

## Chapter 02 - Analyzing Transactions

True / False

1. Accounts are records of increases and decreases in individual financial statement items.

- a. True
- b. False

ANSWER: True

2. A chart of accounts is a listing of accounts that make up the journal.

- a. True
- b. False

ANSWER: False

3. The chart of accounts should be the same for each business.

- a. True
- b. False

ANSWER: False

4. Accounts payable are accounts that you expect will be paid to you.

- a. True
- b. False

ANSWER: False

5. Consuming goods and services in the process of generating revenues results in expenses.

- a. True
- b. False

ANSWER: True

6. Prepaid expenses are an example of an expense.

- a. True
- b. False

ANSWER: False

7. The unearned revenue account is an example of a liability.

- a. True
- b. False

ANSWER: True

8. The drawing account is an expense.

- a. True
- b. False

ANSWER: False

9. Accounts in the ledger are usually maintained in alphabetical order.

- a. True
- b. False

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ANSWER: False

10. Depending on the account title, the right side of the account is referred to as the credit side.

- a. True
- b. False

ANSWER: False

11. To determine the balance in an account, always subtract credits from debits.

- a. True
- b. False

ANSWER: False

12. An account in its simplest form has three parts to it: a title, an increase side, and a decrease side.

- a. True
- b. False

ANSWER: True

13. The T account got its name because it resembles the letter "T."

- a. True
- b. False

ANSWER: True

14. The right side of a T account is known as a debit and the left side is known as a credit.

- a. True
- b. False

ANSWER: False

15. A debit entry to the cash account will increase the account.

- a. True
- b. False

ANSWER: True

16. A credit entry to the cash account will increase the account.

- a. True
- b. False

ANSWER: False

17. The cash account will always be debited.

- a. True
- b. False

ANSWER: False

18. The recording of cash receipts to the cash account will be done by debiting the account.

- a. True
- b. False

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ANSWER: True

19. The recording of cash payments from the cash account is done by entering the amount as a credit.

- a. True
- b. False

ANSWER: True

20. The balance of an account can be determined by adding all of the debits, adding all of the credits, and adding the amounts together.

- a. True
- b. False

ANSWER: False

21. Liabilities are debts owed by the business entity.

- a. True
- b. False

ANSWER: True

22. The accounts payable account is listed in the chart of accounts as an asset.

- a. True
- b. False

ANSWER: False

23. A drawing account represents the amount of withdrawals made by the owner.

- a. True
- b. False

ANSWER: True

24. Revenues are equal to the difference between cash receipts and cash payments.

- a. True
- b. False

ANSWER: False

25. Expenses result from using up assets or consuming services in the process of generating revenues.

- a. True
- b. False

ANSWER: True

26. Owner's equity will be reduced by the amount in the drawing account.

- a. True
- b. False

ANSWER: True

27. When an owner invests assets in the business, the capital account increases due to revenue being earned.

- a. True

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b. False

ANSWER: False

28. When an account receivable is collected in cash, the total assets of the business increase.

a. True

b. False

ANSWER: False

29. When an account payable is paid with cash, the owner's equity in the business decreases.

a. True

b. False

ANSWER: False

30. For a month's transactions for a typical medium-sized business, the salary expense account is likely to have only credit entries.

a. True

b. False

ANSWER: False

31. A debit is abbreviated as *Db* and a credit is abbreviated as *Cr*.

a. True

b. False

ANSWER: False

32. When a business purchases supplies on account, no entry should be made until the invoice is paid.

a. True

b. False

ANSWER: False

33. For a month's transactions for a typical medium-sized business, the accounts payable account is likely to have only credit entries.

a. True

b. False

ANSWER: False

34. Withdrawals decrease owner's equity and are listed on the income statement as a deduction from revenue.

a. True

b. False

ANSWER: False

35. The normal balance of revenue accounts is a credit.

a. True

b. False

ANSWER: True

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36. The normal balance of an expense account is a credit.

- a. True
- b. False

ANSWER: False

37. The normal balance of the drawing account is a debit.

- a. True
- b. False

ANSWER: True

38. Expense accounts are increased by credits.

- a. True
- b. False

ANSWER: False

39. The normal balance of a capital account is a debit.

- a. True
- b. False

ANSWER: False

40. Revenue accounts are increased by credits.

- a. True
- b. False

ANSWER: True

41. Liability accounts are increased by debits.

- a. True
- b. False

ANSWER: False

42. Journalizing transactions using the double-entry bookkeeping system will eliminate fraud.

- a. True
- b. False

ANSWER: False

43. Transactions are listed in the journal chronologically.

- a. True
- b. False

ANSWER: True

44. Journalizing is the process of entering amounts in the ledger.

- a. True
- b. False

ANSWER: False

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45. The process of recording a transaction in the journal is called journalizing.

- a. True
- b. False

ANSWER: True

46. Transactions are initially entered into a record called a journal.

- a. True
- b. False

ANSWER: True

47. The double-entry accounting system records each transaction twice.

- a. True
- b. False

ANSWER: False

48. The increase side of an account is also the side of the normal balance.

- a. True
- b. False

ANSWER: True

49. Journal entries include both debit and credit accounts for each transaction.

- a. True
- b. False

ANSWER: True

50. A transaction that is recorded in the journal is called a journal entry.

- a. True
- b. False

ANSWER: True

51. Assets are increased with debits and decreased with credits.

- a. True
- b. False

ANSWER: True

52. Liabilities are increased with debits and decreased with credits.

- a. True
- b. False

ANSWER: False

53. Debits will increase unearned revenues and revenues.

- a. True
- b. False

ANSWER: False

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54. All owner's equity accounts record increases to the accounts with credits.

- a. True
- b. False

ANSWER: False

55. Journalizing always eliminates fraudulent activity.

- a. True
- b. False

ANSWER: False

56. Journal entries can have more than two accounts as long as the debits equal the credits.

- a. True
- b. False

ANSWER: True

57. Normal account balances are on the increase side of the accounts.

- a. True
- b. False

ANSWER: True

58. The process of transferring data from the journal to the ledger accounts is called posting.

- a. True
- b. False

ANSWER: True

59. The posting reference notation used in the ledger is the account number.

- a. True
- b. False

ANSWER: False

60. The posting reference notation used in the journal is the page number.

- a. True
- b. False

ANSWER: False

61. A notation in the Post. Ref. column of the general journal indicates that the amount has been posted to the ledger.

- a. True
- b. False

ANSWER: True

62. The order of the flow of accounting data is (1) record in the ledger, (2) record in the journal, and (3) prepare the financial statements.

- a. True
- b. False

ANSWER: False

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63. The process of transferring the debits and credits from the journal entries to the accounts is known as posting.

- a. True
- b. False

ANSWER: True

64. Postings made to four-column account forms show a new balance after each entry.

- a. True
- b. False

ANSWER: True

65. A group of related accounts that make up a complete unit is called a trial balance.

- a. True
- b. False

ANSWER: False

66. A trial balance determines the accuracy of the numbers.

- a. True
- b. False

ANSWER: False

67. Even when a trial balance is in balance, there may be errors in the individual accounts.

- a. True
- b. False

ANSWER: True

68. The totals at the bottom of the trial balance and the totals at the bottom of the balance sheet both show equality and balancing and therefore should be equal.

- a. True
- b. False

ANSWER: False

69. A proof of the equality of debits and credits in the ledger at the end of an accounting period is called a balance sheet.

- a. True
- b. False

ANSWER: False

70. If the trial balance is in balance, it can be assumed that all journal entries were posted correctly and no errors were made.

- a. True
- b. False

ANSWER: False

71. Posting the credit part of a journal entry to the wrong account will cause the trial balance totals to be unequal.

- a. True



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b. False

ANSWER: False

72. The erroneous arrangement of digits, such as writing \$45 as \$54, is called a slide.

a. True

b. False

ANSWER: False

73. Journalizing a transaction with both the debit and the credit for \$69 instead of \$96 will cause the trial balance to be out of balance.

a. True

b. False

ANSWER: False

74. The erroneous moving of an entire number one or more spaces to the right or left, such as writing \$85 as \$850, is called a transposition.

a. True

b. False

ANSWER: False

### Multiple Choice

75. Accounts

a. do not reflect money amounts

b. are not used by entities that manufacture products

c. are records of increases and decreases in individual financial statement items

d. are only used by large entities with many transactions

ANSWER: c

76. Accounts are classified in the ledger

a. chronologically

b. alphabetically

c. in accordance with their appearance in the financial statements

d. with the accounts used most often listed first

ANSWER: c

77. Which of the following accounts is an owner's equity account?

a. Cash

b. Accounts Payable

c. Prepaid Insurance

d. Ross Morris, Capital

ANSWER: d

78. The gross increases in owner's equity attributable to business activities are called

a. assets

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- b. liabilities
- c. revenues
- d. expenses

ANSWER: c

79. A chart of accounts is
- a. the same as a balance sheet
  - b. usually a listing of accounts in alphabetical order
  - c. usually a listing of accounts in financial statement order
  - d. used in place of a ledger

ANSWER: c

80. The debit side of an account
- a. depends on whether the account is an asset, liability, or owner's equity
  - b. can be either side of the account depending on how the accountant set up the system
  - c. is the right side of the account
  - d. is the left side of the account

ANSWER: d

81. An account is said to have a debit balance if
- a. the amount of the debits exceeds the amount of the credits
  - b. there are more entries on the debit side than on the credit side
  - c. there are more entries on the credit side than on the debit side
  - d. the first entry of the accounting period was posted on the debit side

ANSWER: a

82. Which side of the account increases the cash account?
- a. credit
  - b. neither a debit nor a credit
  - c. debit
  - d. either a debit or a credit

ANSWER: c

83. Which statement(s) concerning cash is (are) true?
- a. Cash will always have more debits than credits.
  - b. Cash will never have a credit balance.
  - c. Cash is increased by debiting.
  - d. All of these choices.

ANSWER: c

84. Which of the following is true about T accounts?
- a. The left side of a T account is called the debit side.
  - b. The left side of a T account is called the credit side.
  - c. The right side of a T account is called the debit side.

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d. Transactions are first recorded in T accounts and then posted to the journal.

ANSWER: a

85. A cash payment is recorded in the cash account as

- a. neither a debit nor a credit
- b. a credit
- c. a debit
- d. either a debit or a credit

ANSWER: b

86. A list of the accounts used by a business is called the

- a. journal
- b. chart of accounts
- c. T chart
- d. debit listing

ANSWER: b

87. In the chart of accounts, the balance sheet accounts are normally listed in which order?

- a. liabilities, assets, owner's equity
- b. assets, liabilities, owner's equity
- c. owner's equity, assets, liabilities
- d. assets, owner's equity, liabilities

ANSWER: b

88. In which order are the accounts listed in the chart of accounts?

- a. assets, expenses, liabilities, owner's equity, revenues
- b. owner's equity, assets, liabilities, revenues, expenses
- c. assets, liabilities, owner's equity, revenues, expenses
- d. assets, liabilities, revenues, expenses, owner's equity

ANSWER: c

89. Which are the parts of the T account?

- a. title, date, total
- b. date, debit side, credit side
- c. title, debit side, credit side
- d. title, debit side, total

ANSWER: c

90. The chart of accounts is designed to

- a. alphabetize the accounts to make reading easier for financial statement users
- b. organize accounts in order of dollar amount to simplify the accounting information for users
- c. summarize the transactions and determine ending account balances
- d. meet the information needs of a company's managers and other users of its financial statements

ANSWER: d

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91. Which group of accounts is comprised of only assets?

- a. Cash, Accounts Payable, Buildings
- b. Accounts Receivable, Revenue, Cash
- c. Prepaid Expenses, Buildings, Patents
- d. Unearned Revenue, Prepaid Expenses, Cash

ANSWER: c

92. Which of the following is true about assets?

- a. Assets include both physical and intangible items.
- b. Assets include only physical items.
- c. Assets are the personal property of the owner of the company.
- d. Assets are the result of selling products or services to customers.

ANSWER: a

93. Which of the following is **not** considered to be a liability?

- a. Wages Payable
- b. Accounts Receivable
- c. Unearned Revenue
- d. Accounts Payable

ANSWER: b

94. Which of the following statements is **not** true about liabilities?

- a. Liabilities are debts owed to outsiders.
- b. Account titles of liabilities often include the term “payable.”
- c. Cash received before a service is performed creates a liability.
- d. Liabilities do not include wages owed to employees of the company.

ANSWER: d

95. Owner’s equity will be reduced by all of the following **except**

- a. revenues
- b. expenses
- c. withdrawals
- d. All of these choices

ANSWER: a

96. Expenses can result from

- a. increasing owner’s equity
- b. consuming services
- c. using up liabilities
- d. purchasing assets

ANSWER: b

97. Assume that you are creating a chart of accounts for a company. Each account number will have two digits. The first

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digit indicates the major account group to which the account belongs. Which of the following correctly identifies the major account groups typically represented by the numbers 1 through 5?

- a. 1-Assets, 2-Liabilities, 3-Owner's Equity, 4-Expenses, 5-Revenues
- b. 1-Assets, 2-Liabilities, 3-Owner's Equity, 4-Revenues, 5-Expenses
- c. 1-Assets, 2-Owner's Equity, 3-Revenues, 4-Expenses, 5-Drawing
- d. 1-Owner's Equity, 2-Drawing, 3-Revenues, 4-Expenses

ANSWER: b

98. The following accounts appear in the ledger of Monroe Entertainment Co. All accounts have normal balances.

Accounts Payable	\$1,500	Fees Earned	\$3,600
Accounts Receivable	1,800	Insurance Expense	1,300
Prepaid Insurance	2,000	Land	3,000
Cash	3,200	Wages Expense	1,400
Drawing	1,200	Capital	8,800

Total assets are

- a. \$10,000
- b. \$8,000
- c. \$9,700
- d. \$9,800

ANSWER: a

99. The balance of an account is determined by

- a. adding all of the debits to all of the credits
- b. always subtracting the debits from the credits
- c. always subtracting the credits from the debits
- d. adding all of the debits, adding all of the credits, and then subtracting the smaller sum from the larger sum

ANSWER: d

100. Which of the following types of accounts have a normal credit balance?

- a. assets and liabilities
- b. liabilities and expenses
- c. revenues and capital
- d. capital and drawing

ANSWER: c

101. Which of the following groups of accounts have a normal debit balance?

- a. revenues, liabilities, and capital
- b. capital and assets
- c. liabilities and capital
- d. assets and expenses

ANSWER: d

102. Which of the following statements is **not** a purpose for the journal?

- a. to show increases and decreases in accounts

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- b. to show a chronological order by date
- c. to show a complete transaction in one place
- d. to help locate errors

ANSWER: d

103. A credit signifies a decrease in

- a. assets
- b. liabilities
- c. capital
- d. revenue

ANSWER: a

104. A debit signifies a decrease in

- a. assets
- b. expenses
- c. drawing
- d. revenues

ANSWER: d

105. Which of the following applications of the rules of debit and credit is true?

- a. decrease Prepaid Insurance with a credit and the normal balance is a credit
- b. increase Accounts Payable with a credit and the normal balance is a debit
- c. increase Equipment with a debit and the normal balance is a debit
- d. decrease Cash with a debit and the normal balance is a credit

ANSWER: c

106. Which of the following describes the classification and normal balance of the fees earned account?

- a. asset, credit
- b. liability, credit
- c. owner's equity, debit
- d. revenue, credit

ANSWER: d

107. The classification and normal balance of the accounts payable account are

- a. asset, credit balance
- b. liability, credit balance
- c. owner's equity, credit balance
- d. revenue, credit balance

ANSWER: b

108. The classification and normal balance of the drawing account are

- a. expense, credit balance
- b. expense, debit balance
- c. liability, credit balance

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d. owner's equity, debit balance

ANSWER: d

109. Which of the following accounts are debited to record increases?

- a. assets and liabilities
- b. drawing and liabilities
- c. expenses and liabilities
- d. assets and expenses

ANSWER: d

110. In which of the following types of accounts are increases recorded by credits?

- a. revenues and liabilities
- b. drawing and assets
- c. liabilities and drawing
- d. expenses and liabilities

ANSWER: a

111. In which of the following types of accounts are decreases recorded by debits?

- a. assets
- b. liabilities
- c. expenses
- d. drawing

ANSWER: b

112. In which of the following types of accounts are decreases recorded by credits?

- a. liabilities
- b. owner's equity
- c. assets
- d. revenues

ANSWER: c

113. A credit balance in which of the following accounts would likely indicate an error?

- a. Fees Earned
- b. Salary Expense
- c. Janet James, Capital
- d. Accounts Payable

ANSWER: b

114. A debit balance in which of the following accounts would likely indicate an error?

- a. Salaries Expense
- b. Notes Payable
- c. Edgar Martin, Drawing
- d. Supplies

ANSWER: b

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115. Which of the following entries records the payment of an account payable?

- a. debit Cash; credit Accounts Payable
- b. debit Accounts Receivable; credit Cash
- c. debit Cash; credit Supplies Expense
- d. debit Accounts Payable; credit Cash

ANSWER: d

116. Which of the following entries records the investment of cash by Taylor Thomas, owner of a proprietorship?

- a. debit Taylor Thomas, Capital; credit Accounts Receivable
- b. debit Cash; credit Taylor Thomas, Capital
- c. debit Taylor Thomas, Drawing; credit Cash
- d. debit Cash; credit Taylor Thomas, Drawing

ANSWER: b

117. Which of the following entries records the withdrawal of cash by Sally Anderson, owner of a proprietorship, for personal use?

- a. debit Sally Anderson, Capital; credit Cash
- b. debit Sally Anderson, Drawing; credit Cash
- c. debit Salaries Expense; credit Cash
- d. debit Salaries Expense; credit Salaries Payable

ANSWER: b

118. Office supplies were sold by Janer's Cleaning Service at cost to another repair shop, with cash received. Which of the following entries for Janer's Cleaning Service records this transaction?

- a. Office Supplies, debit; Cash, credit
- b. Office Supplies, debit; Accounts Payable, credit
- c. Cash, debit; Office Supplies, credit
- d. Accounts Payable, debit; Office Supplies, credit

ANSWER: c

119. Office supplies purchased by Janer's Cleaning Service on account were returned. Which of the following entries for Janer's Cleaning Service records this transaction?

- a. Cash, debit; Office Supplies, credit
- b. Office Supplies, debit; Accounts Receivable, credit
- c. Accounts Payable, debit; Office Supplies, credit
- d. Office Supplies, debit; Accounts Payable, credit

ANSWER: c

120. Cash was paid by Janer's Cleaning Service to creditors on account. Which of the following entries for Janer's Cleaning Service records this transaction?

- a. Cash, debit; Debbi Janer, Capital, credit
- b. Accounts Payable, debit; Cash, credit
- c. Accounts Receivable, debit; Cash, credit



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d. Accounts Payable, debit; Accounts Receivable, credit

ANSWER: b

121. The process of initially recording a business transaction is called

- a. closing
- b. posting
- c. journalizing
- d. balancing

ANSWER: c

122. Which of the following entries records the acquisition of office supplies on account?

- a. Office Supplies, debit; Cash, credit
- b. Cash, debit; Office Supplies, credit
- c. Office Supplies, debit; Accounts Payable, credit
- d. Accounts Receivable, debit; Office Supplies, credit

ANSWER: c

123. Which of the following abbreviations is correct?

- a. Debit, "Dr"; Credit, "Cd"
- b. Debit, "Db"; Credit, "Cr"
- c. Debit, "Db"; Credit, "Cd"
- d. Debit, "Dr"; Credit, "Cr"

ANSWER: d

124. Which of the following is **not** a correct rule of debits and credits?

- a. Assets, expenses, and withdrawals are increased by debits.
- b. Assets are decreased by credits and have a normal debit balance.
- c. Liabilities, revenues, and owner's equity are increased by credits.
- d. The normal balance for revenues and expenses is a credit.

ANSWER: d

125. Gently Laser Clinic purchased laser equipment for \$8,500 and paid \$2,250 down, with the remainder to be paid later. The correct journal entry would be

- a. Equipment 2,250  
Cash 2,250
- b. Cash 2,250  
Accounts Payable 6,250  
Equipment 8,500
- c. Equipment Expense 8,500  
Accounts Payable 2,250  
Cash 6,250
- d. Equipment 8,500  
Accounts Payable 6,250  
Cash 2,250

ANSWER: d

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126. A transaction can first be found in the accounting records in the

- a. chart of accounts
- b. income statement
- c. balance sheet
- d. journal

ANSWER: d

127. The process of recording a transaction in the journal is called

- a. ledgerizing
- b. journalizing
- c. posting
- d. summarizing

ANSWER: b

128. Joshua Scott invests \$40,000 into his new business. How would this transaction be entered in the journal?

- a. Cash 40,000  
    Joshua Scott, Capital 40,000  
    Invested cash in business.
- b. Cash 40,000  
    Joshua Scott, Loan 40,000  
    Invested cash in business.
- c. Joshua Scott, Capital 40,000  
    Cash 40,000  
    Invested cash in business.
- d. Joshua Scott, Loan 40,000  
    Cash 40,000  
    Invested cash in business.

ANSWER: a

129.

May	23	Cash		22,000	
		Scott Clark, Capital			22,000
		Invested cash in business.			

This journal entry will

- a. increase Capital and decrease Cash
- b. increase Cash and decrease Capital
- c. increase Cash and increase Capital
- d. decrease Cash and decrease Capital

ANSWER: c

130.

May	24	Land		105,000	
		Cash			105,000
		Purchased land for business.			

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What effects does this journal entry have on the accounts?

- a. increase Cash and increase Land
- b. increase Land and decrease Cash
- c. decrease Cash and decrease Land
- d. increase Cash and decrease Land

ANSWER: b

131.

Mar.	10	Accounts Payable		800	
		Cash			800
		Paid creditors on account.			

What effects does this journal entry have on the accounts?

- a. decrease Accounts Payable, increase Cash
- b. increase Cash, decrease Accounts Payable
- c. increase Accounts Payable, increase Cash
- d. decrease Accounts Payable, decrease Cash

ANSWER: d

132. Which of the following accounts would be increased with a credit?

- a. Land; Accounts Payable; Drawing
- b. Accounts Payable; Unearned Revenue; Collins, Capital
- c. Collins, Capital; Accounts Receivable; Unearned Revenue
- d. Cash; Accounts Receivable; Collins, Capital

ANSWER: b

133. In accordance with the debit and credit rules, which of the following is true?

- a. Debits increase assets.
- b. Credits increase assets.
- c. Debits increase both assets and capital.
- d. Credits increase both assets and liabilities.

ANSWER: a

134. All of the following accounts are increased with a debit **except**

- a. Unearned Revenue
- b. Land
- c. Accounts Receivable
- d. Cash

ANSWER: a

135. Which of the following owner's equity accounts follows the same debit and credit rules as liabilities?

- a. expense accounts only
- b. drawing accounts only
- c. revenue accounts only
- d. expense and drawing accounts

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ANSWER: c

136. The payment for the monthly rent will require which of the following entries?

- a. debit Cash and debit Rent Expense
- b. credit Cash and credit Rent Expense
- c. debit Rent Expense and credit Cash
- d. credit Rent Expense and debit Cash

ANSWER: c

137. Expenses follow the same debit and credit rules as

- a. revenues
- b. the drawing account
- c. the capital account
- d. liabilities

ANSWER: b

138. Which of the following transactions increases owner's equity?

- a. Earn revenue
- b. Withdraw money for personal use
- c. Pay expenses
- d. Receive cash from customers on account

ANSWER: a

139. Which of the following transactions increases owner's equity?

- a. Purchase supplies on account
- b. Provide services on account
- c. Receive cash from customers on account
- d. Receive utility bill to be paid next month

ANSWER: b

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

- a. assets, liabilities, owner's equity
- b. assets, drawing, expenses
- c. assets, revenues, expenses
- d. assets, liabilities, revenues

ANSWER: b

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

- a. capital, revenues, expenses
- b. assets, capital, revenues
- c. liabilities, capital, revenues
- d. None of these choices.

ANSWER: c

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142. Which of the following is true regarding normal balances of accounts?

- a. All accounts have a normal debit balance.
- b. The normal balance of all accounts will have either a positive or negative balance.
- c. Accounts that have a normal debit balance will only have debit entries, never credit entries.
- d. The normal balance is on the increase side of the account.

ANSWER: d

143. Which of the following is **not** true with a double-entry accounting system?

- a. The accounting equation remains in balance.
- b. The sum of all debits is always equal to the sum of all credits in each journal entry.
- c. Each business transaction will have two debits.
- d. Every transaction affects at least two accounts.

ANSWER: c

144.

Mar.	6	Cash		2,500	
		Unearned Fees			2,500
		???????????			

What is the best explanation for this journal entry?

- a. Received cash for services performed.
- b. Received cash for services to be performed in the future.
- c. Paid cash in advance for services to be performed.
- d. Performed services for which cash is owed.

ANSWER: b

145.

Apr.	14	Equipment		15,000	
		Cash			5,000
		Notes Payable			10,000
		???????????			

Which is the best explanation for this journal entry?

- a. Purchased equipment; paid cash of \$5,000, with the remainder to be paid in the future.
- b. Purchased equipment; paid cash of \$10,000, with the remainder to be received in the future.
- c. Purchased equipment with cash.
- d. Purchased equipment on account.

ANSWER: a

146. A debit may signify a(n)

- a. decrease in asset accounts
- b. decrease in liability accounts
- c. increase in the capital account
- d. decrease in the drawing account

ANSWER: b

147. Which of the following entries records the payment of an insurance premium covering the next year?

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- a. debit Prepaid Insurance; credit Cash
- b. debit Insurance Payable; credit Accounts Receivable
- c. debit Accounts Payable; credit Cash
- d. debit Cash; credit Prepaid Insurance

ANSWER: a

148. Which of the following entries records the payment of insurance for the current month?

- a. Cash, debit; Insurance Expense, credit
- b. Insurance Expense, debit; Cash, credit
- c. Insurance Expense, debit; Accounts Receivable, credit
- d. Prepaid Insurance, debit; Cash, credit

ANSWER: b

149. Which of the following entries records the receipt of cash from clients on account?

- a. Accounts Payable, debit; Fees Earned, credit
- b. Accounts Receivable, debit; Fees Earned, credit
- c. Accounts Receivable, debit; Cash, credit
- d. Cash, debit; Accounts Receivable, credit

ANSWER: d

150. Which of the following entries records the collection of cash from cash customers?

- a. Fees Earned, debit; Cash, credit
- b. Fees Earned, debit; Accounts Receivable, credit
- c. Cash, debit; Fees Earned, credit
- d. Accounts Receivable, debit; Fees Earned, credit

ANSWER: c

151. Which of the following entries records the receipt of cash for two months' rent? The cash was received in advance of providing the service.

- a. Prepaid Rent, debit; Rent Revenue, credit
- b. Cash, debit; Unearned Rent, credit
- c. Cash, debit; Prepaid Rent, credit
- d. Cash, debit; Rent Expense credit

ANSWER: b

152. A client has a massage and asks the company bookkeeper to mail her the bill. The bookkeeper should make which entry to record the invoice?

- a. no entry until the cash is received
- b. Fees Earned, debit; Accounts Receivable, credit
- c. Cash, debit; Fees Earned, credit
- d. Accounts Receivable, debit; Fees Earned, credit

ANSWER: d

153. The process of transferring the debits and credits from the journal entries to the accounts is called

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- a. sliding
- b. transposing
- c. journalizing
- d. posting

ANSWER: d

154. The posting process will include the transfer of which of the following data from the journal to the ledger?

- a. date, amount (debit or credit)
- b. date, amount (debit or credit), journal page number
- c. amount (debit or credit), account number
- d. date, amount (debit or credit) account number

ANSWER: b

155. The Posting Reference columns are used to trace transactions from the ledger to the journal. What will be entered in the Posting Reference column of (1) the journal and (2) the ledger?

- a. (1) the amount of the debit or credit and (2) the journal page number
- b. (1) the journal page number and (2) the date of the transaction
- c. (1) the journal page number and (2) the account number
- d. (1) the account number and (2) the journal page number

ANSWER: d

The chart of accounts for Corning Company includes the following:

Account Name	Account Number
Cash	11
Accounts Receivable	13
Prepaid Insurance	15
Accounts Payable	21
Unearned Revenue	24
Corning, Capital	31
Corning, Drawing	32
Fees Earned	41
Salaries Expense	54
Rent Expense	56

Page 3 of the journal contains the following entry:

Prepaid Insurance	1,530	
Cash		1,530

156. What is the posting reference that will be found in the cash account?

- a. 11
- b. 15
- c. 3
- d. 13

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ANSWER: c

157. What is the posting reference that will be found in the prepaid insurance account?

- a. 11
- b. 15
- c. 3
- d. 13

ANSWER: c

158. What posting references will be found in the journal entry?

- a. 15, 11
- b. 15, 3
- c. 11, 3
- d. 3, 15

ANSWER: a

159. The chart of accounts for Miguel Company includes the following:

Account Name	Account Number
Cash	11
Accounts Receivable	13
Prepaid Insurance	15
Accounts Payable	21
Unearned Revenue	24
Miguel, Capital	31
Miguel, Drawing	32
Fees Earned	41
Salaries Expense	54
Rent Expense	56

Page 3 of the journal contains the following transaction:

Cash	640	
Fees Earned		640

What posting references will be found in the journal entry?

- a. 41, 3
- b. 3, 11
- c. 11, 41
- d. 11, 3

ANSWER: c

160. The chart of accounts for Miguel Company includes the following:

Account Name	Account Number
Cash	11
Accounts Receivable	13
Prepaid Insurance	15



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Accounts Payable	21
Unearned Revenue	24
Miguel, Capital	31
Miguel, Drawing	32
Fees Earned	41
Salaries Expense	54
Rent Expense	56

Page 5 of the journal contains the following transaction:

Salaries Expense	525	
Cash		525

What is the posting reference that will be found in the salaries expense account?

- a. 5
- b. 11
- c. 54
- d. 21

ANSWER: a

161. Proof that the dollar amount of the debits equals the dollar amount of the credits in the ledger means

- a. all of the information from the journal was correctly transferred to the ledger
- b. all accounts have their correct balances in the ledger
- c. only the journal is accurate; the ledger may be incorrect
- d. only that the debit dollar amounts equal the credit dollar amounts

ANSWER: d

162. That the total dollar amount of the debits equals the total dollar amount of the credits in the ledger accounts can be verified through a(n)

- a. chart of accounts
- b. trial balance
- c. income statement
- d. balance sheet

ANSWER: b

163. Randomly listed steps for preparing a trial balance are as follows:

- (1) Verify that the total of the Debit column equals the total of the Credit column.
- (2) List the accounts from the ledger and enter their debit or credit balance in the Debit or Credit column of the trial balance.
- (3) List the name of the company, the title of the trial balance, and the date the trial balance is prepared.
- (4) Total the Debit and Credit columns of the trial balance.

What is the proper order of these steps?

- a. (3), (2), (4), (1)
- b. (2), (3), (4), (1)
- c. (3), (2), (1), (4)

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- d. (4), (3), (2), (1)

ANSWER: a

164. A trial balance is prepared to

- a. prove that there were no errors made in recording transactions into the journal
- b. prove that no errors were made in posting to the ledger
- c. prove that each account balance is correct
- d. discover errors that affect the equality of debits and credits

ANSWER: d

165. The following accounts appear in the ledger of Monroe Entertainment Co. All accounts have normal balances.

Accounts Payable	\$1,500	Fees Earned	\$3,600
Accounts Receivable	1,800	Insurance Expense	1,300
Cash	3,200	Kim Monroe, Capital	8,800
Kim Monroe, Drawing	1,200	Land	3,000
Prepaid Insurance	2,000	Wages Expense	1,400

When a trial balance is prepared, the total of the debits will be

- a. \$13,900
- b. \$11,200
- c. \$12,700
- d. \$9,700

ANSWER: a

166. Which of the following is an internal report that will determine if debit balances equal credit balances in the ledger?

- a. chart of accounts
- b. income statement
- c. trial balance
- d. account reconciliation

ANSWER: c

167. An overpayment error was discovered in computing and paying the wages of a Jamison Tree Trimming employee. When Jamison receives cash from the employee for the amount of the overpayment, which of the following entries will Jamison make?

- a. Cash, debit; Wages Expense, credit
- b. Wages Payable, debit; Wages Expense, credit
- c. Wages Expense, debit; Cash, credit
- d. Cash, debit; Wages Payable, credit

ANSWER: a

168. If the two totals of a trial balance are not equal, it could be due to

- a. failure to record a transaction
- b. recording the same erroneous amount for both the debit and the credit parts of a transaction
- c. an error in determining the account balances, such as a balance being incorrectly computed
- d. recording the same transaction more than once

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ANSWER: c

169. When a transposition error is made on the trial balance, the difference between the debit and credit totals on the trial balance will be

- a. zero
- b. twice the amount of the transposition
- c. one-half the amount of the transposition
- d. divisible by 9

ANSWER: d

170. Which of the following errors would cause the trial balance totals to be unequal?

- a. A transaction was not posted.
- b. A payment of \$67 for insurance was posted as a debit of \$76 to Prepaid Insurance and a credit of \$76 to Cash.
- c. A payment of \$4,450 to a creditor was posted as a debit of \$4,500 to Accounts Payable and a credit of \$450 to Cash.
- d. Cash received from customers on account was posted as a debit of \$720 to Cash and a credit of \$720 to Accounts Payable.

ANSWER: c

171. Which of the following errors will cause the trial balance totals to be unequal?

- a. posting the debit portion of a journal entry incorrectly when the credit portion of the entry is correctly posted
- b. failure to record a transaction or to post a transaction
- c. recording the same transaction more than once
- d. recording the same erroneous amount for both the debit and the credit parts of a transaction

ANSWER: a

172. The trial balance is out of balance and the accountant suspects that a transposition or slide error has occurred. What will the accountant do to confirm this suspicion?

- a. Determine the amount of the error and look for that amount on the trial balance.
- b. Determine the amount of the error and divide by 2, then look for that amount on the trial balance.
- c. Determine the amount of the error and refer to the journal entries for that amount.
- d. Determine the amount of the error and divide by 9. If the result is evenly divided, then this type of error is likely.

ANSWER: d

173. The purchase of supplies on account was recorded and posted as a debit to Supplies for \$500 and a credit to Accounts Receivable for \$500. The correcting entry would include a

- a. credit to Accounts Receivable for \$500
- b. credit to Accounts Receivable for \$1,000
- c. credit to Accounts Payable for \$500
- d. credit to Accounts Payable for \$1,000

ANSWER: c

174. Which of the following is **not** a useful step in finding errors on the trial balance?

- a. Determine the difference between debits and credits and look for the amount.

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- b. Determine the difference between debits and credits and change any account to make the trial balance correct.
- c. Determine the difference between debits and credits, divide the amount by 2, and look for the amount.
- d. Determine the difference between debits and credits, divide the amount by 9, and if it divides evenly, look for a transposition or slide error.

ANSWER: b

175. Which of the following statements regarding a horizontal analysis is false?

- a. A horizontal analysis is used to compare an item in a current statement with the same item in prior statements.
- b. A horizontal analysis can be performed on a balance sheet and income statement, but not on a statement of cash flows.
- c. If Fees Earned in Year 1 is \$125,000 and Fees Earned in Year 2 is \$143,750, a horizontal analysis will indicate a 15% increase over this period.
- d. When two statements are compared in horizontal analysis, the earlier statement is used as the base for computing the amount and the percent of change.

ANSWER: b

176. McNally Industries has a condensed income statement as shown.

	Year 2	Year 1
Sales	\$198,000	\$165,500
Total operating expenses	<u>163,000</u>	<u>147,500</u>
Net income	<u>\$ 35,000</u>	<u>\$ 18,000</u>

Using horizontal analysis, compute the amount and percent change for sales. Round to one decimal place.

- a. \$32,500, 19.6%
- b. \$18,000, 10.9%
- c. \$35,000, 17.7%
- d. \$17,000, 9.4%

ANSWER: a

177. Richardson Company has a condensed income statement as shown.

	Year 2	Year 1
Sales	\$150,000	\$165,500
Total operating expenses	<u>133,000</u>	<u>147,500</u>
Net income	<u>\$ 17,000</u>	<u>\$ 18,000</u>

Using horizontal analysis, compute the amount and percent change for sales. Round to one decimal place.

- a. \$(17,000), (11.3%)
- b. \$(15,500), (10.3%)
- c. \$(18,000), (10.9%)
- d. \$(15,500), (9.4%)

ANSWER: d

Matching

Match each of the following accounts with its proper account group.

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- a. Assets
- b. Liabilities
- c. Owner's Equity
- d. Revenue
- e. Expenses

178. Unearned Rent

ANSWER: b

179. Prepaid Insurance

ANSWER: a

180. Fees Earned

ANSWER: d

181. Patents

ANSWER: a

182. Chris Clark, Drawing

ANSWER: c

*Match each of the following accounts to the side of the T account on which its normal balance would appear.*

- a. Debit side
- b. Credit side

183. John Smith, Capital

ANSWER: b

184. Accounts Receivable

ANSWER: a

185. Accounts Payable

ANSWER: b

186. Fees Earned

ANSWER: b

187. Copyrights

ANSWER: a

188. Utilities Expense

ANSWER: a

189. Notes Payable

ANSWER: b

190. Unearned Revenues

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ANSWER: b

191. John Smith, Drawing

ANSWER: a

*Match each of the following transactions to its effect on the accounting equation. A letter may be used more than once, and not all letters will be used.*

- a. Assets, Dr.; Assets, Cr.
- b. Assets, Dr.; Owner's Equity (Investment), Cr.
- c. Assets, Dr.; Liabilities, Cr.
- d. Assets, Dr.; Owner's Equity (Revenue), Cr.
- e. Liabilities, Dr.; Assets, Cr.
- f. Owner's Equity (Drawing), Dr.; Assets, Cr.
- g. Owner's Equity (Expense), Dr.; Assets, Cr.
- h. Owner's Equity (Expense), Dr.; Liabilities, Cr.

192. Paid \$725 to a vendor for supplies purchased previously on account.

ANSWER: e

193. Performed \$850 of services and billed the customer.

ANSWER: d

194. Paid utility bill of \$395.

ANSWER: g

195. Withdrew \$145 of supplies for personal use.

ANSWER: f

196. Paid \$315 in salaries.

ANSWER: g

197. Collected \$730 from customers on account.

ANSWER: a

*Several types of errors can be made during the journalizing and posting process. Match each of the following errors with an error type.*

- a. Trial balance preparation errors
- b. Account balance errors
- c. Posting errors

198. Balance incorrectly computed

ANSWER: b

199. Debit or credit posting omitted

ANSWER: c

200. Wrong amount posted to an account

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ANSWER: c

201. Column incorrectly added

ANSWER: a

202. Balance entered on wrong side of account

ANSWER: b

203. Amount incorrectly entered on trial balance

ANSWER: a

204. Balance entered in wrong column or omitted

ANSWER: a

205. Debit posted as credit, or vice versa

ANSWER: c

### Subjective Short Answer

206. The chart of accounts classifies the accounts to make identification of the accounts easier. Describe the numbering system businesses use in setting up the chart of accounts.

ANSWER: A chart of accounts is set up by assigning two-digit numbers to each of the accounts for use as references. The first digit indicates the major account group of the ledger in which the account is located. Accounts beginning with 1 represent assets; 2, liabilities; 3, owner's equity; 4, revenue; 5, expenses. The second digit indicates the location of the account within its group. Large companies may have additional digits to accommodate a large number of accounts.

207. On January 1, Cassie Harris established a catering service. She would like to open the following accounts in the general ledger. List the accounts in the order in which they should appear in the ledger and propose a two-digit account numbering scheme that is consistent with the rules of a proper chart of accounts.

1. Cash
2. Supplies
3. Equipment
4. Accounts Payable
5. Cassie Harris, Capital
6. Wages Expense
7. Rent Expense
8. Truck
9. Utilities Expense
10. Cassie Harris, Drawing
11. Truck Expense
12. Prepaid Insurance
13. Fees Earned
14. Miscellaneous Expense
15. Insurance Expense
16. Notes Payable
17. Accounts Receivable

ANSWER: 11 Cash

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- 12 Accounts Receivable
- 13 Supplies
- 14 Prepaid Insurance
- 15 Equipment
- 16 Truck
- 21 Accounts Payable
- 22 Notes Payable
- 31 Cassie Harris, Capital
- 32 Cassie Harris, Drawing
- 41 Fees Earned
- 51 Wages Expense
- 52 Rent Expense
- 53 Utilities Expense
- 54 Truck Expense
- 55 Insurance Expense
- 56 Miscellaneous Expense

208. On January 31, the cash account balance was \$96,750. During January, cash receipts totaled \$305,000 and cash payments totaled \$375,880. Determine the cash balance on January 1.

ANSWER:  $? + \$305,000 - \$375,880 = \$96,750$   
 Cash balance at January 1 = \$167,630

209. Organize the following accounts into the usual sequence of a chart of accounts.

- Alecia Morris, Capital
- Alecia Morris, Drawing
- Accounts Payable
- Accounts Receivable
- Cash
- Fees Earned
- Miscellaneous Expense
- Prepaid Rent
- Salaries Expense
- Unearned Revenue

ANSWER: Cash  
 Accounts Receivable  
 Prepaid Rent  
 Accounts Payable  
 Unearned Revenue  
 Alecia Morris, Capital  
 Alecia Morris, Drawing  
 Fees Earned  
 Salaries Expense  
 Miscellaneous Expense

210. Compute the following:

(a) Determine the cash receipts for April based on the following data:

Cash payments during April	\$63,000
Cash account balance, April 1	25,500



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Cash account balance, April 30 31,750

- (b) Determine the cash received from customers on account during April based on the following data:

Accounts receivable account balance, April 1	\$22,500
Accounts receivable account balance, April 30	15,250
Fees billed to customers during April	45,000

ANSWER: (a) \$69,250 (\$31,750 + \$63,000 – \$25,500)  
 (b) \$52,250 (\$22,500 + \$45,000 – \$15,250)

211. The following select accounts are from the ledger of Garrison Company. For each account, indicate the following:

- (a) The type of account, using the following abbreviations

Asset - A	Revenue - R
Liability - L	Expense - E
None of these choices - N	

- (b) The side of the T account in which an increase entry would appear (Dr. or Cr.)

<u>Account</u>	<u>Type of Account</u>	<u>Increase Side</u>
(1) Supplies	_____	_____
(2) Notes Receivable	_____	_____
(3) Fees Earned	_____	_____
(4) Garrison, Drawing	_____	_____
(5) Accounts Payable	_____	_____
(6) Salaries Expense	_____	_____
(7) Garrison, Capital	_____	_____
(8) Accounts Receivable	_____	_____
(9) Equipment	_____	_____
(10) Notes Payable	_____	_____

<u>ANSWER:</u>	<u>Type of Account</u>	<u>Increase Side</u>
(1)	A	Dr.
(2)	A	Dr.
(3)	R	Cr.
(4)	N	Dr.
(5)	L	Cr.
(6)	E	Dr.
(7)	N	Cr.
(8)	A	Dr.
(9)	A	Dr.
(10)	L	Cr.

212. All nine transactions for Dalton Survey Company for September, the first month of operations, are recorded in the following T accounts:

Cash	Michael Dalton, Capital
(1) 20,000   (3) 7,500	(1) 20,000

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(7)	6,900	(5)	2,600
(9)	4,700	(6)	5,500
		(8)	2,000

Accounts Receivable			
(4)	4,900	(9)	4,700

Michael Dalton, Drawing	
(8)	2,000

Supplies	
(3)	7,500

Fees Earned	
(4)	4,900
(7)	6,900

Equipment	
(2)	4,500

Operating Expenses	
(6)	5,500

Accounts Payable			
(5)	2,600	(2)	4,500

Indicate the following for each debit and credit:

- (a) The type of account affected (asset, liability, capital, drawing, revenue, or expense).
- (b) The effect on the account, using "+" for increase and "-" for decrease.

Present your answers in the following form:

<u>Transaction</u>	<u>Account Debited</u>		<u>Account Credited</u>		<u>Effect</u>
	<u>Type</u>	<u>Effect</u>	<u>Type</u>	<u>Effect</u>	
<b>ANSWER:</b>	<u>Account Debited</u>		<u>Account Credited</u>		
<u>Transaction</u>	<u>Type</u>	<u>Effect</u>	<u>Type</u>	<u>Effect</u>	
(1)	asset	+	capital	+	
(2)	asset	+	liability	+	
(3)	asset	+	asset	-	
(4)	asset	+	revenue	+	
(5)	liability	-	asset	-	
(6)	expense	+	asset	-	
(7)	asset	+	revenue	+	
(8)	drawing	+	asset	-	
(9)	asset	+	asset	-	

213. On June 1, the cash account balance was \$96,750. During June, cash receipts totaled \$305,000 and the June 30 balance was \$75,880. Determine the cash payments made during June.

ANSWER:  $\$75,880 = \$96,750 + \$305,000 - ?$   
 Cash Payments = \$325,870

214. On September 1, Erika Company purchased land for \$47,500 cash. Provide the journal entry for this transaction.

ANSWER: Sept. 1 Land 47,500  
                     Cash 47,500

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Purchased land for the company.

215. On October 10, Nickle Company purchased supplies for \$1,800 on account. On October 25, Nickle Company paid the invoice. Journalize the entries required for these transactions

*ANSWER:*

Oct. 10	Supplies	1,800	
	Accounts Payable		1,800
	Purchased supplies on account.		
Oct. 25	Accounts Payable	1,800	
	Cash		1,800
	Paid creditor on account.		

216. On October 17, Nickle Company purchased a building and a plot of land for \$750,000. The building was valued at \$500,000, while the land carried a value of \$250,000. Nickle paid \$300,000 down in cash and signed a note payable for the balance. Journalize the entry required for this transaction.

*ANSWER:*

Oct. 17	Building	500,000	
	Land	250,000	
	Cash		300,000
	Notes Payable		450,000
	Purchased building and land with cash down payment.		

217. On November 1, Nickle Company made a cash payment of \$200,000 on a note payable that was generated in the purchase of a building and land. Journalize the entry required for this transaction.

*ANSWER:*

Nov. 1	Notes Payable	200,000	
	Cash		200,000
	Made payment on note payable.		

218. On January 7, Damien Lawson invested \$45,000 cash to initiate the operation of his business, JumpStart. Journalize the entry required for this transaction.

*ANSWER:*

Jan. 7	Cash	45,000	
	Damien Lawson, Capital		45,000
	Invested cash in business.		

219. On January 8, Jumpstart purchased several pieces of office equipment at a clearance price of \$20,000, paying cash. The equipment was originally priced at \$35,000. Journalize the entry required for this transaction.

*ANSWER:*

Jan. 8	Office Equipment	20,000	
	Cash		20,000
	Purchased office equipment.		

220. On August 30, JumpStart paid the following expenses: rent, \$2,300; utilities, \$525; wages, \$1,750, and miscellaneous, \$275. Journalize these payments as one entry.

*ANSWER:*

Aug. 30	Rent Expense	2,300	
	Utilities Expense	525	
	Wages Expense	1,750	
	Miscellaneous Expense	275	
	Cash		4,850
	Paid expenses.		

221. On October 30, Damien Lawson withdraws \$3,330 from JumpStart for personal use. Journalize this event.

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ANSWER: Oct. 30          Damien Lawson, Drawing          3,330  
   Cash    3,330  
   Withdrew cash for personal use.

222. Several transactions are shown, 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. Write your answers in the space provided under the accounting equation. You need an identification code for **each** element of the accounting equation. An example is given before the first transaction.

I - Increase                  D - Decrease                  NE - No Effect

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
Example    John Smith invests in his new business by giving it his personal drill press valued at \$3,500.	<u>I</u>		<u>NE</u>		<u>I</u>
(a)    Cash sales are made.	<u>        </u>		<u>        </u>		<u>        </u>
(b)    Equipment is purchased on credit.	<u>        </u>		<u>        </u>		<u>        </u>
(c)    Payment is made for the equipment purchased on credit in (b).	<u>        </u>		<u>        </u>		<u>        </u>
(d)    The company sold excess supplies to another company on credit.	<u>        </u>		<u>        </u>		<u>        </u>
(e)    Cash is collected from customers for accounts receivable balances.	<u>        </u>		<u>        </u>		<u>        </u>

ANSWER:

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
(a)    Cash sales are made.	<u>I</u>		<u>NE</u>		<u>I</u>
(b)    Equipment is purchased on credit.	<u>I</u>		<u>I</u>		<u>NE</u>
(c)    Payment is made for the equipment purchased on credit in (b).	<u>D</u>		<u>D</u>		<u>NE</u>
(d)    The company sold excess supplies to another company on credit.	<u>NE</u>		<u>NE</u>		<u>NE</u>
(e)    Cash is collected from customers for accounts receivable	<u>NE</u>		<u>NE</u>		<u>NE</u>

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balances.

223. Increases and decreases in various types of accounts follow. In each case, indicate by "Dr." or "Cr." (a) whether the change in the account would be recorded as a debit or a credit and (b) whether the normal balance of the account is a debit or a credit.

	(a) <b>Recorded <u>As</u></b>	(b) <b>Normal <u>Balance</u></b>
(1) Increase in Denice Dickenson, Capital	_____	_____
(2) Increase in Denice Dickenson, Drawing	_____	_____
(3) Decrease in Accounts Receivable	_____	_____
(4) Increase in Notes Payable	_____	_____
(5) Increase in Accounts Payable	_____	_____
(6) Decrease in Supplies	_____	_____
(7) Decrease in Salaries Expense	_____	_____
(8) Increase in Accounts Receivable	_____	_____
(9) Increase in Cash	_____	_____
(10) Decrease in Land	_____	_____

ANSWER:

	(a) <b><u>Recorded As</u></b>	(b) <b><u>Normal Balance</u></b>
(1)	Cr.	Cr.
(2)	Dr.	Dr.
(3)	Cr.	Dr.
(4)	Cr.	Cr.
(5)	Cr.	Cr.
(6)	Cr.	Dr.
(7)	Cr.	Dr.
(8)	Dr.	Dr.
(9)	Dr.	Dr.
(10)	Cr.	Dr.

224. Journalize the following selected transactions for Long Company's first month of operations in a two-column journal, identifying each entry by letter. Omit explanations.

- (a) Received \$18,000 from Katie Long, owner, as an investment in the business.
- (b) Purchased equipment for \$27,000, paying \$10,000 in cash and giving a note payable for the remainder.
- (c) Paid \$2,300 for rent for April.
- (d) Purchased \$1,500 of supplies on account.
- (e) Recorded \$9,800 of fees earned on account.
- (f) Received \$7,500 in cash for fees earned.
- (g) Paid \$1,200 to creditors on account.
- (h) Paid wages of \$3,425.
- (i) Received \$7,900 from customers on account.
- (j) Recorded owner's withdrawal of \$1,875.

ANSWER: (a) Cash	18,000	
Katie Long, Capital		18,000

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(b) Equipment	27,000	
Cash		10,000
Notes Payable		17,000
(c) Rent Expense	2,300	
Cash		2,300
(d) Supplies	1,500	
Accounts Payable		1,500
(e) Accounts Receivable	9,800	
Fees Earned		9,800
(f) Cash	7,500	
Fees Earned		7,500
(g) Accounts Payable	1,200	
Cash		1,200
(h) Wages Expense	3,425	
Cash		3,425
(i) Cash	7,900	
Accounts Receivable		7,900
(j) Katie Long, Drawing	1,875	
Cash		1,875

225. On January 12, JumpStart purchased \$870 in office supplies.

(a) Journalize this transaction as if JumpStart paid cash.

(b) Journalize this transaction as if JumpStart made the purchase on account.

(c) Assuming Jumpstart made the purchase on account, journalize the full payment on January 18.

ANSWER: (a)

Jan. 12	Office Supplies	870	
	Cash		870

(b)			
Jan. 12	Office Supplies	870	
	Accounts Payable		870

(c)			
Jan. 18	Accounts Payable	870	
	Cash		870

226. On November 10, JumpStart provides \$2,900 in services to clients. At the time of service, the clients paid \$600 in cash and put the balance on account.

(a) Journalize this event.

(b) On November 20, JumpStart's clients paid an additional \$900 on their accounts due. Journalize this event.

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(c) Compute the accounts receivable balance on November 30.

ANSWER: (a) Nov. 10

Cash	600
Accounts Receivable	2,300
Fees Earned	2,900

(b) Nov. 20

Cash	900
Accounts Receivable	900

(c)

Original invoice	\$2,900
Less cash paid upon completion	<u>600</u>
Original amount on accounts receivable	\$2,300
Less November 20 payment	<u>900</u>
Accounts receivable balance	<u>\$1,400</u>

227. Journalize the transaction for the purchase of a truck on April 4 for \$85,700, paying \$15,000 cash and the remainder on account. Omit explanation.

ANSWER: Apr. 4

Truck	85,700
Cash	15,000
Accounts Payable	70,700

228. Journalize the following selected transactions for January. Explanations may be omitted.

- Jan. 1 Received cash from the investment made by the owner, \$14,000.
- 2 Received cash for providing accounting services, \$9,500.
- 3 Billed customers on account for providing services, \$4,200.
- 4 Paid advertising expense, \$700.
- 5 Received cash from customers on account, \$2,500.
- 6 Owner withdrew \$1,010.
- 7 Received telephone bill, \$900.
- 8 Paid telephone bill, \$900.

ANSWER:

Date	Description	Post. Ref.	Debit	Credit
Jan. 1	Cash		14,000	
	Owner, Capital			14,000
2	Cash		9,500	
	Revenues			9,500
3	Accounts Receivable		4,200	
	Revenues			4,200
4	Advertising Expense		700	
	Cash			700
5	Cash		2,500	
	Accounts Receivable			2,500
6	Owner, Drawing		1,010	

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	Cash			1,010
7	Telephone Expense		900	
	Accounts Payable			900
8	Accounts Payable		900	
	Cash			900

229. On December 1, JumpStart provides \$2,800 in services to clients.

(a) Journalize this event as if the clients had paid cash at the time the services were rendered.

(b) Journalize this event as if the clients received the services on account.

(c) Assuming that the clients received the services on account, journalize \$1,200 in payments received from the clients on December 30.

ANSWER:

(a)	Dec. 1	Cash	2,800	
		Fees Earned		2,800
(b)	Dec. 1	Accounts Receivable	2,800	
		Fees Earned		2,800
(c)	Dec. 30	Cash	1,200	
		Accounts Receivable		1,200

230. State for each account whether it is likely to have (a) debit entries only, (b) credit entries only, or (c) both debit and credit entries when recording business transactions during the month. Also, indicate the normal balance of each account.

- |                      |                        |
|----------------------|------------------------|
| 1. Fees Earned       | 4. Supplies            |
| 2. Utilities Expense | 5. Cash                |
| 3. Accounts Payable  | 6. Accounts Receivable |

- ANSWER:
- Credit entries only, normal credit balance
  - Debit entries only, normal debit balance
  - Both debit and credit entries, normal credit balance
  - Both debit and credit entries, normal debit balance
  - Both debit and credit entries, normal debit balance
  - Both debit and credit entries, normal debit balance

231. On October 12, fees earned on account were \$14,600. Journalize this transaction. Omit explanation.

ANSWER:

Oct. 12	Accounts Receivable	14,600	
	Fees Earned		14,600

232. Journalize the following five transactions for Nexium & Associates, Inc. Omit explanations.

- Mar. 1 Invoiced client for services provided on account, \$800.
- 9 Purchased office furniture (\$1,060) and office supplies (\$160) on account from Corner Office, Inc., receiving an invoice for \$1,220.
- 15 Paid Corner Office, Inc. for the furniture and office supplies delivered on March 9.
- 23 Paid utility bill for the month, \$430.



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31	Paid salaries of \$850 are paid to employees.		
ANSWER:	Mar. 1	Accounts Receivable	800
		Service Revenue	800
	9	Office Furniture	1,060
		Office Supplies	160
		Accounts Payable	1,220
	15	Accounts Payable	1,220
		Cash	1,220
	23	Utilities Expense	430
		Cash	430
	31	Salaries Expense	850
		Cash	850

233. Journalize the following selected transactions of Mirmax Rentals. Omit explanations.

- Aug. 1 Purchased two new saws on credit at \$425 each. The saws are added to Mirmax's rental inventory. Payment is due in 30 days.
- 8 Accepted advance deposits of \$125 for tool rentals that will be applied to the cash rental when the tools are returned.
- 20 Charged customers \$1,250 on account for tool rentals. Payment is due within 30 days.
- 31 Paid utility bill for the month, \$180.
- 31 Received \$600 in payments from the customers that were billed for rentals on August 20.

ANSWER:	Aug. 1	Equipment (or Tools)	850
		Accounts Payable	850
	8	Cash	125
		Unearned Revenue	125
	20	Accounts Receivable	1,250
		Rental Revenue	1,250
	31	Utilities Expense	180
		Cash	180
	31	Cash	600
		Accounts Receivable	600

234. On January 1, Merry Walker established a catering service. The accounts to use for transactions (a) through (d), each identified by a number, are listed. Following this list are the transactions that occurred during the first month of operations. For each transaction, indicate the accounts that should be debited and credited by their account number(s).

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- 11. Cash
- 12. Accounts Receivable
- 14. Supplies
- 15. Prepaid Insurance
- 17. Equipment
- 18. Truck
- 21. Accounts Payable
- 22. Notes Payable
- 31. Merry Walker, Capital
- 32. Merry Walker, Drawing
- 41. Fees Earned
- 51. Wages Expense
- 52. Supplies Expense
- 53. Rent Expense
- 54. Utilities Expense
- 55. Truck Expense
- 59. Miscellaneous Expense

Transactions	Account(s) Debited	Account(s) Credited
a. Merry transferred cash from a personal bank account to an account to be used for the business.		
b. Paid rent for the period of January 3 to the end of the month.		
c. Purchased truck for \$30,000 with a cash down payment of \$5,000 and the remainder on a note.		
d. Purchased equipment on account.		

ANSWER:

Transactions	Account(s) Debited	Account(s) Credited
a.	11	31
b.	53	11
c.	18	11,22
d.	17	21

235. On January 1, Merry Walker established a catering service. The accounts to use for transactions (a) through (e), each identified by a number, are listed. Following this list are the transactions that occurred in Walker's first month of operations. For each transaction, indicate the accounts that should be debited and credited by their account number(s).

- 11. Cash
- 12. Accounts Receivable
- 14. Supplies
- 15. Prepaid Insurance
- 17. Equipment
- 18. Truck
- 21. Accounts Payable
- 22. Notes Payable
- 31. Merry Walker, Capital
- 32. Merry Walker, Drawing
- 41. Fees Earned

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- 51. Wages Expense
- 52. Supplies Expense
- 53. Rent Expense
- 54. Utilities Expense
- 55. Truck Expense
- 56. Insurance Expense
- 59. Miscellaneous Expense

Transactions	Account(s) Debited	Account(s) Credited
a. Purchased supplies for cash.		
b. Paid the annual premiums on property and casualty insurance.		
c. Received cash for a job previously recorded on account.		
d. Paid a creditor a portion of the amount owed for equipment previously purchased on account.		
e. Received cash for a completed job.		

ANSWER:

Transactions	Account(s) Debited	Account(s) Credited
a.	14	11
b.	15	11
c.	11	12
d.	21	11
e.	11	41

236. On January 1, Merry Walker established a catering service. The accounts to use for transactions (a) through (f), each identified by a number, are listed. Following this list are the transactions that occurred in Walker's first month of operations. For each transaction, indicate the accounts that should be debited and credited by their account number(s).

- 11. Cash
- 12. Accounts Receivable
- 14. Supplies
- 15. Prepaid Insurance
- 17. Equipment
- 18. Truck
- 21. Accounts Payable
- 22. Notes Payable
- 31. Merry Walker, Capital
- 32. Merry Walker, Drawing
- 41. Fees Earned
- 51. Wages Expense
- 52. Supplies Expense
- 53. Rent Expense
- 54. Utilities Expense
- 55. Truck Expense
- 56. Insurance Expense
- 57. Miscellaneous Expense

Transactions	Account(s) Debited	Account(s) Credited
a. Recorded jobs completed on		

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account and sent invoices to customers.		
b. Received an invoice for truck expenses to be paid in February.		
c. Paid utilities expense		
d. Received cash from customers on account.		
e. Paid employee wages.		
f. Withdrew cash for personal use.		

ANSWER:

Transactions	Account(s) Debited	Account(s) Credited
a.	12	41
b.	55	21
c.	54	11
d.	11	12
e.	51	11
f.	32	11

237. On January 1, Merry Walker established a catering service. The accounts to use for transactions (a) through (f), each identified by a number, are listed. Following this list are the transactions that occurred in Walker's first month of operations. For each transaction, indicate the accounts that should be debited and credited by their account number(s).

- 11. Cash
- 12. Accounts Receivable
- 14. Supplies
- 15. Prepaid Insurance
- 17. Equipment
- 18. Truck
- 21. Accounts Payable
- 22. Notes Payable
- 23. Unearned Revenue
- 31. Merry Walker, Capital
- 32. Merry Walker, Drawing
- 41. Fees Earned
- 51. Wages Expense
- 52. Supplies Expense
- 53. Rent Expense
- 54. Utilities Expense
- 55. Truck Expense
- 56. Insurance Expense
- 57. Miscellaneous Expense

Transactions	Account(s) Debited	Account(s) Credited
a. Purchased supplies on account.		
b. Paid the invoice previously recorded in transaction (a).		
c. Bought a three-year insurance policy and paid in full.		
d. Received \$7,000 from a contract to perform accounting services over the next two years.		

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ANSWER:

Transactions	Account(s) Debited	Account(s) Credited
a.	14	21
b.	21	11
c.	15	11
d.	11	23

238. The following two situations are independent of each other.

(a) On June 1, the cash account balance was \$45,750. During June, cash payments totaled \$243,910, and the June 30 balance was \$53,200. Determine the cash receipts during June and show your calculation.

(b) On March 1, the supplies account balance was \$1,800. During March, supplies of \$2,450 were purchased, and supplies of \$630 were on hand as of March 31. Determine the supplies expense for March and show your calculation.

ANSWER: (a)  $\$53,200 = \$45,750 + \text{Cash Receipts} - \$243,910$   
 Cash Receipts = \$251,360

(b)  $\$630 = \$1,800 + \$2,450 - \text{Supplies Expense}$   
 Supplies Expense = \$3,620

239. The bookkeeper for Brockton Industries prepared the following journal entries and posted the entries to the general ledger as indicated in the T accounts presented. Assume that the dollar amounts and the descriptions of the entries are correct.

July	3	Accounts Receivable	1,000	
		Service Revenue		1,000
		Customers were billed for services completed.		
	11	Cash	500	
		Accounts Receivable		500
		Payment is received from a customer billed for services on July 3.		
	12	Office Supplies	600	
		Accounts Payable		600
		Purchased office supplies on credit; payment is due in 30 days.		
	25	Office Furniture	700	
		Cash		700
		Payment is made for office furniture received on July 25.		

Accounts Receivable	
7/3	1,000
Cash	
7/11	500
7/25	700

Service Revenue	
7/3	1,000
7/11	500
Accounts Payable	
7/12	600

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Office Supplies	Office Furniture
7/12      600	7/25      700

**Required**

If you assume that all journal entries have been recorded correctly, use the given information to:

- (1) Identify the postings to the general ledger that were made incorrectly.
- (2) Describe how each incorrect posting should have been made.

**ANSWER:** (1) The bookkeeper incorrectly posted the July 3, July 11, and 12 journal entries.  
 (2) For the July 3 journal entry, the \$1,000 credit to Service Revenue should have been posted to the Service Revenue account as a credit, not as a debit. For the July 11 journal entry, the \$500 credit should be posted to Accounts Receivable, not to Service Revenue. For the July 12 journal entry, the \$600 credit to Accounts Payable should have been posted as a credit, not as a debit.

240. Journalize the entries to correct the following errors:

- (a) A purchase of supplies for \$500 on account was recorded and posted as a debit to Supplies for \$200 and as a credit to Accounts Receivable for \$200.
- (b) A receipt of \$2,500 for fees earned was recorded and posted as a debit to Fees Earned for \$2,500 and a credit to Cash for \$2,500.

**ANSWER:**

(a) Accounts Receivable	200	
Supplies		200
Supplies	500	
Accounts Payable		500
(b) Cash	5,000	
Fees Earned		5,000

241. On November 30, Damien Lawson is informed by his accountant that \$550 of a transaction recording the purchase of office supplies was really office equipment. Prepare the journal entry to correct this situation.

**ANSWER:**

Nov. 30	Office Equipment	550	
	Office Supplies		550

242. The following errors took place in journalizing and posting transactions:

- (a) A withdrawal of \$5,000 by Stan Norton, owner of the business, was recorded as a debit to Office Expense and a credit to Cash.
- (b) A receipt of \$7,800 cash from a customer on account was recorded as a debit to Cash and a credit to Fees Earned.

Journalize the entries to correct the errors. Omit the explanations.

**ANSWER:**

(a) Stan Norton, Drawing	5,000	
Office Expense		5,000
(b) Fees Earned	7,800	
Accounts Receivable		7,800

243. For each of the following errors, considered individually, indicate whether the error would cause the trial balance totals to be unequal. If the error would cause the trial balance totals to be unequal, indicate whether the debit or credit total

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is higher and by how much.

- (a) Payment of a cash withdrawal of \$6,800 was journalized and posted as a debit of \$8,600 to Salaries Expense and a credit of \$8,600 to Cash.
- (b) A fee of \$9,780 earned was debited to Accounts Receivable for \$7,980 and credited to Fees Earned for \$9,780.
- (c) A payment of \$3,000 to a creditor was posted as a credit of \$3,000 to Accounts Payable and a credit of \$3,000 to Cash.

- ANSWER:
- (a) The totals are equal.
  - (b) The totals are unequal. The credit total is higher by \$1,800.
  - (c) The totals are unequal. The credit total is higher by \$6,000.

244. The unadjusted trial balance for Dawson Designs Co. follows.

**Required**

- (1) Identify the errors in the trial balance. All accounts have normal balances.
- (2) Prepare a corrected trial balance.

<b>Dawson Designs Co. Unadjusted Trial Balance For the Month of January</b>		
	<b>Debit Balances</b>	<b>Credit Balances</b>
Cash	23,000	
Accounts Receivable		49,700
Prepaid Insurance	11,300	
Equipment	150,500	
Accounts Payable	6,050	
Salaries Payable		4,250
Tim Dawson, Capital		110,000
Tim Dawson, Drawing		18,500
Service Revenue		236,600
Salary Expense	98,930	
Miscellaneous Expense		4,970
	<u>424,020</u>	<u>424,020</u>

- ANSWER: (1)
- a. The Debit column is added incorrectly; the sum is actually \$289,780.
  - b. The trial balance should be dated January 31, rather than “For the Month of January”
  - c. The Accounts Receivable balance should be in the Debit column.
  - d. The Accounts Payable balance should be in the Credit column.
  - e. The Tim Dawson, Drawing balance should be in the Debit column.
  - f. The Miscellaneous Expense balance should be in the Debit column.

(2)

<b>Dawson Designs Co. Unadjusted Trial Balance January 31</b>		
	<b>Debit Balances</b>	<b>Credit Balances</b>

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Cash	23,000	
Accounts Receivable	49,700	
Prepaid Insurance	11,300	
Equipment	150,500	
Accounts Payable		6,050
Salaries Payable		4,250
Tim Dawson, Capital		110,000
Tim Dawson, Drawing	18,500	
Service Revenue		236,600
Salary Expense	98,930	
Miscellaneous Expense	4,970	
	<u>356,900</u>	<u>356,900</u>

245. Prepare a trial balance, listing the following accounts in proper sequence. The accounts (all normal balances) were taken from the ledger of Sophie Designs Co. on April 30.

Accounts Payable	\$ 4,100	Salary Expense	\$14,000
Accounts Receivable	3,450	Sophie Dawson, Capital	17,800
Cash	6,700	Sophie Dawson, Drawing	7,500
Equipment	14,500	Supplies	3,125
Fees Earned	45,245	Supplies Expense	1,700
Miscellaneous Expense	850	Utilities Expense	4,000
Rent Expense	11,500		

ANSWER:

**Sophie Designs Co.  
Trial Balance  
April 30**

	Debit Balances	Credit Balances
Cash	6,700	
Accounts Receivable	3,450	
Supplies	3,125	
Equipment	14,500	
Accounts Payable		4,100
Sophie Dawson, Capital		17,800
Sophie Dawson, Drawing	7,500	
Fees Earned		45,425
Salary Expense	14,000	
Rent Expense	11,500	
Utilities Expense	4,000	
Supplies Expense	1,700	
Miscellaneous Expense	850	
	<u>67,325</u>	<u>67,325</u>

246. The following trial balance was prepared for Winslow's Auto Body on April 30.

- List the errors in the trial balance. Assume all accounts have normal balances.
- What would be the new totals in the Debit and Credit columns after errors are corrected? What would be the balance of Accounts Receivable?

**Winslow's Auto Body  
Trial Balance**



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**For Month Ending April 30**

	<b>Debit Balances</b>	<b>Credit Balances</b>
Cash		19,475
Accounts Receivable	?	
Supplies		1,000
Equipment	15,000	
Prepaid Insurance		500
Accounts Payable		2,500
Thad Winslow, Capital	17,000	
Thad Winslow, Drawing		1,000
Fees Earned		49,600
Salary Expense	14,500	
Rent Expense		9,000
Utilities Expense	1,400	
Supplies Expense	3,900	
Miscellaneous Expense	<u>250</u>	
	<u>55,000</u>	<u>81,575</u>

- ANSWER: (a) (1) In the heading, the date should be April 30; not for a period of time.  
 (2) The Cash balance should be a debit.  
 (3) The Accounts Receivable balance is missing.  
 (4) The Supplies balance should be a debit.  
 (5) The Prepaid Insurance balance should be a debit and this account should follow Accounts Receivable.  
 (6) The Thad Winslow, Capital balance should be a credit.  
 (7) The Thad Winslow, Drawing balance should be a debit.  
 (8) Rent Expense should be a debit.  
 (9) The trial balance does not balance.
- (b) The new total for credits would be \$69,100 (\$2,500 accounts payable + \$49,600 fees earned + \$17,000 capital). The debits would also total \$69,100. Accounts receivable would be \$3,075 (\$69,100 total credits – \$66,025 corrected debits).

247. Answer the following questions for each of the errors listed, considered individually:

- (a) Did the error cause the trial balance totals to be unequal?  
 (b) What is the amount of the difference between the trial balance totals (where applicable)?  
 (c) Which of the trial balance totals, debit or credit, is the larger (where applicable)?

Present your answers in columnar form, using the following headings:

<b>Error (identifying number)</b>	<b>Totals (equal or unequal)</b>	<b>Difference in Totals (amount)</b>	<b>Larger of Totals (debit or credit)</b>
---------------------------------------	--------------------------------------	--	---

Errors:

- (1) A withdrawal of \$3,000 cash by the owner was recorded by a debit of \$3,000 to Salary Expense and a credit of \$3,000 to Cash.  
 (2) A \$650 purchase of supplies on account was recorded as a debit of \$1,650 to Equipment and a credit of \$1,650 to Accounts Payable.  
 (3) A purchase of equipment for \$3,450 on account was not recorded.  
 (4) An \$870 receipt on account was recorded as an \$870 debit to Cash and a \$780

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credit to Accounts Receivable.

- (5) A payment of \$1,530 cash on account was recorded only as a credit to Cash.
- (6) Cash sales of \$8,500 were recorded as a credit of \$8,500 to Cash and a credit of \$8,500 to Fees Earned.
- (7) The debit to record a \$4,000 cash receipt on account was posted twice; the credit was posted once.
- (8) The credit to record a \$300 cash payment on account was posted twice; the debit was posted once.
- (9) The debit balance of \$7,400 in Accounts Receivable was recorded in the trial balance as a debit of \$7,200.

ANSWER:	<u>Error</u>	<u>Totals</u>	<u>Difference in Totals</u>	<u>Larger of Totals</u>
(1)		equal	—	—
(2)		equal	—	—
(3)		equal	—	—
(4)		unequal	\$ 90	debit
(5)		unequal	1,530	credit
(6)		unequal	17,000	credit
(7)		unequal	4,000	debit
(8)		unequal	300	credit
(9)		unequal	200	credit

**Exhibit 2-1**

All nine transactions for Ralston Sports Co. for September, the first month of operations, are recorded in the following T accounts:

Cash		James Ralston, Capital	
(1) 25,000	(3) 12,500		(1) 25,000
(7) 11,900	(5) 7,600		
(9) 9,700	(6) 10,500		
	(8) 7,000		
Accounts Receivable		James Ralston, Drawing	
(4) 9,900	(9) 9,700	(8) 7,000	
Supplies		Fees Earned	
(3) 12,500			(4) 9,900
			(7) 11,900
Equipment		Operating Expenses	
(2) 9,500		(6) 10,500	
Accounts Payable			
(5) 7,600	(2) 9,500		

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248. Refer to Exhibit 2-1. Prepare a trial balance, listing the accounts in their proper order.

ANSWER:

**Ralston Sports Company**  
**Trial Balance**  
**September 30**

	Debit Balances	Credit Balances
Cash	9,000	
Accounts Receivable	200	
Supplies	12,500	
Equipment	9,500	
Accounts Payable		1,900
James Ralston, Capital		25,000
James Ralston, Drawing	7,000	
Fees Earned		21,800
Operating Expenses	<u>10,500</u>	
	<u>48,700</u>	<u>48,700</u>

249. Lewis Company has the following condensed income statement:

	Year 2	Year 1
Sales	<u>\$178,400</u>	<u>\$162,500</u>
Wages expense	<u>\$100,000</u>	<u>\$ 92,500</u>
Rent expense	<u>33,000</u>	<u>30,000</u>
Utilities expense	<u>30,000</u>	<u>25,000</u>
Total operating expenses	<u>\$163,000</u>	<u>\$147,500</u>
Net income	<u>\$ 15,400</u>	<u>\$ 15,000</u>

**Required**

Prepare a horizontal analysis of Lewis Company's income statements. Comment on the changes as favorable or unfavorable.

ANSWER:

	Year 2	Year 1	Increase/ Decrease Amount	Percent Change
Sales	<u>\$178,400</u>	<u>\$162,500</u>	<u>\$15,900</u>	9.8%
Wages expense	<u>\$100,000</u>	<u>\$ 92,500</u>	<u>\$ 7,500</u>	8.1
Rent expenses	<u>33,000</u>	<u>30,000</u>	<u>3,000</u>	10.0
Utilities expense	<u>30,000</u>	<u>25,000</u>	<u>5,000</u>	20.0
Total operating expenses	<u>\$163,000</u>	<u>\$147,500</u>	<u>\$15,500</u>	10.5
Net income	<u>\$ 15,400</u>	<u>\$ 15,000</u>	<u>\$ 400</u>	2.7

While the increase in sales revenue is favorable, it is not sufficient to offset the rising expenses (unfavorable), resulting in a positive but small increase in net income.

250. Nebraska Technologies has the following condensed income statement:

	Year 2	Year 1
Sales	<u>\$158,400</u>	<u>\$162,500</u>
Wages expense	<u>\$ 80,000</u>	<u>\$ 92,500</u>
Rent expense	<u>28,000</u>	<u>30,000</u>

## Chapter 02 - Analyzing Transactions

Utilities expense	30,000	25,000
Total operating expenses	<u>\$138,000</u>	<u>\$147,500</u>
Net income	<u>\$ 20,400</u>	<u>\$ 15,000</u>

**Required**

Prepare a horizontal analysis of Nebraska Technologies' income statements. Comment on the changes as favorable or unfavorable.

ANSWER:

	Year 2	Year 1	Increase/Decrease Amount	Percent Change
Sales	\$158,400	\$162,500	\$ (4,100)	(2.5)%
Wages expense	\$ 80,000	\$ 92,500	\$(12,500)	(13.5)
Rent expense	28,000	30,000	(2,000)	(6.7)
Utilities expense	<u>30,000</u>	<u>25,000</u>	<u>5,000</u>	20.0
Total operating expenses	<u>\$138,000</u>	<u>\$147,500</u>	<u>\$ (9,500)</u>	(6.4)
Net income	<u>\$ 20,400</u>	<u>\$ 15,000</u>	<u>\$ 5,400</u>	36.0

The decrease in sales revenue is unfavorable, but it is more than offset by the declines in operating expenses, with the exception of utilities, which increased over the period. Despite the 2.5% drop in sales, the net effect was a favorable increase in net income of 36.0%, which was in large part spurred by the drop in wages expense.