inflation.
  - Assets are initially recorded using the historical cost principle.
  - Assets are initially recorded at market value, since historical cost tends to be too arbitrary.

ANS: C                      PTS: 1                      DIF: Moderate                      REF: page 58  
OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP  
BLM: Understand

6. Homevestors purchased land for \$400,000 10 years ago. This year, an independent appraiser assessed the value of the land at \$900,000. At what amount should the land be recorded on the company's current financial statements?
- \$130,000
  - \$400,000
  - \$500,000
  - \$900,000

ANS: B                      PTS: 1                      DIF: Moderate                      REF: page 58  
OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP  
BLM: Analyze

7. Which of the following organizations is primarily responsible for establishing elements of the conceptual framework, along with the U.S. Financial Accounting Standards Board (FASB)?
- Securities Exchange Commission (SEC)
  - Certified Management Accountants (CMA)
  - International Accounting Standards Board (IASB)
  - Canada Revenue Agency (CRA)

ANS: C                      PTS: 1                      DIF: Easy                      REF: page 56  
OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP  
BLM: Remember

8. Which qualitative characteristic of useful information is materiality an aspect of?
- faithful representation
  - comparability
  - relevance
  - timeliness

ANS: C                      PTS: 1                      DIF: Moderate                      REF: page 56  
OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP  
BLM: Understand

9. What is a simple, orderly process based on a series of steps and conventions used to record economic events called?
- financial statements
  - posting
  - general ledger
  - accounting cycle

ANS: D                      PTS: 1                      DIF: Easy                      REF: page 56  
OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP  
BLM: Remember

10. Which of the following characteristics must exist for accounting information to be useful in making informed decisions?
- internal and relevant
  - relevant and precise
  - precise and reliable
  - relevant and reliable

ANS: D                      PTS: 1                      DIF: Easy                      REF: page 56  
OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP  
BLM: Remember

11. What is the term for information if its omission or misstatement can influence a decision?
- conservative
  - material
  - relevant
  - comparable

ANS: B                      PTS: 1                      DIF: Moderate                      REF: page 56  
OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP  
BLM: Remember

12. Which of the following is the principle of conservatism concerned with?
- the avoidance of overstating assets or income in the preparation of financial statements
  - the minimization of costs associated with providing financial information
  - the company's ability to carry out its existing commitments
  - the company's procedures for recording activities at their initial exchange price

ANS: A                      PTS: 1                      DIF: Easy                      REF: page 56  
OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP  
BLM: Remember

13. Which of the following is a characteristic of the going-concern assumption?
- the company's ability to continue operations long enough to carry out its existing obligations
  - any information that is capable of influencing the decisions of anyone using the financial statements
  - measuring ongoing business activities at their exchange price at the time of the initial external transaction
  - offsetting management's natural optimism by providing a prudent approach to uncertainty in financial statement items

ANS: A                      PTS: 1                      DIF: Moderate                      REF: page 58  
OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP  
BLM: Understand

14. Which of the following statements is NOT characteristic of the qualitative characteristics of useful accounting information?
- Comparability is concerned with different companies using the same accounting methods.
  - Trade-offs are often necessary in evaluating relevant versus reliable information.
  - All external and internal events must be fully disclosed in the accounting system.
  - The full disclosure policy should be followed in all situations that would make a difference to financial statement users.

ANS: C                      PTS: 1                      DIF: Moderate                      REF: page 56  
OBJ: 2-1  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP  
BLM: Understand

15. Which of the following is an internal event?
- Caddie salaries are paid by a country club.
  - Dividends are distributed to a company's shareholders.
  - Potatoes for making French fries in a fast-food restaurant are purchased.
  - Products are transferred from the assembly area to the painting station.

ANS: D                      PTS: 1                      DIF: Moderate                      REF: page 61  
OBJ: 2-2  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions  
BLM: Understand

16. Which of the following is NOT an external event?
- A grocery store recognizes losses from spoilage.
  - A grocery store runs ads in a local newspaper.
  - A grocery store purchases produce from a local farmer.
  - A grocery store sells groceries to customers on credit.

ANS: A                      PTS: 1                      DIF: Moderate                      REF: page 61

OBJ: 2-2

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Understand

17. Which of the following is an internal event for a business entity?
- An attorney provides services for clients.
  - An attorney purchases computer equipment.
  - A lawyer uses computer equipment to maintain business records.
  - An attorney receives cash payments from clients who were billed for legal services.

ANS: C                      PTS: 1                      DIF: Moderate                      REF: page 61

OBJ: 2-2

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Understand

18. Which of the following statements is characteristic of transactions?
- Only the effects of internal transactions must be recognized and recorded in the accounting system.
  - An internal transaction represents a business activity between an entity and its environment.
  - Evidence used to record transactions affecting a business entity comes from source documents.
  - Only the effects of external events must be recognized, measured, and recorded in an entity's accounting system.

ANS: C                      PTS: 1                      DIF: Moderate                      REF: page 61

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Understand

19. Which of the following statements is NOT characteristic of the use of source documents?
- Cheques and deposit slips are the main source documents backing up the bank statement.
  - Retailers may use cash register tapes to recognize sales transactions.
  - Share certificates provide evidence of being a creditor of the company.
  - Time cards may be used as a source of information to record wages.

ANS: C                      PTS: 1                      DIF: Moderate                      REF: page 63

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Understand

20. What effect does the purchase of office equipment on credit have on the accounting equation?
- Assets and shareholders' equity decrease.
  - Liabilities increase and shareholders' equity decreases.
  - Assets and liabilities increase.
  - Assets and liabilities decrease.

ANS: C                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

21. What effect does the payment of employee salaries have on the accounting equation?
- Assets and shareholders' equity decrease.
  - Liabilities and shareholders' equity decrease.
  - Assets decrease and liabilities increase.
  - Assets increase and liabilities decrease.

ANS: A                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

22. During March, Honeybaked Spam purchased supplies for cash. The supplies will be used in April. What effect does this transaction have on the accounting equation at the time the supplies are purchased?
- Assets increase and shareholders' equity decrease.
  - Assets and liabilities increase.
  - There is no effect on the accounting equation, as one asset account increases while another asset account decreases.
  - There is no effect on the accounting equation, as the transaction should not be recognized until April.

ANS: C                      PTS: 1                      DIF: Moderate                      REF: CS2-1

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

23. High Point Furniture Company manufactures furniture. The company has applied for a sizeable loan to expand its operations. Based on the company's annual report, the loan officer concludes that High Point is very profitable and has a strong financial position. However, watching the nightly news on television that evening, the banker discovers that High Point is a defendant in a class action lawsuit related to defective products. It is being alleged that serious injuries were caused by the company's infant high chairs overturning. What kind of financial information is the television news report an example of?
- predictable
  - conservative
  - relevant
  - comparable

ANS: C                      PTS: 1                      DIF: Challenging                      REF: page 57

OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

BLM: Understand

24. An investor can use accounting information from two different companies to evaluate the types and amounts of expenses. What quality does this information possess?
- comparability
  - consistency
  - neutrality
  - materiality

ANS: A                      PTS: 1                      DIF: Moderate                      REF: page 57

OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

BLM: Understand

25. Hunsinger Enterprises purchases many small pieces of office furniture, such as trash cans, that cost less than \$100 each. The company accounts for these items as expenses when acquired instead of reporting them as property, plant, and equipment on its balance sheet. The company's accountant states that no accounting principle has been violated. What accounting constraint is the justification for expensing these furniture items, aside from cost vs. benefit considerations?
- conservatism
  - materiality
  - neutrality
  - verifiability

ANS: B                      PTS: 1                      DIF: Moderate                      REF: page 57

OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

BLM: Understand

26. A company follows the qualitative characteristic of consistency. Which of the following is this evident in?
- For expenses, the company uses the same account names as used by its competitors.
  - The company has elected certain accounting principles that can never be changed.
  - The company applies the same accounting principles each period.
  - The company applies the same accounting principles as its competitors.

ANS: C                      PTS: 1                      DIF: Easy                      REF: page 57

OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

BLM: Understand

27. What is the impact of material information in accounting?
- It will likely affect the judgment of someone relying on the financial statements.
  - It will not affect the decisions of financial statement users.
  - It will not impact a business decision of a creditor.
  - It will result in the overstatement of assets or income.

ANS: A                      PTS: 1                      DIF: Moderate                      REF: page 57

OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

BLM: Understand

28. An accountant is uncertain about the best estimate of an amount for a business transaction. When there are two possible amounts that could be recorded, the amount least likely to overstate assets and earnings is selected. Which of the following qualities is characterized by this action?
- comparability
  - conservatism
  - materiality
  - neutrality

ANS: B                      PTS: 1                      DIF: Moderate                      REF: page 57

OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

BLM: Understand

29. Which of the following is a qualitative characteristic of accounting information?
- reliability
  - cash flow information
  - accounting principles
  - reported assets

ANS: A                      PTS: 1                      DIF: Easy                      REF: page 57

OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

BLM: Understand

30. A novelties company makes cash sales to customers. What effect does this transaction have on the accounting equation?
- Liabilities and retained earnings increase.
  - Assets and liabilities increase.
  - Assets and retained earnings increase.
  - Assets and liabilities decrease.

ANS: C                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

31. Two friends launch a new business by investing \$25,000 each. They are given shares as evidence of their ownership interest. What effect does this transaction have on the accounting equation?
- Assets and liabilities increase.
  - Assets and contributed capital increase.
  - Liabilities increase and retained earnings decrease.
  - Assets and liabilities decrease.

ANS: B                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

32. Machinery is purchased on credit. What effect does this transaction have on the accounting equation?
- Assets and liabilities increase.
  - Assets and shareholders' equity increase.
  - Liabilities increase and shareholders' equity decreases.
  - Assets and liabilities decrease.

ANS: A                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

33. A company provided services to customers and then sent them invoices for the amounts owed. What effect does this transaction have on the accounting equation?
- Assets and liabilities increase.
  - Assets and retained earnings increase.
  - Liabilities decrease and contributed capital increases.
  - Assets and liabilities decrease.

ANS: B                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

34. Hypnosis Institute received payments from customers who had been billed earlier for services provided. What effect does this transaction have on the accounting equation?
- Assets and liabilities increase.
  - Assets and shareholders' equity increase.
  - Assets and liabilities decrease.
  - There is no effect on the accounting equation.

ANS: D                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

35. Payment is made for machinery purchased previously on credit. What effect does this transaction have on the accounting equation?
- Assets and liabilities increase.
  - Assets and contributed capital increase.
  - Liabilities decrease and retained earnings increase.
  - Assets and liabilities decrease.

ANS: D                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

36. The telephone bill for the current period is received and recorded, but payment will be made later. What effect does this transaction have on the accounting equation?
- Assets and liabilities increase.
  - Assets and contributed capital increase.
  - Liabilities increase and retained earnings decrease.
  - Assets and liabilities decrease.

ANS: C                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

37. Payment is made for the previously recorded telephone bill. What effect does this transaction have on the accounting equation?
- Assets and liabilities increase.
  - Assets and retained earnings increase.
  - Liabilities increase and contributed decreases.
  - Assets and liabilities decrease.

ANS: D                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

38. Services are provided for customers who pay for their services immediately. What effect does this transaction have on the accounting equation?
- Assets and liabilities increase.
  - Assets and retained earnings increase.
  - Liabilities increase and retained earnings decreases.
  - Assets and liabilities decrease.

ANS: B                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

39. Dividends are declared and paid to the company's shareholders. What effect does this transaction have on the company's accounting equation?
- Assets and liabilities decrease.
  - Assets and retained earnings decrease.
  - Liabilities decrease and retained earnings increase.
  - Liabilities increase and contributed capital decreases.

ANS: B                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

40. When a firm borrows money, what is one effect on the accounting equation?
- decrease in contributed capital
  - increase in assets
  - decrease in liabilities
  - decrease in assets

ANS: B                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

41. Which of the following statements best describes the effects of recognizing revenue earned by a business entity?
- Assets increase only when cash sales are collected.
  - Shareholders' equity increases only when credit sales are made.
  - Assets and shareholders' equity increase when either cash or credit sales are made.
  - Assets increase and shareholders' equity decrease when either cash or credit sales are made.

ANS: C                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Understand

42. When a firm recognizes expenses incurred, what is one effect on the balance sheet equation?
- Assets will increase
  - Liabilities will decrease.
  - Contributed capital will increase.
  - Retained earnings will decrease.

ANS: D                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Understand

43. What effect do revenues and expenses have on the balance sheet equation?
- Revenues decrease shareholders' equity.
  - Expenses increase shareholders' equity.
  - Expenses decrease shareholders' equity.
  - Dividends decrease assets.

ANS: C                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Understand

44. Which of the following transactions does NOT affect total assets?
- A bill is received for last month's utilities.
  - Dividends are paid to shareholders.
  - Customers are billed for services provided on credit.
  - New equipment is purchased on credit.

ANS: A                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

45. Which of the following transactions affects total liabilities?
- Equipment is purchased for cash.
  - Services are provided to a customer for credit.
  - Payment is made on a bank loan.
  - Common shares are issued.

ANS: C                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

46. A company purchased equipment for \$150,000 cash. What is the effect on total assets?
- an increase
  - a decrease
  - no net effect
  - not determinable from this information

ANS: C                      PTS: 1                      DIF: Moderate                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

47. A consulting firm provided services last month and billed its client. This month, the company received payment from the customer. What impact does this month's transaction have on the firm's working capital?
- an increase
  - a decrease
  - no net effect
  - not determinable from this information

ANS: C                      PTS: 1                      DIF: Challenging                      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

48. A company's current ratio is 2.00. If the company makes a payment on account, what is the effect on the current ratio?
- an increase
  - a decrease
  - no change
  - not determinable from this information

ANS: A                      PTS: 1                      DIF: Challenging      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

49. A company's current ratio is 1.5. What is the effect of obtaining land by issuing shares?
- an increase
  - a decrease
  - no change
  - not determinable from this information

ANS: C                      PTS: 1                      DIF: Challenging      REF: page 62-69

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Analyze

50. What is the term for the list of all asset, liability, shareholders' equity, revenue, expense, and dividend accounts used by the company?
- general ledger
  - general journal
  - chart of accounts
  - trial balance

ANS: C                      PTS: 1                      DIF: Easy                      REF: page 70

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Remember

51. What is the two-column record used to accumulate monetary increases and decreases for individual assets, liabilities, shareholders' equity, revenue, expenses, and dividends items?
- chart of accounts
  - T-account
  - trial balance
  - posting

ANS: B                      PTS: 1                      DIF: Easy                      REF: page 70

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Remember

52. What is the chronological record in which transactions are initially recorded in the order they occur?
- T-account
  - chart of accounts
  - trial balance
  - journal

ANS: D                      PTS: 1                      DIF: Easy                      REF: page 75  
OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions  
BLM: Remember

53. What is a list of all active accounts and their balances at a particular date, which is used to prove the equality of debits and credits?
- chart of accounts
  - general ledger
  - journal
  - trial balance

ANS: D                      PTS: 1                      DIF: Easy                      REF: page 81  
OBJ: 2-7

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions  
BLM: Remember

54. What is the process of transferring amounts from the book of original entry into specific account records?
- journalizing
  - posting
  - analyzing
  - classifying

ANS: B                      PTS: 1                      DIF: Easy                      REF: page 79-80  
OBJ: 2-6

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions  
BLM: Remember

55. What is the correct term for the entry made on the left side of a T-account?
- debit
  - credit
  - post
  - journal item

ANS: A                      PTS: 1                      DIF: Easy                      REF: page 70  
OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions  
BLM: Remember

56. What is the process of recording business events in a book of original entry?
- analyzing
  - journalizing
  - posting
  - classifying

ANS: B                   PTS: 1                   DIF: Easy                   REF: page 75  
OBJ: 2-6

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions  
BLM: Remember

57. What is the system of accounting in which at least two accounts are affected in every transaction so that the accounting equation stays in balance?
- debit scoring
  - credit scoring
  - double-entry bookkeeping
  - full disclosure accounting

ANS: C                   PTS: 1                   DIF: Easy                   REF: page 75  
OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions  
BLM: Remember

58. Which of the following signifies a credit?
- The event had a favourable impact on the entity's financial statements.
  - The event had an unfavourable impact on the entity's financial statements.
  - The event had an effect on the right side of the T-account.
  - The event increased the account balance.

ANS: C                   PTS: 1                   DIF: Easy                   REF: page 70  
OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions  
BLM: Remember

59. When the amount for an entry on the left column in a journal is transferred to a specific account in the general ledger, which of the following must it be posted as?
- debit to the account in the general ledger
  - credit to the account in the general ledger
  - total amount, without regard to debit or credit
  - decrease to the account in the general ledger

ANS: A                   PTS: 1                   DIF: Easy                   REF: page 70  
OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions  
BLM: Remember

60. What is an entry made to the right side of an account called?
- debit
  - credit
  - increase
  - decrease

ANS: B                      PTS: 1                      DIF: Easy                      REF: page 70

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Remember

61. What is an abbreviated version of an account, useful for analyzing the effects of business events, called?
- chart of accounts
  - T-account
  - journal
  - double-entry sheet

ANS: B                      PTS: 1                      DIF: Easy                      REF: page 70

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Remember

62. Which of the following are debit entries used for?
- to increase asset accounts
  - to increase revenue accounts
  - to increase liability accounts
  - to increase shareholders' equity

ANS: A                      PTS: 1                      DIF: Easy                      REF: page 74

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Understand

63. Which of the following are credit entries used for?
- to increase asset accounts
  - to increase liability accounts
  - to increase expense accounts
  - to increase dividends

ANS: B                      PTS: 1                      DIF: Easy                      REF: page 74

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Understand

64. Which of the following accounts is decreased by a debit entry?
- unearned revenue
  - prepaid insurance
  - cash
  - insurance expense

ANS: A                      PTS: 1                      DIF: Easy                      REF: page 74

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Understand

65. Which of the following accounts is increased by a debit entry?
- cash
  - loan payable
  - accounts payable
  - revenue

ANS: A                      PTS: 1                      DIF: Easy                      REF: page 74

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Understand

66. Which of the following accounts is increased by a debit entry?
- common shares
  - equipment
  - notes payable
  - service revenue

ANS: B                      PTS: 1                      DIF: Easy                      REF: page 74

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Understand

67. Which of the following accounts is increased by a credit entry?
- cash
  - dividends
  - common shares
  - salary expense

ANS: C                      PTS: 1                      DIF: Easy                      REF: page 74

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Understand

68. Which of the following accounts does NOT have a normal debit balance?
- accounts receivable
  - dividends
  - supplies expense
  - service revenue

ANS: D                      PTS: 1                      DIF: Easy                      REF: page 74  
OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions  
BLM: Remember

69. Which of the following accounts does NOT have a normal credit balance?
- accounts payable
  - unearned revenue
  - common shares
  - inventory

ANS: D                      PTS: 1                      DIF: Easy                      REF: page 74  
OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions  
BLM: Remember

70. What two accounts have the same rules for debit and credit entries?
- common shares and accounts payable
  - salary expense and retained earnings
  - cash and notes payable
  - sales revenue and accounts receivable

ANS: A                      PTS: 1                      DIF: Moderate                      REF: page 74  
OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions  
BLM: Understand

71. What two accounts have the same rules for debit and credit entries?
- service revenue and rent expense
  - dividends and retained earnings
  - equipment and salary expense
  - accounts receivable and accounts payable

ANS: C                      PTS: 1                      DIF: Moderate                      REF: page 74  
OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions  
BLM: Understand

**Happy Heights Country Club**

Selected accounts at July 31 are provided below:

<b>CASH</b>		<b>UNEARNED LESSON REVENUE</b>	
7/1 bal.	12,000		7/3 1,000
7/3	1,000		
7/5	3,600		
7/7	1,800		
<b>ACCOUNTS RECEIVABLE</b>		<b>MEMBERSHIP REVENUE</b>	
7/2	3,600	7/7	1,800
			7/2 3,600
			7/5 3,600

72. Refer to the figure Happy Heights Country Club. When did the country club sell a club membership on account?
- July 2
  - July 3
  - July 5
  - July 7

ANS: A                      PTS: 1                      DIF: Challenging    REF: page 74-79  
 OBJ: 2-4  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions  
 BLM: Evaluate

73. Refer to the figure Happy Heights Country Club. When did the country club sell a club membership for cash?
- July 2
  - July 3
  - July 5
  - July 7

ANS: C                      PTS: 1                      DIF: Challenging    REF: page 74-79  
 OBJ: 2-4  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions  
 BLM: Evaluate

74. Refer to the figure Happy Heights Country Club. When did the country club collect golf lessons revenue in advance?
- July 2
  - July 3
  - July 5
  - July 7

ANS: B                      PTS: 1                      DIF: Challenging    REF: page 74-79  
 OBJ: 2-4 | 2-5  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions  
 BLM: Evaluate

75. Refer to the figure Happy Heights Country Club. Which of the following describes the transactions that occurred on July 7?
- sold club membership on credit
  - collected revenue in advance
  - collected accounts receivable
  - sold club membership for cash

ANS: C                      PTS: 1                      DIF: Challenging    REF: page 74-79  
OBJ: 2-4 | 2-5  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions  
BLM: Evaluate

76. Refer to the figure Happy Heights Country Club. Assuming that there are no other transactions, how much was owed to the country club by its members at the end of the month?
- \$1,000
  - \$1,800
  - \$3,600
  - \$7,200

ANS: B  
Accounts receivable balance is  $\$3,600 - \$1,800 = \$1,800$

PTS: 1                      DIF: Challenging    REF: page 74-79    OBJ: 2-6 | 2-7  
NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions  
BLM: Evaluate

### **HVAC Service**

The following transactions occurred during November:

- |         |  |
|---------|--|
| Nov. 1  | The company sent bills to clients for services provided in August in the amount of \$12,000.   |
| Nov. 9  | The company purchased office equipment of \$4,000 and office supplies of \$150 from Office Depot, receiving an invoice for \$4,150. None of the office supplies were used during November. |
| Nov. 15 | The company paid for the office furniture and supplies purchased from Office Depot.  |
| Nov. 23 | The company received a \$350 bill from CKRP Radio for advertising. The bill will be paid next month.   |
| Nov. 30 | The company paid salaries of \$2,500 to employees.   |

77. Refer to the figure HVAC Service. The journal entry to record the bills sent to clients will include a debit of \$12,000. What account will be debited?
- service revenue
  - cash
  - accounts receivable
  - retained earnings

ANS: C                      PTS: 1                      DIF: Moderate                      REF: page 74-79

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Evaluate

78. Refer to the figure HVAC Service. The journal entry to record the purchase of office equipment and supplies will include a credit. What account will be credited?
- furniture and supplies
  - cash
  - accounts payable
  - delivery expense

ANS: C                      PTS: 1                      DIF: Moderate                      REF: page 74-79

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Evaluate

79. Refer to the figure HVAC Service. The journal entry to record payment for the office equipment and supplies will include a debit. What account will be debited?
- salary expense
  - salaries payable
  - prepaid expenses
  - accounts payable

ANS: D                      PTS: 1                      DIF: Moderate                      REF: page 74-79

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Evaluate

80. Refer to the figure HVAC Service. The journal entry to record the bill received from CKRP Radio will include a debit. What account will be debited?
- accounts receivable
  - cash
  - advertising expense
  - advertising payable

ANS: C                      PTS: 1                      DIF: Moderate                      REF: page 74-79

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Evaluate

81. Refer to the figure HVAC Service. The journal entry to record payment of the salaries will include a credit. What account will be credited?
- salary expense
  - salary payable
  - prepaid salaries
  - cash

ANS: D                      PTS: 1                      DIF: Moderate                      REF: page 74-79

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Evaluate

82. Refer to the figure HVAC Service. Based on these transactions, what is the total amount of expense that should be reported on the company's income statement for the month?
- \$350
  - \$2,500
  - \$2,850
  - \$3,000

ANS: C

$\$350$  (Advertising expense) +  $\$2,500$  (Salary expense) =  $\$2,850$

PTS: 1                      DIF: Moderate                      REF: CS2-4                      OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Evaluate

### **Hesson Properties, Inc.**

The following transactions occurred during June:

- |         |   |
|---------|---|
| June 1  | The company purchased two new maintenance carts on account at \$750 each. Payment is due in 30 days.  |
| June 8  | The company accepted \$500 of advance payments from customers for services to be provided next month. |
| June 15 | The company received the utility bill for \$300. Payment is due in 30 days.                           |
| June 20 | The company billed customers \$1,500 for services provided. Payment is due in 30 days.                |
| June 30 | The company received \$500 from customers who were billed earlier.                                    |

83. Refer to the figure Hesson Properties, Inc. Which journal entry is required to record the purchase of the carts?
- |                     |       |       |
|---------------------|-------|-------|
| a. Equipment        | 1,500 |       |
| Accounts payable    |       | 1,500 |
| b. Equipment        | 1,500 |       |
| Cash                |       | 1,500 |
| c. Cash             | 1,500 |       |
| Equipment           |       | 1,500 |
| d. Accounts payable | 1,500 |       |
| Equipment           |       | 1,500 |

ANS: A                    PTS: 1                    DIF: Moderate            REF: page 74-79

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Evaluate

84. Refer to the figure Hesson Properties, Inc. Which journal entry is required to record the cash collected in advance?

a. Cash	500	
Service revenue		500
b. Accounts receivable	500	
Service revenue		500
c. Cash	500	
Unearned revenue		500
d. Unearned Revenue	500	
Accounts receivable		500

ANS: C                    PTS: 1                    DIF: Moderate            REF: page 74-79

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Evaluate

85. Refer to the figure Hesson Properties, Inc. Which journal entry is required to record the utility bill?

a. Utilities expense	300	
Cash		300
b. Accounts receivable	300	
Utilities expense		300
c. Utilities expense	300	
Accounts payable		300
d. Cash	300	
Utilities expense		300

ANS: C                    PTS: 1                    DIF: Moderate            REF: page 74-79

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Evaluate

86. Refer to the figure Hesson Properties, Inc. Which journal entry is required to record the services provided to customers?

a. Cash	1,500	
Accounts receivable		1,500
b. Accounts receivable	1,500	
Service revenue		1,500
c. Service revenue	1,500	
Cash		1,500
d. Service revenue	1,500	
Accounts payable		1,500

ANS: B                    PTS: 1                    DIF: Moderate            REF: page 74-79

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Evaluate

87. Refer to the figure Hesson Properties, Inc. Which journal entry is required to record the collections on account from customers?
- |                        |     |     |
|------------------------|-----|-----|
| a. Cash                | 500 |     |
| Accounts receivable    |     | 500 |
| b. Accounts receivable | 500 |     |
| Service revenue        |     | 500 |
| c. Accounts payable    | 500 |     |
| Cash                   |     | 500 |
| d. Service revenue     | 500 |     |
| Cash                   |     | 500 |

ANS: A                      PTS: 1                      DIF: Moderate                      REF: page 74-79

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Evaluate

88. Refer to the figure Hesson Properties, Inc. How much is still owed to the company by its customers at the end of the month?
- \$0
  - \$500
  - \$1,000
  - \$1,500

ANS: C

$\$1,500 - \$500 = \$1,000$

PTS: 1                      DIF: Moderate                      REF: page 74-79                      OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Evaluate

89. Which type of account is increased with a debit but represents a decrease in retained earnings?
- liability
  - asset
  - revenue
  - dividends

ANS: D                      PTS: 1                      DIF: Moderate                      REF: page 74-79

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

BLM: Understand

90. Which of the following statements is characteristic of the accounting cycle?
- If a debit entry is made to an account in the general journal, the same account will receive a credit entry when the amount is posted to the general ledger.
  - If all transactions are correctly posted to the general ledger, the sum of the accounts with debit balances should be equal to the sum of the accounts with credit balances.
  - Posting occurs when numbers in the general ledger accounts are transferred to the general journal.
  - If the sum of the debit balances equals the sum of the credit balances, this proves there were no mistakes made in the posting process.

ANS: B                      PTS: 1                      DIF: Moderate                      REF: page 61

OBJ: 2-7

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle  
BLM: Understand

91. Which of the following statements is characteristic of the accounting cycle?
- An entry in a general ledger account can be traced to the trial balance by referring to the page listed in the posting reference column of that ledger account.
  - The posting of an amount recorded in the general ledger can be verified by referring to the account number listed in the posting reference column on that line in the general journal.
  - Business transactions are recorded first in the general ledger; then that information is transferred to the general journal.
  - No explanation is needed for each entry in the general ledger.

ANS: B                      PTS: 1                      DIF: Moderate                      REF: page 61  
OBJ: 2-6

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle  
BLM: Understand

92. Which of the following describes a trial balance?
- an optional financial statement used only by creditors
  - a tool used to prove the equality of debits and credits in the general ledger
  - a list of accounts and their balances taken from the chart of accounts
  - a financial statement that can be used in place of a balance sheet

ANS: B                      PTS: 1                      DIF: Easy                      REF: page 81  
OBJ: 2-7

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle  
BLM: Remember

93. In trial balance, if the sum of the debits is NOT equal to the sum of the credits, what does this signify?
- There is no concern, because the two amounts are not meant to be equal.
  - The chart of accounts does not balance.
  - It is safe to proceed with the preparation of financial statements.
  - An error was probably made in journalizing or posting transactions or in computing the account balance.

ANS: D                      PTS: 1                      DIF: Easy                      REF: page 81  
OBJ: 2-7

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle  
BLM: Understand

94. Which of the following will NOT cause a trial balance to be out of balance?
- The balance for the account is incorrectly computed.
  - A debit entry is posted as a credit.
  - A credit entry is posted to the wrong account, but still as a credit.
  - An account is accidentally omitted from the trial balance.

ANS: C                      PTS: 1                      DIF: Moderate                      REF: page 81  
OBJ: 2-7

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle  
BLM: Understand

**PROBLEM**

- Listed below are selected accounts. In the blank spaces provided for each account, indicate what type of account it is, its normal balance, and the debit/credit rules for increasing and decreasing it. Use the following abbreviations for your answer:

<b><u>Type of Account</u></b>	<b><u>Normal Account Balance</u></b>	<b><u>Rules to Increase or Decrease the Account</u></b>
A = Asset	Dr = Debit	Dr = Debit
L = Liability	Cr = Credit	Cr = Credit
SE = Shareholders' Equity		
R = Revenue		
E = Expense		
D = Dividend		

	<b><u>Type of Account</u></b>	<b><u>Normal Balance</u></b>	<b><u>Rule to Increase</u></b>	<b><u>Rule to Decrease</u></b>
Example: Cash	A	Dr	Dr	Cr
a. Accounts Payable	_____	_____	_____	_____
b. Retained Earnings	_____	_____	_____	_____
c. Prepaid Insurance	_____	_____	_____	_____
d. Service Revenues	_____	_____	_____	_____
e. Notes Payable	_____	_____	_____	_____
f. Intangibles	_____	_____	_____	_____
g. Common Shares	_____	_____	_____	_____
h. Salary Expense	_____	_____	_____	_____
i. Accounts Receivable	_____	_____	_____	_____
j. Unearned Revenues	_____	_____	_____	_____

ANS:

	<b><u>Type of Account</u></b>	<b><u>Normal Balance</u></b>	<b><u>Rule to Increase</u></b>	<b><u>Rule to Decrease</u></b>
Example: Cash	A	Dr	Dr	Cr
a. Accounts Payable	L	Cr	Cr	Dr
b. Retained Earnings	SE	Cr	Cr	Dr
c. Prepaid Insurance	A	Dr	Dr	Cr
d. Service Revenues	R	Cr	Cr	Dr
e. Notes Payable	L	Cr	Cr	Dr
f. Intangibles	A	Dr	Dr	Cr
g. Common Shares	SE	Cr	Cr	Dr
h. Salary Expense	E	Dr	Dr	Cr
i. Accounts Receivable	A	Dr	Dr	Cr
j. Unearned Revenues	L	Cr	Cr	Dr

PTS: 1

DIF: Easy

REF: CS2-1 | CS2-2 | CS2-3

OBJ: 2-3 | 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

2. Presented below are accounts from the general ledger:

- |     | <u>Account</u>      |
|-----|---------------------|
| 1.  | Cash                |
| 2.  | Accounts Receivable |
| 3.  | Prepaid Insurance   |
| 4.  | Accounts Payable    |
| 5.  | Common Shares       |
| 6.  | Service Revenues    |
| 7.  | Advertising Expense |
| 8.  | Salary Expense      |
| 9.  | Interest Expense    |
| 10. | Income Tax Expense  |

Each of the accounts has been assigned an identification number, which you will use as answers for the transactions described below. Enter the account numbers in the blank spaces under the headings **Debit** and **Credit** to indicate the accounts debited and credited when each transaction is recorded in a general journal.

	<u>Debit</u>	<u>Credit</u>
A) issues common shares for cash	_____	_____
B) receives a bill for advertisements run on a local radio station; payment is due in 30 days	_____	_____
C) pays interest due on a notes payable	_____	_____
D) provides services to a customer and agrees to accept payment in 30 days	_____	_____

ANS:

	<u>Debit</u>	<u>Credit</u>
A) issues common shares to for cash	1	5
B) receives a bill for advertisements run on a local radio station; payment is due in 30 days	7	4
C) pays interest due on a notes payable	9	1
D) provides services to a customer and agrees to accept payment in 30 days	2	6

PTS: 1                      DIF: Easy                      REF: CS2-4                      OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

3. Heart & Hands Clinic began business as a corporation in Year 1. Several transactions that occurred early in Year 1 are described below. Record each transaction in proper journal form, excluding written explanations.
- A) Jan. 23, Year 1 Shareholders invested \$70,000 in the business and received common shares as evidence of ownership.
- B) Feb. 1, Year 1 Rent of \$1,600 was paid for the month of February.
- C) Feb. 7, Year 1 Equipment with a cost of \$3,000 was purchased on credit; payment is due in 30 days.
- D) Feb. 14, Year 1 Fees totaling \$5,400 were billed to patients; \$2,900 was collected immediately and the balance of \$2,500 is due within 30 days.
- E) Feb. 18, Year 1 Full payment was made for the equipment purchased on Feb. 7th.
- F) Feb. 22, Year 1 Fees in the amount of \$1,900 were collected from patients with balances due from Feb. 14th.
- G) Feb. 28, Year 1 Employee salaries of \$3,300 were paid.

ANS:

	<u>Date</u>	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
A)	Jan. 23, Year 1	Cash	70,000	
		Common Shares		70,000
B)	Feb. 1, Year 1	Rent Expense	1,600	
		Cash		1,600
C)	Feb. 7, Year 1	Equipment	3,000	
		Accounts Payable		3,000
D)	Feb. 14, Year 1	Cash	2,900	
		Accounts Receivable	2,500	
		Service Revenue		5,400
E)	Feb. 18, Year 1	Accounts Payable	3,000	
		Cash		3,000
F)	Feb. 22, Year 1	Cash	1,900	
		Accounts Receivable		1,900
G)	Feb. 28, Year 1	Salary Expense	3,300	
		Cash		3,300

PTS: 1                    DIF: Easy                    REF: CS2-4                    OBJ: 2-5  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle

4. Described below are several transactions that might be recorded by a music supply company. Several accounts from the company's chart of accounts are also listed below. Using these account titles, record each transaction in proper journal entry format. A written explanation for each journal entry is not required.

**Accounts:**

Cash	Common Shares
Accounts Receivable	Retained Earnings
Inventory	Sales Revenue
Accounts Payable	Selling Expenses
Unearned Revenue	Administrative Expenses

- A) Bills are mailed for musical instruments sold to customers: \$225,000
- B) Customers pay for musical instruments in advance: \$130,000
- C) Administrative employees are paid their monthly salaries: \$14,000
- D) An invoice is received for \$15,200 of new musical instruments purchased for sale to customers: payment is due in 30 days
- E) Payments are received from customers for amounts billed in a previous transaction: \$135,000
- F) Full payment is made for the musical instruments invoice received in a previous transaction

ANS:

	<b><u>Account</u></b>	<b><u>Debit</u></b>	<b><u>Credit</u></b>
A)	Accounts Receivable	225,000	
	Sales Revenue		225,000
B)	Cash	130,000	
	Unearned Revenue		130,000
C)	Administrative Expenses	14,000	
	Cash		14,000
D)	Inventory	15,200	
	Accounts Payable		15,200
E)	Cash	135,000	
	Accounts Receivable		135,000
F)	Accounts Payable	15,200	
	Cash		15,200

5. Several transactions are listed below, with the accounting equation stated to the right side of each. Use the following identification codes to indicate the effects of each transaction on the accounting equation: I = Increase; D = Decrease; NE = No Effect. Write your answers in the space provided under the accounting equation, being sure to include an identification code for each element of the accounting equation. An example is provided before the first transaction.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
Example: Common shares are issued to investors in the company	I		NE		I
A) Services are sold for cash.	_____		_____		_____
B) Equipment is purchased on credit.	_____		_____		_____
C) Payment is made for equipment purchased on credit.	_____		_____		_____
D) Services are sold for credit.	_____		_____		_____
E) Cash is collected from customers for accounts receivable balances.	_____		_____		_____
F) Dividends are paid to shareholders.	_____		_____		_____
G) Land and building are acquired in exchange for common shares.	_____		_____		_____
H) Utility bill is received and recorded; it will be paid later.	_____		_____		_____

ANS:

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
Example: Common shares are issued to investors in the company	I		NE		I
A) Services are sold for cash.	I		NE		I
B) Equipment is purchased on credit.	I		I		NE
C) Payment is made for equipment purchased on credit.	D		D		NE
D) Services are sold for credit.	I		NE		I
E) Cash is collected from customers for accounts receivable balances.	NE		NE		NE
F) Dividends are paid to shareholders.	D		NE		D
G) Land and building are acquired in exchange for common shares.	I		NE		I
H) Utility bill is received and recorded; it will be paid later.	NE		I		D

PTS: 1      DIF: Moderate      REF: CS2-1      OBJ: 2-3  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

6. Several transactions are listed below, with an expanded accounting equation stated to the right side of each. Use the following identification codes to indicate the effects of each transaction on the accounting equation: I = Increase; D = Decrease; NE = No Effect. Write your answers in the space provided under the accounting equation, being sure to include an identification code for each element of the accounting equation.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Contributed Capital</u>	+	<u>Retained Earnings</u>
A) issue common shares	_____		_____		_____		_____
B) borrow money from the bank	_____		_____		_____		_____
C) purchase land for cash	_____		_____		_____		_____
D) purchase a one-year insurance policy	_____		_____		_____		_____
E) purchase supplies on credit	_____		_____		_____		_____
F) provide services for cash	_____		_____		_____		_____
G) receive cash in advance for services to be provided next week	_____		_____		_____		_____
H) pay utilities	_____		_____		_____		_____
I) pay employee salaries	_____		_____		_____		_____

ANS:

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Contributed Capital</u>	+	<u>Retained Earnings</u>
A) issue common shares	I		NE		I		NE
B) borrow money from the bank	I		I		NE		NE
C) purchase land for cash	NE		NE		NE		NE
D) purchase a one-year insurance policy	NE		NE		NE		NE
E) purchase supplies on credit	I		I		NE		NE
F) provide services for cash.	I		NE		NE		I
G) receive cash in advance for services to be provided next week.	I		I		NE		NE
H) pay utilities	D		NE		NE		D
I) pay employee salaries	D		NE		NE		D

PTS: 1

DIF: Moderate

REF: CS2-1

OBJ: 2-3

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

7. Several accounts from the financial statements of Hotlanta Promotions, Inc. are listed below. In the two columns provided for answers, indicate the type of account and the normal account balance. Use the following identification codes for your answers:

<p><b><u>Type of Account</u></b>                  A = Asset                  L = Liability                  SE = Shareholders Equity                  R = Revenue                  E = Expense</p>	<p><b><u>Normal Balance</u></b>                  Dr = Debit                  Cr = Credit</p>
--	--

		<b><u>Type of Account</u></b>	<b><u>Normal Balance</u></b>
A)	Prepaid Rent	_____	_____
B)	Television Equipment	_____	_____
C)	Unearned Revenue	_____	_____
D)	Service Revenue	_____	_____
E)	Common Shares	_____	_____
F)	Accounts Payable	_____	_____
G)	Income Tax Expense	_____	_____
H)	Interest Income	_____	_____
I)	Salary Expense	_____	_____
J)	Notes Payable	_____	_____

ANS:

		<b><u>Type of Account</u></b>	<b><u>Normal Balance</u></b>
A)	Prepaid Rent	A	Dr
B)	Television Equipment	A	Dr
C)	Unearned Revenue	L	Cr
D)	Service Revenue	R	Cr
E)	Common Shares	SE	Cr
F)	Accounts Payable	L	Cr
G)	Income Tax Expense	E	Dr
H)	Interest Income	R	Cr
I)	Salary Expense	E	Dr
J)	Notes Payable	L	Cr

PTS: 1                      DIF: Moderate                      REF: CS2-2 | CS2-3

OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

**Holiday Marina**

The bookkeeper prepared the following journal entries during May. Assume that the descriptions of the entries are correct.

**Journal (partial):**

<u>Date</u>	<u>Accounts and Descriptions</u>	<u>Debit</u>	<u>Credit</u>
May 5	Accounts Receivable Service Revenue billed customers for services completed	1,600	1,600
May 11	Cash Service Revenue collected from a customer billed on May 5 for services rendered	500	500
May 15	Office Supplies Accounts Payable purchased furniture on credit; payment due in 30 days	700	700
May 25	Office Furniture Cash paid the \$700 furniture bill received on May 15	700	500

8. Refer to Holiday Marina. Identify the transactions that the bookkeeper recorded incorrectly in the journal. Prepare the journal entry that the bookkeeper should have made for each transaction that you identify as being made incorrectly.

ANS:

The May 11, 15, and 25 entries were recorded incorrectly. The correct entries are as follows:

<u>Date</u>	<u>Accounts and Descriptions</u>	<u>Debit</u>	<u>Credit</u>
May 11	Cash Accounts Receivable collected from a customer for services billed earlier	500	500
May 15	Office Furniture Accounts Payable purchased furniture on credit; payment due in 30 days	700	700
May 25	Accounts Payable Cash paid the furniture bill	700	700

PTS: 1

DIF: Moderate

REF: CS2-4

OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle

9. Refer to Holiday Marina. Assume that the incorrect journal entries have been posted to the general ledger. For each incorrect journal entry, explain why the error would or would not be discovered by preparing a trial balance.

ANS:

May 11: Because equal dollar amounts were recorded in the journal entry, preparation of a trial balance would not help discover the error.

May 15: Because equal dollar amounts were recorded in the journal entry, preparation of a trial balance would not help discover the error.

May 25: This error would be discovered by preparing a trial balance because the total debits would be \$200 higher than the total credits.

PTS: 1                    DIF: Moderate            OBJ: 2-7

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle

### **Hatcher Tool Service**

The following transactions occurred during June Year 1:

- |         |  |
|---------|--|
| June 1  | The company purchased a service truck for \$25,500, paying \$5,500 now and issuing a note payable for the balance; the note is due in monthly installments of \$500 plus 10% interest on the unpaid principal balance. |
| June 8  | The company performed services of \$30,400. It received \$6,400 cash from customers and \$24,000 for customers billed for completed services.  |
| June 22 | The company issued common shares in exchange for land having a fair value of \$70,000.   |
| June 30 | The company received an invoice for \$2,400 from the company's advertising agency for radio and television ads which were run during the month; the invoice is due in 30 days.   |

10. Refer to Hatcher Tool Service. Indicate the economic effects of each transaction above on the accounting equation. Use the following format for your answers. Show the dollar amounts in the appropriate columns and use a plus (+) sign to indicate an increase and a minus (–) sign to indicate a decrease.

<b>Transaction Date</b>	<b><u>Assets</u></b>	=	<b><u>Liabilities</u></b>	+	<b>Shareholders' <u>Equity</u></b>
ANS: <b>Transaction Date</b>	<b><u>Assets</u></b>	=	<b><u>Liabilities</u></b>	+	<b>Shareholders' <u>Equity</u></b>
June 1	+20,000 (25,500 – 5,500)		+20,000		
June 8	+30,400 (6,400 + 24,000)				+30,400
June 22	+70,000				+70,000
June 30			+2,400		–2,400

PTS: 1      DIF: Moderate      REF: CS2-1      OBJ: 2-3  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

11. Refer to Hatcher Tool Service. Record each transaction in proper journal entry format in the journal provided. A written explanation for each journal entry is not required.

<b>JOURNAL</b>				
<b><u>Date</u></b>	<b><u>Accounts</u></b>		<b><u>Debit</u></b>	<b><u>Credit</u></b>
ANS:				
<b>JOURNAL</b>				
<b><u>Date</u></b>	<b><u>Accounts</u></b>		<b><u>Debit</u></b>	<b><u>Credit</u></b>
June 1	Vehicles		25,500	
	Cash			5,500
	Note Payable			20,000
June 8	Cash		6,400	
	Accounts Receivable		24,000	
	Service Revenue			30,400
June 22	Land		70,000	
	Common Shares			70,000
June 30	Advertising Expense		2,400	
	Accounts Payable			2,400

PTS: 1      DIF: Moderate      REF: CS2-4      OBJ: 2-5  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle

12. Refer to Hatcher Tool Service. Set up T-accounts and post each transaction to the T-accounts.

ANS:

<b>Vehicles</b>	<b>Cash</b>	<b>Notes Payable</b>
6/1 25,500	6/8 6,400	6/1 20,000
6/8 24,000	6/8 30,400	6/22 70,000
<b>Accounts Receivable</b>	<b>Service Revenue</b>	<b>Land</b>
6/22 70,000	6/30 2,400	6/30 2,400
<b>Common Shares</b>	<b>Advertising Expense</b>	<b>Accounts Payable</b>

PTS: 1                      DIF: Moderate                      OBJ: 2-6

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

13. Refer to Hatcher Tool Service. Prepare a trial balance in proper format. Assume that there are no additional accounts or balances other than those created from the June transactions.

ANS:

**Hatcher Tool Service**

Trial Balance

June 30, Year 1

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash	\$ 900	
Accounts Receivable	24,000	
Land	70,000	
Vehicles	25,500	
Accounts Payable		\$ 2,400
Notes Payable		20,000
Common Shares		70,000
Service Revenue		30,400
Advertising Expense	2,400	
	<u>\$122,800</u>	<u>\$122,800</u>

PTS: 1                      DIF: Moderate                      OBJ: 2-7

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

14. The T-accounts presented below are taken from the general ledger of Health Force Corporation on March 31, Year 1. Determine the balance of each account and present them in proper trial balance format.

<b>Cash</b>		<b>Accounts Payable</b>		<b>Common Shares</b>	
5,000	12,000	3,200	4,200		30,000
9,000	650				24,000
44,000	15,200				
36,000	650				
8,000	16,100	<b>Salaries Payable</b>		<b>Service Revenue</b>	
3,000	650		5,000		21,000
24,000	16,400				9,000
10,000	3,200				22,000
	750				36,000
<b>Accounts Receivable</b>		<b>Unearned Revenue</b>		<b>Advertising Expense</b>	
21,000	8,000	22,000	44,000	4,200	
	3,000				
<b>Prepaid Insurance</b>		<b>Notes Payable</b>		<b>Salaries Expense</b>	
1,200	100		16,500	15,200	
	100			16,100	
	100			16,400	
				5,000	
<b>Equipment</b>				<b>Rent Expense</b>	
35,300				650	
				650	
				650	
				<b>Insurance Expense</b>	
				100	
				100	
				100	
				<b>Dividends</b>	
				7,750	

ANS:

**Health Force Corporation**  
 Trial Balance  
 March 31, Year 1

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash	\$ 73,400	
Accounts Receivable	10,000	
Prepaid Insurance	900	
Equipment	35,300	
Accounts Payable		\$ 1,000
Salaries Payable		5,000
Unearned Revenue		22,000
Notes Payable		16,500
Common Shares		54,000
Service Revenue		88,000
Advertising Expense	4,200	
Salaries Expense	52,700	
Rent Expense	1,950	
Insurance Expense	300	
Dividends	7,750	
	<u>\$186,500</u>	<u>\$186,500</u>

PTS: 1            DIF: Moderate            OBJ: 2-7

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle

15. The list of accounts presented below is from the accounting records of Hoosier Momma Promotions on September 30, Year 1. Assume that each account balance is normal, and present them in proper trial balance format.

Cash	\$ 4,200
Short-term Investments	13,000
Accounts Receivable	4,500
Inventory	23,000
Land	90,000
Building	700,000
Furniture	450,000
Equipment	281,700
Accounts Payable	7,200
Salaries Payable	4,100
Unearned Revenue	17,000
Interest Payable	2,000
Notes Payable	70,000
Common Shares	460,000
Retained Earnings	977,000
Sales	158,000
Cost of Goods Sold	78,000
Salaries Expense	24,000
Rent Expense	6,000
Insurance Expense	1,000
Depreciation Expense	11,000
Utility Expense	900
Dividends	8,000

ANS:

**Hoosier Momma Promotions**

Trial Balance

September 30, Year 1

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash	\$ 4,200	
Short-term investments	13,000	
Accounts Receivable	4,500	
Inventory	23,000	
Land	90,000	
Building	700,000	
Furniture	450,000	
Equipment	281,700	
Accounts Payable		\$ 7,200
Salaries Payable		4,100
Unearned Revenue		17,000
Interest Payable		2,000
Notes Payable		70,000
Common Shares		460,000
Retained Earnings		977,000
Sales		158,000
Cost of Goods Sold	78,000	
Salaries Expense	24,000	
Rent Expense	6,000	
Insurance Expense	1,000	
Depreciation Expense	11,000	
Utility Expense	900	
Dividends		
	<u>8,000</u>	
	<u>\$1,695,300</u>	<u>\$1,695,300</u>

PTS: 1                    DIF: Moderate                    OBJ: 2-7

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle

**H&R Clock Company**

The following transactions were incurred during July Year 1:

- July 1            The company raised \$30,000 by issuing a note to the bank for \$15,000 and issuing \$15,000 of common shares.
- July 5            The company purchased \$5,100 of office supplies on credit; payment is due in 30 days.
- July 12           The company performed \$18,000 of services for customers on credit; collection is due in 30 days.
- July 13           The company performed services for customers and collected \$8,800.
- July 20           The company paid for the supplies purchased on July 5.
- July 22           The company collected \$15,000 of the amounts due from customers.
- July 30           The company received and paid the utility bill for the month of July in the amount of \$640.
- July 31           The company paid employee salaries of \$3,800.

16. Refer to H&R Clock Company. Use the following format to indicate the economic effects of each transaction above on the expanded accounting equation. Show the dollar amounts in the appropriate columns and use a plus (+) sign to indicate an increase and a minus (–) sign to indicate a decrease.

<u>Transaction Date</u>	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Contributed Capital</u>	+	<u>Retained Earnings</u>
ANS:							
<u>Transaction Date</u>	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Contributed Capital</u>	+	<u>Retained Earnings</u>
July 1	+30,000	=	+15,000	+	+15,000	+	
July 5	+5,100	=	+5,100				
July 12	+18,000	=					+18,000
July 13	+8,800	=					+8,800
July 20	–5,100	=	–5,100				
July 22	0 (+15,000 – 15,000)	=					
July 30	–640	=					–640
July 31	–3,800	=					–3,800

PTS: 1                    DIF: Moderate            REF: CS2-1            OBJ: 2-3  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

17. Refer to H&R Clock Company. Record each transaction in proper journal entry format in the journal provided. A written explanation for each journal entry is not required.

**JOURNAL**

<u>Date</u>	<u>Accounts</u>	<u>Debit</u>	<u>Credit</u>
-------------	-----------------	--------------	---------------

ANS:

<u>Date</u>	<u>Accounts</u>	<u>Debit</u>	<u>Credit</u>
July 1	Cash	30,000	
	Note Payable		15,000
	Common Shares		15,000
July 5	Office Supplies	5,100	
	Accounts Payable		5,100
July 12	Accounts Receivable	18,000	
	Service Revenue		18,000
July 13	Cash	8,800	
	Service Revenue		8,800
July 20	Accounts Payable	5,100	
	Cash		5,100
July 22	Cash	15,000	
	Accounts Receivable		15,000
July 30	Utilities Expense	640	
	Cash		640
July 31	Salaries Expense	3,800	
	Cash		3,800

PTS: 1                    DIF: Moderate            REF: CS2-4            OBJ: 2-5  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle

18. Refer to H&R Clock Company. Set up T-accounts and post each transaction to the T-accounts.

ANS:

<b>Cash</b>	<b>Note Payable</b>	<b>Common Shares</b>
7/1 30,000	7/20 5,100	7/1 15,000
7/13 8,800	7/30 640	
7/22 15,000	7/31 3,800	
<b>Office Supplies</b>	<b>Accounts Payable</b>	<b>Accounts Receivable</b>
7/5 5,100	7/20 5,100	7/12 18,000
	7/5 5,100	7/22 15,000
<b>Service Revenue</b>	<b>Utilities Expense</b>	<b>Salaries Expense</b>
7/12 18,000	7/30 640	7/31 3,800
7/13 8,800		

PTS: 1                    DIF: Moderate            OBJ: 2-6

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

19. Refer to H&R Clock Company. Prepare a trial balance in proper format. Assume that the company had no additional accounts or balances other than those created from the July transactions.

ANS:

**H&R Clock Company**

Trial Balance

July 31, Year 1

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash	\$44,260	
Accounts Receivable	3,000	
Office Supplies	5,100	
Accounts Payable		\$ 0
Notes Payable		15,000
Common Shares		15,000
Service Revenue		26,800
Utilities Expense	640	
Salaries Expense	3,800	
	\$56,800	\$56,800

PTS: 1                    DIF: Moderate            OBJ: 2-7

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

**Home Accent Interiors**

The company's bookkeeper prepared the following journal entries and posted them to the general ledger as indicated in the T-accounts presented. Assume that the dollar amounts and descriptions of the entries are correct.

**Journal (partial):**

<u>Date</u>	<u>Accounts and Descriptions</u>	<u>Debit</u>	<u>Credit</u>
May 5	Accounts Receivable Service Revenue billed customers for services completed	6,400	6,400
May 11	Cash Service Revenue received payment from a customer for services rendered in a prior month	2,000	2,000
May 15	Supplies Accounts Payable purchased furniture on account; payment due in 30 days	2,800	2,800
May 25	Office Furniture Cash paid for the office furniture purchased earlier	2,800	2,800

**General Ledger (partial):**

<u>Accounts Receivable</u>		<u>Service Revenue</u>		<u>Office Furniture</u>	
5/5		5/5	5/11	5/25	
6,400		6,400	2,000	2,800	
<hr/>		<hr/>		<hr/>	
<u>Cash</u>		<u>Accounts Payable</u>		<u>Office Supplies</u>	
5/11		5/15		5/15	
2,000		2,800		2,800	

20. Refer to Home Accent Interiors. Identify the postings to the general ledger that were made incorrectly. Describe how each incorrect posting should have been made. For this problem, assume that the journal entries have been correctly recorded.

ANS:

The bookkeeper incorrectly posted the May 5 and 15 journal entries. For the May 5 journal entry, the \$6,400 credit to Service Revenue should have been posted to the Service Revenue account as a credit, not as a debit. For the May 15 journal entry, the \$800 credit to Accounts Payable should have been posted to the Accounts Payable account as a credit, not as a debit.

PTS: 1

DIF: Moderate

OBJ: 2-6

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle

**ESSAY**

1. What is meant by "generally accepted accounting principles"?

ANS:

Generally accepted accounting principles (GAAP) are a set of guidelines that are based on a conceptual framework. They represent the various rules, practices, and other procedures used as a basis for accounting principles. GAAP was created in response to the need to make it easier to use financial statements over time and across companies.

PTS: 1

DIF: Easy

OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

2. Each of the situations in A through C below applies to one of the assumptions or principles included in the conceptual framework of accounting. Identify which assumption or principles applies and explain why that assumption or principle applies.
  - A) High Collectibles is a Canadian company that has divisions in several countries around the world. Each country has a currency different than the Canadian dollar. The company must include the financial data of its worldwide divisions in its financial statements.
  - B) Howell Trucking operates as a partnership. The partners are considering a change to the corporate form of business organization.
  - C) Holly Company is a local company. The owners have decided to expand into nearby cities. Expansion will require more capital, but management does not expect it will stay in business for more than one year or so regardless of its expansion plans.

ANS:

A) The Monetary Unit Assumption. Financial statements must be reported in monetary terms, and the standard monetary unit should be denominated in one currency.

B) Economic Entity Assumption. A business can take three forms. However, regardless of the form, the unit itself is distinct from its owners.

C) Continuity (Going-Concern) Assumption. A business is assumed to continue to operate long enough to carry out its obligations, to more accurately reflect the valuation of assets, and to appropriately allocate costs to accounting periods.

PTS: 1

DIF: Moderate

OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

3. For a company's reported financial information to be useful, what four qualities must be present? Explain these four qualities.

ANS:

The four qualitative characteristics of useful accounting information are relevance, reliability, comparability, and consistency.

Relevant information has the capacity to make a difference in a decision. It helps users predict future events or provides feedback.

Reliable information is dependable, verifiable, and free from bias.

Comparability allows comparisons to be made between or among companies.

Consistency refers to the application of the same accounting principles over time.

PTS: 1

DIF: Easy

OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

4. What is the difference between comparability and consistency?

ANS:

Comparability allows comparisons to be made between or among companies. Even though a certain amount of freedom exists in selecting accounting principles, when this information is disclosed in the financial statements, users can still compare the information when they know what principle is used.

Consistency refers to the application of the same accounting principles over time. It involves the relationships between a set of numbers over several periods but within only one company, unlike comparability that can be between or among companies.

PTS: 1

DIF: Easy

OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

5. What is conservatism and why is it important in accounting?

ANS:

Conservatism is choosing the path that will be least likely to overstate assets or income. It is used in situations in which there is uncertainty about how to account for a particular item. In accounting, it is used in the balance sheet and income statement in an effort to provide the least optimistic amount. Conservatism is a prudent reaction to uncertainty that offsets management's natural optimism.

PTS: 1

DIF: Easy

OBJ: 2-1

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-02-GAAP

6. Several terms that represent components of an accounting system are listed below. For each term, write a brief explanation of how that component is used in the accounting cycle.
- A) accounts
  - B) chart of accounts
  - C) double-entry system with debits and credits
  - D) journal
  - E) general ledger
  - F) trial balance

ANS:

- A) An account is a record used to accumulate monetary amounts of increases and decreases for each basic element reported in an entity's financial statements. A separate record is prepared for each asset, liability, shareholders' equity, revenue, expense, and dividend element.
- B) A chart of accounts is a list of all accounts (financial statement elements) used by a company, including numbers assigned to the accounts by the entity to facilitate bookkeeping activities. The chart of accounts is used to locate accounts in a general ledger.
- C) In a double-entry system with debits and credits, equal debit and credit amounts are recorded for the effects of each transaction on an entity's accounts. Increases and decreases are recorded as debits (left-side entries) or credits (right-side entries) in the accounts. To maintain the equality of the accounting equation,  $\text{assets} = \text{liabilities} + \text{shareholders' equity}$ , the rules of debit and credit require that some accounts increase by debits and decrease by credits and that other accounts increase by credits and decrease by debits.
- D) The journal is an accounting record in which all business transactions are recorded in chronological order as they occur. The transaction date, accounts affected, amounts to be debited and credited to the affected accounts, and a brief description of the transaction are recorded. As the amounts are transferred to the accounts in the general ledger, the account numbers are entered in the posting reference column of the journal.
- E) The general ledger is a book or file that contains a record for each account used by an entity. The individual account records contain the monetary amounts transferred from the general journal entries. The difference between the debit and credit entries is the account balance. Periodically, the account balances are listed in a trial balance and used in the preparation of financial statements.
- F) The trial balance is a schedule or list of all accounts and their balances from the general ledger. Amounts for accounts with debit balances are listed in one column, and amounts for accounts with credit balances are listed in a second column. The sum of the debit and credit balances should be equal in the double-entry system. If the sums of the debit and credit balances are not equal, procedures for locating the error(s) must be applied. The trial balance provides information that is needed to prepare financial

statements.

PTS: 1                    DIF: Moderate            OBJ: 2-4 | 2-5 | 2-6 | 2-7  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle

7. Four journal entries are presented below. Write an explanation for each entry.

A)	Cash	12,200	
	Service Revenue		12,200
B)	Accounts Receivable	17,500	
	Service Revenue		17,500
C)	Cash	16,900	
	Accounts Receivable		16,900
D)	Cash	1,830	
	Unearned Revenue		1,830

ANS:

- A) Cash was received for services provided to customers.  
 B) Customers were billed for services provided.  
 C) Cash was collected from customers who had been billed previously.  
 D) Cash was collected from customers for services to be provided later.

PTS: 1                    DIF: Moderate            REF: CS2-4            OBJ: 2-5  
 NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle

8. The bookkeeper made the following errors while recording transactions for the period:

- A) A purchase of equipment for \$450 cash was recorded as a debit to equipment for \$540 and a credit to cash for \$540.  
 B) The sale of services for cash in the amount of \$4,134 was recorded as a debit to cash for \$4,134 and a credit to service revenue for \$4,314.  
 C) A purchase of supplies for \$200 cash was recorded correctly in the journal but was omitted from the general ledger.  
 D) The sale of services for credit in the amount of \$3,800 was recorded correctly in the journal but was posted twice to the general ledger.  
 E) \$5,500 cash paid for salaries was recorded in the journal as a \$5,500 debit to cash and a \$5,500 credit to salaries expense.

Indicate whether or not the debit and credit columns of the trial balance will be equal after recording each of these erroneous entries. Then identify the account(s) that will be misstated as a result of these errors and the direction of the misstatement (i.e., understatement or overstatement).

ANS:

- A) The trial balance will still balance, but both of the accounts will be overstated by \$90.
- B) The trial balance will be out of balance as Service Revenues will be overstated by \$180.
- C) The trial balance will still balance, but the supplies account will be understated by \$200 and the cash account will be overstated by \$200.
- D) The trial balance will still balance, but the accounts receivable and service revenue accounts will both be overstated by \$3,800.
- E) The trial balance will still balance, but the cash account will be overstated by \$11,000 and the salaries expense account will be understated by \$11,000.

PTS: 1 DIF: Moderate OBJ: 2-3 | 2-4 | 2-7

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle

## 9. “You Decide” Essay

You are the accounting manager for a small machine shop. Your bookkeeper has asked you to review a journal entry that she made:

Date	Account and Explanation	Debit	Credit
May 5	Cash	2,500	
	Service Revenue		2,500
	Revenue		2,500

Is this journal entry correct? Why or why not?

ANS:

Given the explanation contained in the journal entry, you conclude that an error was made. Since your company hasn't yet performed the service, the bookkeeper should have recorded a liability such as unearned service revenue. The revenue cannot be recognized until the service has been performed.

PTS: 1 DIF: Moderate OBJ: 2-5

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-05-Accounting Cycle

10. **“You Decide” Essay**

A customer has called complaining that he paid for a service call last week and is still waiting for a serviceman to come out and repair his air conditioning unit. You are now curious as to how much work your service team has been paid for but has not yet completed. You notice the bookkeeper has left the company’s general journal and general ledger open on the desk so that he can do the monthly posting when he returns from lunch. Using those two items, how can you satisfy your curiosity?

ANS:

First, find the beginning of the period’s balance in the unearned revenue account in the general ledger. Then look through the general journal for debits and credits to the unearned revenue account. Debits represent work that has been completed while credits represent work that has been paid for in advance. Your curiosity can be satisfied using the following equation: beginning balance + credits to the account - debits to the account.

PTS: 1                      DIF: Moderate              OBJ: 2-4

NAT: AICPA FN-Reporting | AACSB Communication | ACBSP-APC-06-Recording Transactions

