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1. Which of the following is *not* an expense and would *not* show on income statement?
  - A. Paying for supplies.
  - B. Paying a dividend.
  - C. Paying for electricity used by production equipment.
  - D. Paying wages for production workers.
  
2. Which of the following represents a subtotal rather than an account?
  - A. Advertising Expense.
  - B. Sales Revenues.
  - C. Cost of Goods Sold.
  - D. Operating Income.
  
3. A toy manufacturer sells land for \$180,000 that it bought four years ago for \$320,000. This transaction, when recorded, would be:
  - A. an operating expense.
  - B. operating revenue.
  - C. a loss.
  - D. non-operating revenue.

4. Which of the following is an example of a non-operating expense?
- A. Interest expense.
  - B. Rent expense.
  - C. Advertising expense.
  - D. Salaries and Wages Expense.
5. Operating income refers to:
- A. operating revenue minus operating expenses.
  - B. revenue generated by day-to-day business activities.
  - C. gains minus losses.
  - D. the net income of the company during the relevant time period.
6. Pet Sitters, Inc., sold \$27,000 of pet-care services that cost \$19,000 to provide. The company also incurred \$6,000 in income tax and interest expenses. Net income was:
- A. \$41,000.
  - B. \$19,000.
  - C. \$8,000.
  - D. \$2,000.

7. An account that measures interest earned on investments might include which of the following terms in its title?
- A. Gain.
  - B. Loss.
  - C. Revenue.
  - D. Expense.
8. Rogers Communications is a communications company, specializing in cable television operation, television program development, and other telecommunication services. Its financial statements show \$37,666 in an account called "Unearned Subscriber Revenue," which represents amounts that customers have paid in advance of receiving cable television and internet services. What type of account is this and on what statement is it reported?

	<u>Type of Account</u>	<u>Financial Statement</u>
A)	Asset	Balance Sheet
B)	Liability	Balance Sheet
C)	Revenue	Balance Sheet
D)	Revenue	Income Statement

- A. Option A
- B. Option B
- C. Option C
- D. Option D

9. Which of the following items is *not* a specific account in a company's chart of accounts?

A. Income Tax Expense.

B. Sales Revenue.

C. Unearned Revenue.

D. Net Income.

10. An account that measures the amount of income taxes incurred might include which of the following terms in its title?

A. Gain.

B. Loss.

C. Revenue.

D. Expense.

11. When cash is paid *before* the expense is incurred to generate revenue, costs are stated as:

A. Prepaid (asset).

B. Payable (liability).

C. Receivable (asset).

D. Stockholders's equity.

12. Guessco reported the following amounts on its income statement: total revenues, \$31,500; interest expense, \$300; net income, \$1,600; income tax expense, \$900; and operating income, \$2,800. What was the amount of Guessco's income before income tax expense?
- A. \$1,300.
  - B. \$2,500.
  - C. \$29,000.
  - D. \$29,900.
13. During November 2010, Asler, Inc., performs consulting services. The client does *not* pay Asler until January 2011.
- A. Using the accrual basis of accounting, the revenue is reported in January 2011
  - B. Using the cash basis of accounting, the revenue is reported in November 2010.
  - C. Using the accrual basis of accounting, the revenue is reported in November 2010.
  - D. Using the accrual basis of accounting, the revenue is reported when Asler's expenses are paid.
14. The Fastbank Motorcycle Company (FMC) receives a \$10 million order from dealers wanting to buy its most popular model on credit. No money changes hands. Due to excess demand, FMC cannot supply the motorcycles until next quarter. How will these events affect the balance sheet?
- A. Accounts Receivable will increase by \$10 million this quarter and Inventories will decrease next quarter.
  - B. Both Accounts Receivable and Accounts Payable will increase by \$10 million this quarter.
  - C. Both Accounts Receivable and Shareholders' Equity will increase by \$10 million this quarter.
  - D. These events will not impact the balance sheet this quarter.

15. During June, The Grass Is Greener Company mows 100 lawns a week and is paid in July by those customers. The company uses the accrual basis of accounting. How will these events affect the company's financial statements?
- A. The income statement shows the effects of the transactions in June.
  - B. The income statement shows the effects of the transactions in July.
  - C. The balance sheet shows no effect from the transactions in June.
  - D. The transactions have no effect on the balance sheet.
16. During June, the Grass is Greener Company mows 100 lawns a week; the company was paid in advance during May by those customers. The company uses the accrual basis of accounting. How will these events affect the company's financial statements?
- A. The income statement shows the effects of the transactions in May.
  - B. The income statement shows the effects of the transactions in June.
  - C. The balance sheet shows no effect from the transactions in May.
  - D. The transactions have no effect on the balance sheet.
17. During April, the Grass is Greener Company buys and pays for a six-month supply of fertilizer in order to receive a bulk discount. The cost of fertilizer is recorded:
- A. immediately as an expense.
  - B. as a liability, which will later be reduced as the fertilizer used.
  - C. partially as an expense and partially as a liability.
  - D. as an asset, which will later be reduced as the fertilizer is used.

18. Costs are said to have been "capitalized" when:
- A. they are financed by the company.
  - B. they are recorded as assets.
  - C. the company calculates the worth of the asset based on the revenue generated.
  - D. none of the above.
19. Your company bought a 30-second advertisement that aired during the Stanley Cup finals at a cost of \$1.2 million. It is legally obligated to pay for the ad but has not yet done so. How does the purchase and use of the ad time affect your company's balance sheet?
- A. It increases both assets and liabilities by \$1.2 million.
  - B. It increases assets and decreases Shareholders' equity by \$1.2 million each.
  - C. It does not affect the balance sheet.
  - D. It increases liabilities and decreases Shareholders' equity by \$1.2 million each.
20. Your company receives advance payment in October for services that are provided during November. Which of the following is true?
- A. A liability is recorded in October; in November the liability is reduced and revenue is recorded.
  - B. Revenue is recorded in October and expenses are recorded in November.
  - C. An asset is recorded in October; in November, the asset is reduced and revenue is recorded.
  - D. Revenue and expenses are recorded in October.

21. Your company orders and receives goods in January, pays for them in February, sells them in March and is paid by customers in April. Using the accrual basis of accounting:
- A. expenses are recorded in February and revenues are recorded in April.
  - B. expenses are recorded in February and revenues are recorded in March.
  - C. expenses and revenues are recorded in March.
  - D. expenses are recorded in January and revenues are recorded in April.
22. Which of the following is most likely be reported as an accrued liability?
- A. Supplies.
  - B. Wages.
  - C. Prepaid Rent.
  - D. Property and Equipment.
23. When should a company recognize revenue?
- A. When delivery has occurred or services have been provided (rendered).
  - B. When the price is fixed or determinable.
  - C. When there is persuasive evidence of an arrangement for customer payment and collection is reasonably assured.
  - D. All of the above are necessary to recognize revenue.



24. Expenses

- A. represent the costs that arise when a company sacrifices its resources during the accounting period.
- B. are reported in the period in which they are incurred to generate revenue.
- C. reduce Shareholders' equity.
- D. all of the above.

25. Galvan Corporation (GC) capitalized a \$20,000 automobile. Which of the following is true?

- A. GC recorded a liability for \$20,000.
- B. GC recorded an asset for \$20,000.
- C. GC recorded an expense for \$20,000.
- D. GC recorded Contributed Capital for \$20,000.

26. Company A receives \$10,000 in advance this month for work to be performed next month. This month, the company should:

- A. Debit Inventory \$10,000 and credit Sales Revenue \$10,000.
- B. Debit Cash \$10,000 and credit Unearned Revenue \$10,000.
- C. Debit Inventory \$10,000 and credit Accounts Payable \$10,000.
- D. Debit Accounts Payable \$10,000 and credit Cash \$10,000.

27. A customer purchased \$1,500 of services on credit two months ago and has just paid the bill. The receipt of the payment from the customer is recorded as a
- A. debit to Cash and a credit to Accounts Receivable.
  - B. debit to Cash and a credit to Inventory.
  - C. debit to Expenses and a credit to Revenue.
  - D. debit to Accounts Receivable and a credit to Retained Earnings.
28. When a customer buys services on account, it should be recorded as:
- A. a debit to Cash and a credit to Accounts Receivable.
  - B. a credit to Revenue and a debit to Accounts Receivable.
  - C. a credit to Unearned Revenue and a debit to Inventory.
  - D. a debit to Cash and a credit to Accounts Payable.
29. Which of the following is a true statement?
- A. Revenue accounts are a subset of assets, and expense accounts are a subset of liabilities.
  - B. Both revenue accounts and expense accounts are subsets of contributed capital.
  - C. Both revenue accounts and expense accounts are subsets of retained earnings.
  - D. Revenue accounts are a subset of cash, and expense accounts are a subset of accounts payable.

30. Which of the following is true?

- A. Credits increase both assets and liabilities.
- B. Credits increase expenses and decrease liabilities.
- C. Credits increase revenues and decrease expenses.
- D. Credits decrease both assets and liabilities.

31. If a company provides a service and receives payment at the same time:

- A. only one journal entry is needed.
- B. Cash will be debited.
- C. a revenue account will be increased with a credit.
- D. all of the above.

32. During March, the Long Life Consulting Company provides \$23,000 in consulting services of which \$12,000 is immediately paid for and \$11,000 is on account.

- A. Cash increases \$12,000, revenue increases \$11,000, and Shareholders' equity increases \$23,000.
- B. Cash increases \$12,000, Accounts Receivable increases \$11,000, and revenues increase \$23,000.
- C. Accounts Receivable increases \$11,000, liabilities decrease \$12,000, and Shareholders' equity decreases \$1,000.
- D. Revenues increase \$12,000, liabilities decrease \$12,000, and Shareholders' equity is unchanged.

33. In October, your company prepays rent of \$7,000 for November and December. Which of the following describes the effects of this transaction in October?
- A. Assets decrease \$7,000 and liabilities decrease \$7,000.
  - B. Assets increase \$7,000 and Shareholders' equity increases \$7,000.
  - C. There is no change to total assets, liabilities or Shareholders' equity.
  - D. Liabilities decrease \$7,000 and Shareholders' equity increases \$7,000.
34. Cansing Company collected \$5,000 from a customer on account. What journal entry will Cansing record?
- A. Debit Cash, credit Accounts Receivable.
  - B. Debit Cash, credit Revenue.
  - C. Debit Accounts Receivable, credit Revenue.
  - D. Debit Accounts Receivable, credit Cash.
35. WestJet Corporation issued a \$1,000 gift certificate. What journal entry will WestJet Corporation record?
- A. Debit Cash, credit Sales Revenue.
  - B. Debit Cash, credit Unearned Revenue.
  - C. Debit Unearned Revenues, credit Cash.
  - D. Debit Accounts Receivable, credit Cash.

36. If a company is paid in full for services provided this month, how will the basic accounting equation be affected?

- A. Liabilities will decrease.
- B. Shareholders' equity will increase as revenue is recorded.
- C. Liabilities will increase.
- D. Shareholders' equity will increase as gains are recorded.

37. Your company received payment last month for a service that you provided this month. How will the business activity of the current month affect the basic accounting equation?

- A. Assets will not change; liabilities (Unearned Revenue) will decrease; and Shareholders' equity (Service Revenue) will increase.
- B. Assets (Cash) will increase, liabilities (Unearned Revenue) will increase, and Shareholders' equity will not change.
- C. Assets (Cash) will increase, liabilities will not change, and Shareholders' equity (Service Revenue) will increase.
- D. Assets (Prepaid Expenses) will decrease, liabilities will not change, and Shareholders' equity (Service Revenue) will increase.

38. Which of the following would eventually cause a reduction in retained earnings?

- A. Interest earned on investment.
- B. A decrease in unearned revenue.
- C. An increase in prepaid utilities.
- D. A loss on disposal of land.

39. Customers paid \$8,000 on their accounts. Which accounts are affected by this transaction?
- A. Revenue and Retained Earnings increase \$8,000.
  - B. Cash and Revenue increase \$8,000. Liabilities and Expense increase \$8,000.
  - C. Cash increases \$8,000 and Accounts Receivable decreases \$8,000. Revenue and Retained Earnings are unchanged.
  - D. Revenue and Retained Earnings decrease \$8,000.
40. Sparkling Pools provides \$1,000 of pool maintenance services during July and collects payment in August. The company performs \$1,600 of pool maintenance services during July that were paid for in June. The company accepts an order to perform \$500 of pool maintenance services in August and will be paid in the same month. Revenue should be credited for:
- A. \$1,600 in June, \$1,000 in July, and \$500 in August.
  - B. \$1,600 in June, \$0 in July, and \$1,500 in August.
  - C. \$0 in June, \$1,600 in July, and \$1,500 in August.
  - D. \$0 in June, \$2,600 in July, and \$500 in August.
41. Sparkling Pools received a bill for \$1,200 for running newspaper ads during the last two weeks of July; the bill will be paid on August 1. Advertising expense should be:
- A. credited for \$1,200 in July.
  - B. credited for \$1,200 in August.
  - C. debited for \$1,200 in July.
  - D. debited for \$1,200 in August.

42. This month, a company performed \$517,000 of services and incurred total expenses of \$438,000. If the company was paid in cash for all its services and paid cash for all its expenses, these transactions would cause:
- A. revenues to increase \$517,000, expenses to increase \$438,000, and retained earnings to decrease \$79,000.
  - B. cash increase \$517,000, expenses to increase \$438,000, and retained earnings to increase \$79,000.
  - C. revenues to increase \$517,000, expenses to increase \$438,000, and cash to increase \$79,000.
  - D. revenues to increase \$79,000, expenses to increase \$438,000, and cash to increase \$517,000.
43. This month, Grass is Greener Lawn Service pays cash for \$4,000 of grass fertilizer to be used two months from now. What journal entry will Grass is Greener record this month?
- A. Debit cash for \$4,000 and credit supplies expense for \$4,000.
  - B. Debit supplies expense for \$4,000 and credit accounts payable for \$4,000.
  - C. Debit supplies for \$4,000 and credit cash for \$4,000.
  - D. Debit retained earnings for \$4,000 and credit accounts payable for \$4,000.

44. On the last day of the current month, a company paid \$12,000 to its suppliers, of which \$2,000 was for supplies received on the last day of the current month and \$10,000 was for supplies received during the previous month. The \$12,000 payment would be recorded as a:
- A. \$10,000 debit to Supplies, a \$2,000 debit to Accounts Payable, and a \$12,000 credit to Cash.
  - B. \$12,000 debit to Supplies and a \$12,000 credit to Cash.
  - C. \$12,000 debit to Supplies Expense and a \$12,000 credit to Cash.
  - D. \$2,000 debit to Supplies, a \$10,000 debit to Accounts Payable, and a \$12,000 credit to Cash.
45. On the 15<sup>th</sup> of the month, a company receives \$8,000 in payments from customers. \$1,000 is for services performed on that day and the remaining is payment for services performed in the previous month. The \$8,000 cash receipt would be recorded as a:
- A. debit of \$7,000 to Accounts Receivable, debit of \$1,000 to Service Revenue, and a credit of \$8,000 to Cash.
  - B. debit of \$8,000 to Cash, a credit of \$7,000 to Accounts Receivable, and a credit of \$1,000 to Service Revenue.
  - C. debit of \$7,000 to Accounts Receivable, a debit of \$1,000 to Unearned Revenue, and a credit of \$8,000 to Cash.
  - D. debit of \$8,000 to Cash, debit of \$1,000 to Service Revenue, and a credit of \$7,000 to Accounts Receivable.



46. A customer orders a heavy duty machinery from Yukon Inc in October. Yukon manufactures it in November and ships it along with their bill in December and receives payment in January. If Yukon is to recognize revenue in January, they are following:
- A. Credit basis accounting
  - B. Accrual-basis accounting
  - C. Cash basis accounting
  - D. Debit basis accounting
47. In January, the Huntington Beach Resort (HBR) accepts your reservation and receives your \$2,000 payment for a week of sun and fun in California during spring break in March. The \$2,000 would be recorded by HBR during January as a debit to:
- A. Cash and a credit to Unearned Revenue.
  - B. Accounts Payable and a credit to Service Revenue.
  - C. Cash and a credit to Service Revenue.
  - D. Service Revenue and a credit to Cash.
48. Which of the following groups of accounts contains only those accounts that normally have credit balances?
- A. Accounts Payable; Retained Earnings; Service Revenue.
  - B. Equipment; Cash; Contributed Capital.
  - C. Notes Payable; Wages Payable; Rent Expense.
  - D. Accounts Receivable; Accounts Payable; Unearned Revenue.

49. All other accounts remaining the same, an increase in revenue will always:
- A. increase Shareholders' equity.
  - B. increase assets.
  - C. decrease Shareholders' equity.
  - D. decrease assets.
50. Which of the following journal entries would decrease Shareholders' equity?
- A. Debiting Prepaid Utilities and crediting Cash.
  - B. Debiting Unearned Revenue and crediting Revenue.
  - C. Debiting Inventory and crediting Accounts Payable.
  - D. None of the above.
51. In January, a company pays for advertising space in the local paper for ads to be run during the months of January, February, and March at \$1,500 a month. The payment would be recorded in January as a:
- A. debit of \$4,500 to Cash, a credit of \$1,500 to Advertising Expense, and a credit of \$3,000 to Prepaid Advertising.
  - B. debit of \$4,500 to Accounts Payable and a credit of \$4,500 to Cash.
  - C. debit of \$4,500 to Accounts Payable and a credit of \$4,500 to Shareholders' Equity.
  - D. debit of \$1,500 to Advertising Expense, a debit of \$3,000 to Prepaid Advertising, and a credit of \$4,500 to Cash.

52. Austin Insurance (AI) earned \$10,000 revenue for services provided. Which of the following is correct?
- A. AI would credit Accounts Receivable, regardless of the timing of cash receipts.
  - B. AI would credit Accounts Receivable, but only if cash has not been received.
  - C. AI would credit Revenue, regardless of the timing of cash receipts.
  - D. AI would credit Revenue, but only if cash has been received.
53. Trudy's Café paid its employees \$50,000 in September for work done that month. What journal entry will Trudy's record in September, assuming Trudy's did not owe any amounts to employees at the end of August?
- A. Debit Cash, credit Wages Revenue.
  - B. Debit Cash, credit Wages Payable.
  - C. Debit Wages Revenue, credit Cash.
  - D. Debit Wages Expense, credit Cash.
54. Which account is least likely to be credited when an expense is recorded?
- A. Cash.
  - B. Accounts Payable.
  - C. Prepaid Expenses.
  - D. Accounts Receivable.

55. The unadjusted trial balance:

- A. does not yet include income tax expense.
- B. might balance even if there is a mistake.
- C. does not yet include end-of-the-accounting period adjustments.
- D. all of the above.

56. The unadjusted trial balance:

- A. is a preliminary financial statement for external users.
- B. generally lists account names in alphabetical order.
- C. is created to determine that total debits equal total credits.
- D. demonstrates that the accounting process is error free.

57. Which of the following statements is true?

- A. When operating income is positive, revenue is greater than expenses.
- B. When net income is negative, retained earnings decrease, all other things being equal.
- C. When net income is positive, Shareholders' equity increases, all other things being equal.
- D. All of the above.

58. During the three months of this quarter, Asbar, Inc., has generated service revenues of \$16,500, \$21,000, and \$43,800, respectively. The cost of providing the services is \$3,600, \$6,000, and \$9,400, respectively. In addition, salaries and wages for the quarter total \$17,900 while general administrative expenses total \$14,300. The company also earned interest revenue of \$6,900 and incurred income taxes of \$7,400. Net income for the quarter is:
- A. \$15,800.
  - B. \$30,100
  - C. \$29,600.
  - D. \$22,700.
59. Which of the following statements is true?
- A. Expenses are listed before revenues on the income statement.
  - B. Operating income is listed before net income on the income statement.
  - C. The income statement demonstrates the effect of net income on the balance sheet.
  - D. Net income is listed before net operating income on the income statement.
60. Which of the following is an example of an error that would not cause the trial balance to be out of balance?
- A. A journal entry was posted as a debit to Cash for \$525 and credited to Accounts Receivable for \$552.
  - B. A journal entry was posted as a debit to Cash and a credit to Sales Revenue when the company received a customer payment on account.
  - C. A journal entry was posted as a debit to Wages Expense and a debit to Wages Payable.
  - D. All of the above errors would cause the trial balance to be out of balance.

61. A company's revenue recognition policy:
- A. affects the income statement but not the balance sheet.
  - B. defines when its revenue should be collected.
  - C. is usually described in the notes to a company's financial statements.
  - D. states that revenues should not be recorded until payments are received from customers.
62. In September, a customer signed a contract to have his house painted and paid for the job in October. The painting company bought the paint in August on account and paid for it in September. The painting company painted the house in November. According to the revenue and matching principles, the painting company should record:
- A. the revenues in November and the expenses in September.
  - B. the revenues and the expenses in September.
  - C. the revenues and the expenses in November.
  - D. the revenues in September and the expenses in August.
63. The Rainbow House Painting Company has been contracted to strip, repair, prime, and paint a house for \$3,600 to be paid in instalments as phases of the work are completed. The company has not started painting and has only received one payment. The company decides to record \$3,600 as revenue. This decision violates the:
- A. fourth condition of the revenue principle which states that regulatory approval be acquired.
  - B. second condition of the revenue principle, that measurability is reasonably certain.
  - C. third condition of the revenue principle that collectability is reasonably assured.
  - D. first condition of the revenue principle, that risks and rewards have passed or the earnings process is substantially complete.

64. Which of the following is *not* a condition for reporting revenues?
- A. The goods or services have been delivered.
  - B. The customer has already paid for the good or service.
  - C. The price is fixed or determinable.
  - D. Collection is reasonably assured.
65. A dance studio accepts \$1,500 to provide a series of dance lessons to a youth group during the month of July. The studio decides to record the revenue in July. The studio decided to record the July expenses of rent, utilities and salaries in August, when it pays for them. One or both of these decisions:
- A. violate the matching principle.
  - B. violate principles of accrual accounting.
  - C. violate the revenue principle.
  - D. violate the accounting equation.
66. Creative Ads Inc., provides \$5 million of advertising development services on account to a large, existing customer who has previously purchased similar amounts of services and has always paid on time. Creative Ads Inc., then decides to credit \$5 million to revenue. This decision:
- A. violates the condition that risks and rewards be passed or the earnings process be substantially complete.
  - B. violates the condition that measurability be reasonably certain.
  - C. violates the condition that collectability be reasonably assured.
  - D. does not violate any of the above conditions of the revenue principle.

67. One of the ways companies can mislead investors is by inappropriately capitalizing costs. When is it appropriate to capitalize costs?
- A. When the work has already been performed.
  - B. When future economic benefits are associated with the cost.
  - C. When the good or service being purchased by the company has been received and used.
  - D. When the good or service being purchased by the company has not yet been paid.
68. The matching principle requires:
- A. that expenses should be recognized on periodic basis.
  - B. that expenses should be split between Cost of Goods Sold (sometimes called Cost of Sales) and Selling Expenses.
  - C. that current assets and current liabilities are stated in a certain order on the balance sheet.
  - D. that costs are recognized as expenses in the same period as the revenues they generate.
69. What entry would be made in account receivable when a company has billed its client \$230,000 during the financial year and client have sent in payments totalling \$87,908. The business uses cash-based accounting?
- A. 230,000
  - B. 87,908
  - C. 0
  - D. 142,092.



70. When Cash is paid *after* the cost is incurred to generate revenue, costs are stated as:

- A. Liability
- B. Asset
- C. Revenue
- D. Stockholders' equity

71. The main purpose of preparing a trial balance is to ensure that:

- A. The total of recorded debits and total of recorded credits are equal.
- B. The company is making a profit.
- C. The total of revenue is equal to expenses.
- D. The total of recorded debits in revenue accounts are equal to total of recorded credits

72. Picasso Art School's operating activities for the month of February are summarized in the following transactions:

1. Provided \$1,500 of instructional lessons.
2. Received \$2,100 cash from students—of which \$1,200 is for lessons provided in February, and \$900 is for lessons provided in January.
3. Paid January's rental bill of \$300. Received February's bill of \$450 but did not pay.

Determine Picasso Art School's Net Income for February using the *cash basis* of accounting?

- A. \$950
- B. \$1,800
- C. \$900
- D. \$750

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Determine Picasso Art School's Net Income for February using the *accrual basis* of accounting?

- A. \$1,050
- B. \$1,800
- C. \$900
- D. \$750

74. Revenues come solely from selling a company's goods or services.

True False

75. Net income of a company is the same as the amount of cash flow generated by the business during the period.

True False

76. Cash basis accounting measures financial performance very well when a business sells its customers on account.

True False

77. If expenses grow faster than revenues compare to the previous period, the net income will increase.

True False

78. Accrual basis of accounting is the only acceptable method for external reporting of financial statements under both ASPE and IFRS.

True False

79. Costs that benefit future periods are reported as assets.

True False

80. If payment is received at the same time a service is produced and sold, there is no difference between how cash and accrual accounting record the transaction.

True False

81. The cash basis of accounting works best when a lengthy delay exists between the timing of cash flows and the underlying business activities to which they relate.

True False

82. Using the accrual basis of accounting, if payment is received before delivery of a good or service, a liability is recorded at the time the payment is received.

True False

83. Using the accrual basis of accounting, if payment is received after delivery of a good or service, an asset is recorded at the time the good or service was delivered.

True False

84. GAAP (Generally Accepted Accounting Principles) requires the use of accrual basis of accounting for external financial reporting purposes.

True False

85. Unearned Revenue is a liability account.

True False

86. Both revenues and expenses typically have credit balances.

True False

87. Revenues and expenses are considered assets and liabilities, respectively.

True False

88. When a business receives a payment on account from a customer, the total assets of the business are unchanged.

True False

89. An increase in net income does not affect Shareholders' equity.

True False

90. Unearned Revenue is an alternative name for the Shareholders' equity account typically known as Retained Earnings.

True False

91. Recording a Debit in an expense account will reduce expenses.

True False

92. All operating activities will increase a company's resources.

True False

93. The total credits recorded in revenue accounts must equal the total debits recorded in expense accounts.

True False

94. When a business uses up its resources to generate revenues for the period, it reports an expense only when it pays for them.

True False

95. Across all revenue accounts, the total value of all debits must equal the total value of all credits.

True False

96. A trial balance is included in the full set of external financial statements, just like an income statement.

True False

97. Corporate income taxes cannot be calculated until all adjustments are made to net income.

True False

98. If no of debits equal no of credits in the unadjusted trial balance, you have made no errors in preparing and posting journal entries.

True False

99. The balances for each account reported on an unadjusted trial balance are determined by adding the amounts on the "+" side and subtracting the amounts on the "-" side of each ledger or T-account.

True False

100. During August, your company sells \$10,000 of services that cost \$8,000 to provide. You report the revenue in August and the expenses (that is, the costs incurred to provide those services) in September and October when they are paid. This is an acceptable accounting procedure.

True False

101. According to the Revenue Principle, a company should not record the revenue from a transaction until it is actually received in cash.

True False

102.To ensure revenue reporting is consistent over time, a business adopts a revenue recognition policy that defines the time at which they report revenues from providing goods or services to customers.

True False

103.The matching principle requires that expenses be determined first and then revenues be "matched" to those expenses.

True False

104.An increase in unearned revenue would have an impact on the income of the company.

True False

105.Company's net income is the sole determinant of its value for the period the net income is generated.

True False

106.Operating cycle is the time period from buying raw material to provide goods and services to customers through to collecting cash from them.

True False

107.Net income for the accounting period will increase retained earnings account.

True False

108. Prepare an income statement for Pet Sitters, Inc., using the following data for the year ending December 31, 2007. Show proper order of accounts and operating income and net income.

Income Tax Expense	\$637,900	Sales Revenue	\$8,964,500
Wages Expense	5,986,000	Amortization Expense	375,400
Operating and Administrative Expense	531,800	Interest Expense	268,400



109. For each of the following events, indicate the accounts affected, whether they would increase or decrease, and the amount by which they would change. Also demonstrate that the accounting equation will remain in balance after these effects are reported. If the event should not be recorded as a transaction, state so.

- A. Borrowed \$7,000,000 cash, signing a promissory note.
- B. Bought a factory for \$800,000, paying \$200,000 in cash and signing a promissory note for \$600,000.
- C. Rented equipment for \$10,000 a month and made a payment for six months in advance.
- D. Paid \$104,000 for insurance coverage that will begin next month.
- E. Purchased \$30,000 of supplies on account, of which \$10,000 is intended for use next month, and the remainder in later months.
- F. Hired 20 workers at \$500 a week each and paid all 20 workers for the four weeks of work done during the month.
- G. Raised prices by 10%.
- H. Received a 50% prepayment from a customer on a \$20,000 order to be filled next month.

110. The Pet Sitters, Inc., had the following transactions during the month of January. For each of the transactions, prepare journal entries.

- A. Paid \$5,000 cash for cat litter, of which \$600 was used during January, and \$4,400 will be used during February through April.
- B. Paid \$4,480 for wages and salaries, one-half of which employees had earned in December and one-half of which related to January.
- C. Paid \$480 in advance for February utilities.
- D. Provided \$12,000 in services on account.
- E. Paid \$800 on accounts payable.
- F. Received \$210 from customers as deposits for future pet sitting services.
- G. Obtained \$390 in vet services during the month, but will not pay the bill until February.
- H. Paid \$780 for equipment.

111. The following is a series of accounts for the Sprinkler Blowout Company, listed alphabetically and numbered for identification. Following the accounts is a series of transactions. For each transaction, indicate the account(s) that should be debited and credited by entering the appropriate account number(s) to the right of each transaction. If no journal entry is needed, write *none* after the transaction.

Acct. #	Account Title	Acct. #	Account Title
1	Accounts payable	9	Land
2	Accounts receivable	10	Note payable
3	Advertising expense	11	Prepaid insurance
4	Building	12	Service revenue
5	Cash	13	Supplies
6	Contributed capital	14	Supplies expense
7	Income taxes payable	15	Wages expense
8	Insurance expense	16	Wages payable

Transactions	Debit	Credit
A. Performed services for customers this month for cash.		
B. Purchased on credit but did not use supplies this month.		
C. Purchased a building, paying part cash and signing a note for the rest.		
D. Paid insurance premium for coverage beginning next month.		
E. Booked blowouts to be done next month; didn't collect cash.		

112. Show journal entries for each of the following January activities, and post results to the relevant T-accounts.

A. Provided \$26,000 of services. \$17,000 was received in cash and \$9,000 was provided on credit.

B. Used \$423 of supplies.

C. Provided \$3,500 of services paid for in previous months.

D. Bought \$15,000 of new equipment signing a promissory note.

E. Paid \$689 on account for December's utilities.

F. Paid workers \$8,300 for work done in January.

113. At September 30, Balance Corporation reported the following unadjusted amounts for its accounts, each of which is considered to be a "normal" balance, i.e., an account that normally has a debit balance actually does have a debit balance. Prepare an unadjusted trial balance.

Accounts Payable	\$12,000
Accounts Receivable	1,000
Advertising Expense	400
Cash	85,000
Contributed Capital	64,000
Equipment	60,000
Note Payable	36,000
Rent Revenue	42,000
Retained Earnings	24,800
Supplies	1,400
Supplies Expense	600
Utilities Expense	2,000
Wages Expense	28,400

114. Match the term and the explanation. There are more definitions than terms.

- \_\_\_\_\_ cash basis
- \_\_\_\_\_ net resources
- \_\_\_\_\_ unadjusted trial balance
- \_\_\_\_\_ prepaid expense
- \_\_\_\_\_ loss
- \_\_\_\_\_ unearned revenue
- \_\_\_\_\_ revenue recognition policy
- \_\_\_\_\_ gain
- \_\_\_\_\_ matching principle

- A. Reported when a company sells goods or services in the ordinary course of business for more than it cost to produce.
- B. Reporting expenses and revenue according to the time the underlying activities occur.
- C. Reported when a clothing company sells land for more than its book value.
- D. Reported when a clothing company sells land for less than its book value.
- E. A list of account balances when the accounts do not yet include all revenues and expenses.
- F. The concept that expenses should be reported at the same time as the related revenue.
- G. Also known as the accounting period, it is the interval of time covered by the financial statements.
- H. An asset account indicating customers have already paid for goods not yet received.
- I. The principle that changes in assets must be matched by changes in liabilities.
- J. Also known as net assets, this is the value of assets minus liabilities.
- K. An asset account indicating a company has already paid a cost not yet incurred.
- L. A company's policy on when to report revenue in the financial statements.
- M. A liability account indicating a company has already paid a cost not yet incurred.
- N. Reporting expenses and revenues according to the time the cash is paid or received.
- O. A liability account indicating customers have already paid for goods not yet received.
- P. Means a financial statement does not balance.



115. Match the term and the definition. There are more definitions than terms.

\_\_\_\_\_ core activities

\_\_\_\_\_ unearned revenue

\_\_\_\_\_ expenditure

\_\_\_\_\_ revenue principle

\_\_\_\_\_ accrual basis

\_\_\_\_\_ capitalize

\_\_\_\_\_ expense

\_\_\_\_\_ net income

- A. When line items are broken down into their component subcategories.
- B. To reduce the recorded value of an asset to reflect its true market value.
- C. The secondary or peripheral activities of a company.
- D. Any outlay of money by a company whether related to production or not.
- E. Also known as operating income.
- F. The concept that revenue and expenses should be recorded at the time received or paid.
- G. When a cost is reported as an asset on the balance sheet.
- H. The main business activities of a company.
- I. The concept that revenue should be recorded when earned, not necessarily when payment is received.
- J. Revenues should be recorded when they are earned and expenses when they are incurred.
- K. Total revenue minus total expenses.
- L. Any use or sacrifice of a company's resources to generate revenue.
- M. The increase in value of financial assets held by a company.
- N. Payments received for goods that have not yet been delivered or services that have not yet been performed.
- O. The concept that a company should record revenue during the same period as expenses.



116. For each of the following, indicate the effect the given situation would have on net income in the current period.

O overstate net income

U understate net income

N/A not applicable; no effect on net income

\_\_\_\_\_ recording prepaid costs as current expenses.

\_\_\_\_\_ recording an expense at more than the actual cost.

\_\_\_\_\_ failing to record the receipt of a payment by a customer on account.

\_\_\_\_\_ underestimating amortization expense.

\_\_\_\_\_ failing to record some supplies received.

\_\_\_\_\_ recording unearned revenue as revenue.

\_\_\_\_\_ recording an expense as revenue.

\_\_\_\_\_ failing to record the company issuing additional shares of its own common stock.

\_\_\_\_\_ overestimating payroll tax expense.

117. Indicate whether a debit (dr) or credit (cr) would be used to *increase* each of the following accounts.

\_\_\_\_\_ prepaid expenses.

\_\_\_\_\_ rental revenue.

\_\_\_\_\_ salaries and wages expense.

\_\_\_\_\_ service revenue.

\_\_\_\_\_ property and equipment.

\_\_\_\_\_ wages expense.

\_\_\_\_\_ retained earnings.

\_\_\_\_\_ loss on sale of property.

\_\_\_\_\_ supplies expense.

118. Match the letter and the blank in each transaction description to complete the analysis. All letters will not be used and some letters may be used more than once.

- A. debit
- B. cash
- C. revenue
- D. supplies
- E. credit
- F. expense
- G. accrued liabilities
- H. unearned revenue
- I. accounts receivable
- J. notes payable

- a. A company pays wages. This is posted as a(n) \_\_\_\_ to cash and a(n) \_\_\_\_ to wages expense.
- b. A company is paid for a job completed last month. This is posted as a debit to \_\_\_\_ and a credit to \_\_\_\_.
- c. A restaurant buys and immediately uses ingredients. This is posted as a(n) \_\_\_\_ to an expense and a(n) \_\_\_\_ to cash.
- d. A company pays the original amount owed on a promissory note. This is posted as a debit to \_\_\_\_ and a credit to \_\_\_\_.
- e. A company receives money for a job to be done next month. This is posted as a debit to \_\_\_\_ and a credit to \_\_\_\_.



## 3 Key

1. Which of the following is *not* an expense and would *not* show on income statement?

(p. 91)

- A. Paying for supplies.
- B.** Paying a dividend.
- C. Paying for electricity used by production equipment.
- D. Paying wages for production workers.

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 1*

*Phillips - Chapter 03 #1*

2. Which of the following represents a subtotal rather than an account?

(p. 90)

- A. Advertising Expense.
- B. Sales Revenues.
- C. Cost of Goods Sold.
- D.** Operating Income.

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 1*

*Phillips - Chapter 03 #2*

3. A toy manufacturer sells land for \$180,000 that it bought four years ago for \$320,000. This transaction, when recorded, would be:

(p. 90)

A. an operating expense.

B. operating revenue.

C. a loss.

D. non-operating revenue.

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 1*

*Phillips - Chapter 03 #3*

4. Which of the following is an example of a non-operating expense?

(p. 90)

A. Interest expense.

B. Rent expense.

C. Advertising expense.

D. Salaries and Wages Expense.

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 1*

*Phillips - Chapter 03 #4*

5. Operating income refers to:

(p. 90)

- A. operating revenue minus operating expenses.
- B. revenue generated by day-to-day business activities.
- C. gains minus losses.
- D. the net income of the company during the relevant time period.

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 1*

*Phillips - Chapter 03 #5*

6. Pet Sitters, Inc., sold \$27,000 of pet-care services that cost \$19,000 to provide. The company also incurred \$6,000 in income tax and interest expenses. Net income was:

(p. 91)

- A. \$41,000.
- B. \$19,000.
- C. \$8,000.
- D. \$2,000.

Revenue - expenses = Net income,  $27,000 - (19,000 + 6,000) = \$2,000$

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 1*

*Phillips - Chapter 03 #6*

7. An account that measures interest earned on investments might include which of the following terms in its title?  
(p. 91/114)

- A. Gain.
- B. Loss.
- C. Revenue.
- D. Expense.

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 1*

*Phillips - Chapter 03 #7*

8. Rogers Communications is a communications company, specializing in cable television operation, television program development, and other telecommunication services. Its financial statements show \$37,666 in an account called "Unearned Subscriber Revenue," which represents amounts that customers have paid in advance of receiving cable television and internet services. What type of account is this and on what statement is it reported?  
(p. 95)

	<u>Type of Account</u>	<u>Financial Statement</u>
A)	Asset	Balance Sheet
B)	Liability	Balance Sheet
C)	Revenue	Balance Sheet
D)	Revenue	Income Statement

- A. Option A
- B. Option B
- C. Option C
- D. Option D

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*



9. Which of the following items is *not* a specific account in a company's chart of accounts?

(p. 91)

- A. Income Tax Expense.
- B. Sales Revenue.
- C. Unearned Revenue.
- D. Net Income.

BT: Knowledge  
Difficulty: Easy  
Gradable: automatic  
Learning Objective: 1  
Phillips - Chapter 03 #9

10. An account that measures the amount of income taxes incurred might include which of the following terms in its title?

(p. 91)

- A. Gain.
- B. Loss.
- C. Revenue.
- D. Expense.

BT: Knowledge  
Difficulty: Easy  
Gradable: automatic  
Learning Objective: 1  
Phillips - Chapter 03 #10

11. When cash is paid *before* the expense is incurred to generate revenue, costs are stated as:

(p. 96)

- A. Prepaid (asset).
- B. Payable (liability).
- C. Receivable (asset).
- D. Stockholders's equity.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #11*

12. Guessco reported the following amounts on its income statement: total revenues, \$31,500;

(p. 91)

interest expense, \$300; net income, \$1,600; income tax expense, \$900; and operating income, \$2,800. What was the amount of Guessco's income before income tax expense?

- A. \$1,300.
- B. \$2,500.
- C. \$29,000.
- D. \$29,900.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 1*

*Phillips - Chapter 03 #12*

13. During November 2010, Asler, Inc., performs consulting services. The client does *not* pay  
(p. 93-94) Asler until January 2011.

- A. Using the accrual basis of accounting, the revenue is reported in January 2011
- B. Using the cash basis of accounting, the revenue is reported in November 2010.
- C. Using the accrual basis of accounting, the revenue is reported in November 2010.
- D. Using the accrual basis of accounting, the revenue is reported when Asler's expenses are paid.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #13*

14. The Fastbank Motorcycle Company (FMC) receives a \$10 million order from dealers wanting  
(p. 94) to buy its most popular model on credit. No money changes hands. Due to excess demand, FMC cannot supply the motorcycles until next quarter. How will these events affect the balance sheet?

- A. Accounts Receivable will increase by \$10 million this quarter and Inventories will decrease next quarter.
- B. Both Accounts Receivable and Accounts Payable will increase by \$10 million this quarter.
- C. Both Accounts Receivable and Shareholders' Equity will increase by \$10 million this quarter.
- D. These events will not impact the balance sheet this quarter.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #14*

15. During June, The Grass Is Greener Company mows 100 lawns a week and is paid in July by those customers. The company uses the accrual basis of accounting. How will these events affect the company's financial statements?

(p. 94)

- A. The income statement shows the effects of the transactions in June.
- B. The income statement shows the effects of the transactions in July.
- C. The balance sheet shows no effect from the transactions in June.
- D. The transactions have no effect on the balance sheet.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #15*

16. During June, the Grass is Greener Company mows 100 lawns a week; the company was paid in advance during May by those customers. The company uses the accrual basis of accounting. How will these events affect the company's financial statements?

(p. 94)

- A. The income statement shows the effects of the transactions in May.
- B.** The income statement shows the effects of the transactions in June.
- C. The balance sheet shows no effect from the transactions in May.
- D. The transactions have no effect on the balance sheet.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #16*

17. During April, the Grass is Greener Company buys and pays for a six-month supply of fertilizer  
(p. 95) in order to receive a bulk discount. The cost of fertilizer is recorded:

- A. immediately as an expense.
- B. as a liability, which will later be reduced as the fertilizer used.
- C. partially as an expense and partially as a liability.
- D. as an asset, which will later be reduced as the fertilizer is used.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #17*

18. Costs are said to have been "capitalized" when:

(p. 94)

- A. they are financed by the company.
- B. they are recorded as assets.
- C. the company calculates the worth of the asset based on the revenue generated.
- D. none of the above.

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #18*

19. Your company bought a 30-second advertisement that aired during the Stanley Cup finals at a cost of \$1.2 million. It is legally obligated to pay for the ad but has not yet done so. How does the purchase and use of the ad time affect your company's balance sheet?

(p. 93)

- A. It increases both assets and liabilities by \$1.2 million.
- B. It increases assets and decreases Shareholders' equity by \$1.2 million each.
- C. It does not affect the balance sheet.
- D. It increases liabilities and decreases Shareholders' equity by \$1.2 million each.

*BT: Analysis*

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #19*

20. Your company receives advance payment in October for services that are provided during November. Which of the following is true?

(p. 94)

- A. A liability is recorded in October; in November the liability is reduced and revenue is recorded.
- B. Revenue is recorded in October and expenses are recorded in November.
- C. An asset is recorded in October; in November, the asset is reduced and revenue is recorded.
- D. Revenue and expenses are recorded in October.

*BT: Analysis*

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #20*

21. Your company orders and receives goods in January, pays for them in February, sells them in March and is paid by customers in April. Using the accrual basis of accounting:

(p. 94)

- A. expenses are recorded in February and revenues are recorded in April.
- B. expenses are recorded in February and revenues are recorded in March.
- C. expenses and revenues are recorded in March.
- D. expenses are recorded in January and revenues are recorded in April.

*BT: Analysis*

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #21*

22. Which of the following is most likely be reported as an accrued liability?

(p. 96)

- A. Supplies.
- B. Wages.
- C. Prepaid Rent.
- D. Property and Equipment.

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #22*

23. When should a company recognize revenue?

(p. 94)

- A. When delivery has occurred or services have been provided (rendered).
- B. When the price is fixed or determinable.
- C. When there is persuasive evidence of an arrangement for customer payment and collection is reasonably assured.
- D. All of the above are necessary to recognize revenue.

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #23*

24. Expenses

(p. 91)

- A. represent the costs that arise when a company sacrifices its resources during the accounting period.
- B. are reported in the period in which they are incurred to generate revenue.
- C. reduce Shareholders' equity.
- D. all of the above.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 1*

*Phillips - Chapter 03 #24*



25. Galvan Corporation (GC) capitalized a \$20,000 automobile. Which of the following is true?

*(p. 98)*

- A. GC recorded a liability for \$20,000.
- B.** GC recorded an asset for \$20,000.
- C. GC recorded an expense for \$20,000.
- D. GC recorded Contributed Capital for \$20,000.

*BT: Comprehension*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #25*

26. Company A receives \$10,000 in advance this month for work to be performed next month.

*(p. 98)*

This month, the company should:

- A. Debit Inventory \$10,000 and credit Sales Revenue \$10,000.
- B.** Debit Cash \$10,000 and credit Unearned Revenue \$10,000.
- C. Debit Inventory \$10,000 and credit Accounts Payable \$10,000.
- D. Debit Accounts Payable \$10,000 and credit Cash \$10,000.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #26*

27. A customer purchased \$1,500 of services on credit two months ago and has just paid the bill.

(p. 98) The receipt of the payment from the customer is recorded as a

- A. debit to Cash and a credit to Accounts Receivable.
- B. debit to Cash and a credit to Inventory.
- C. debit to Expenses and a credit to Revenue.
- D. debit to Accounts Receivable and a credit to Retained Earnings.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #27*

28. When a customer buys services on account, it should be recorded as:

(p. 98)

- A. a debit to Cash and a credit to Accounts Receivable.
- B. a credit to Revenue and a debit to Accounts Receivable.
- C. a credit to Unearned Revenue and a debit to Inventory.
- D. a debit to Cash and a credit to Accounts Payable.

*BT: Comprehension*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #28*

29. Which of the following is a true statement?

(p. 98)

- A. Revenue accounts are a subset of assets, and expense accounts are a subset of liabilities.
- B. Both revenue accounts and expense accounts are subsets of contributed capital.
- C. Both revenue accounts and expense accounts are subsets of retained earnings.
- D. Revenue accounts are a subset of cash, and expense accounts are a subset of accounts payable.

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #29*

30. Which of the following is true?

(p. 98)

- A. Credits increase both assets and liabilities.
- B. Credits increase expenses and decrease liabilities.
- C. Credits increase revenues and decrease expenses.
- D. Credits decrease both assets and liabilities.

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #30*

31. If a company provides a service and receives payment at the same time:

(p. 98)

- A. only one journal entry is needed.
- B. Cash will be debited.
- C. a revenue account will be increased with a credit.
- D. all of the above.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #31*

32. During March, the Long Life Consulting Company provides \$23,000 in consulting services of which \$12,000 is immediately paid for and \$11,000 is on account.

(p. 98)

- A. Cash increases \$12,000, revenue increases \$11,000, and Shareholders' equity increases \$23,000.
- B. Cash increases \$12,000, Accounts Receivable increases \$11,000, and revenues increase \$23,000.
- C. Accounts Receivable increases \$11,000, liabilities decrease \$12,000, and Shareholders' equity decreases \$1,000.
- D. Revenues increase \$12,000, liabilities decrease \$12,000, and Shareholders' equity is unchanged.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #32*

33. In October, your company prepays rent of \$7,000 for November and December. Which of the following describes the effects of this transaction in October?  
(p. 98)

- A. Assets decrease \$7,000 and liabilities decrease \$7,000.
- B. Assets increase \$7,000 and Shareholders' equity increases \$7,000.
- C. There is no change to total assets, liabilities or Shareholders' equity.
- D. Liabilities decrease \$7,000 and Shareholders' equity increases \$7,000.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #33*

34. Cansing Company collected \$5,000 from a customer on account. What journal entry will Cansing record?  
(p. 98)

- A. Debit Cash, credit Accounts Receivable.
- B. Debit Cash, credit Revenue.
- C. Debit Accounts Receivable, credit Revenue.
- D. Debit Accounts Receivable, credit Cash.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #34*

35. WestJet Corporation issued a \$1,000 gift certificate. What journal entry will WestJet Corporation record?  
(p. 98)

- A. Debit Cash, credit Sales Revenue.
- B.** Debit Cash, credit Unearned Revenue.
- C. Debit Unearned Revenues, credit Cash.
- D. Debit Accounts Receivable, credit Cash.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #35*

36. If a company is paid in full for services provided this month, how will the basic accounting equation be affected?  
(p. 98)

- A. Liabilities will decrease.
- B.** Shareholders' equity will increase as revenue is recorded.
- C. Liabilities will increase.
- D. Shareholders' equity will increase as gains are recorded.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #36*

37. Your company received payment last month for a service that you provided this month. How will the business activity of the current month affect the basic accounting equation?  
(p. 98)

- A. Assets will not change; liabilities (Unearned Revenue) will decrease; and Shareholders' equity (Service Revenue) will increase.
- B. Assets (Cash) will increase, liabilities (Unearned Revenue) will increase, and Shareholders' equity will not change.
- C. Assets (Cash) will increase, liabilities will not change, and Shareholders' equity (Service Revenue) will increase.
- D. Assets (Prepaid Expenses) will decrease, liabilities will not change, and Shareholders' equity (Service Revenue) will increase.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #37*

38. Which of the following would eventually cause a reduction in retained earnings?  
(p. 98)

- A. Interest earned on investment.
- B. A decrease in unearned revenue.
- C. An increase in prepaid utilities.
- D. A loss on disposal of land.

*BT: Comprehension*

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #38*

39. Customers paid \$8,000 on their accounts. Which accounts are affected by this transaction?

(p. 98)

- A. Revenue and Retained Earnings increase \$8,000.
- B. Cash and Revenue increase \$8,000. Liabilities and Expense increase \$8,000.
- C. Cash increases \$8,000 and Accounts Receivable decreases \$8,000. Revenue and Retained Earnings are unchanged.
- D. Revenue and Retained Earnings decrease \$8,000.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #39*

40. Sparkling Pools provides \$1,000 of pool maintenance services during July and collects payment in August. The company performs \$1,600 of pool maintenance services during July that were paid for in June. The company accepts an order to perform \$500 of pool maintenance services in August and will be paid in the same month. Revenue should be credited for:

(p. 98)

- A. \$1,600 in June, \$1,000 in July, and \$500 in August.
- B. \$1,600 in June, \$0 in July, and \$1,500 in August.
- C. \$0 in June, \$1,600 in July, and \$1,500 in August.
- D. \$0 in June, \$2,600 in July, and \$500 in August.

*BT: Comprehension*

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #40*



41. Sparkling Pools received a bill for \$1,200 for running newspaper ads during the last two weeks of July; the bill will be paid on August 1. Advertising expense should be:

(p. 98)

- A. credited for \$1,200 in July.
- B. credited for \$1,200 in August.
- C. debited for \$1,200 in July.
- D. debited for \$1,200 in August.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #41*

42. This month, a company performed \$517,000 of services and incurred total expenses of \$438,000. If the company was paid in cash for all its services and paid cash for all its expenses, these transactions would cause:

(p. 98)

- A. revenues to increase \$517,000, expenses to increase \$438,000, and retained earnings to decrease \$79,000.
- B. cash increase \$517,000, expenses to increase \$438,000, and retained earnings to increase \$79,000.
- C. revenues to increase \$517,000, expenses to increase \$438,000, and cash to increase \$79,000.
- D. revenues to increase \$79,000, expenses to increase \$438,000, and cash to increase \$517,000.

*BT: Comprehension*

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #42*

43. This month, Grass is Greener Lawn Service pays cash for \$4,000 of grass fertilizer to be used two months from now. What journal entry will Grass is Greener record this month?  
(p. 98)

- A. Debit cash for \$4,000 and credit supplies expense for \$4,000.
- B. Debit supplies expense for \$4,000 and credit accounts payable for \$4,000.
- C. Debit supplies for \$4,000 and credit cash for \$4,000.
- D. Debit retained earnings for \$4,000 and credit accounts payable for \$4,000.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #43*

44. On the last day of the current month, a company paid \$12,000 to its suppliers, of which \$2,000 was for supplies received on the last day of the current month and \$10,000 was for supplies received during the previous month. The \$12,000 payment would be recorded as a:  
(p. 98)

- A. \$10,000 debit to Supplies, a \$2,000 debit to Accounts Payable, and a \$12,000 credit to Cash.
- B. \$12,000 debit to Supplies and a \$12,000 credit to Cash.
- C. \$12,000 debit to Supplies Expense and a \$12,000 credit to Cash.
- D. \$2,000 debit to Supplies, a \$10,000 debit to Accounts Payable, and a \$12,000 credit to Cash.

*BT: Comprehension*

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #44*

45. On the 15<sup>th</sup> of the month, a company receives \$8,000 in payments from customers. \$1,000 is  
(p. 98) for services performed on that day and the remaining is payment for services performed in the  
previous month. The \$8,000 cash receipt would be recorded as a:
- A. debit of \$7,000 to Accounts Receivable, debit of \$1,000 to Service Revenue, and a credit of \$8,000 to Cash.
  - B.** debit of \$8,000 to Cash, a credit of \$7,000 to Accounts Receivable, and a credit of \$1,000 to Service Revenue.
  - C. debit of \$7,000 to Accounts Receivable, a debit of \$1,000 to Unearned Revenue, and a credit of \$8,000 to Cash.
  - D. debit of \$8,000 to Cash, debit of \$1,000 to Service Revenue, and a credit of \$7,000 to Accounts Receivable.

*BT: Comprehension*

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #45*

46. A customer orders a heavy duty machinery from Yukon Inc in October. Yukon manufactures it  
(p. 94) in November and ships it along with their bill in December and receives payment in January. If  
Yukon is to recognize revenue in January, they are following:

- A. Credit basis accounting
- B.** Accrual-basis accounting
- C. Cash basis accounting
- D. Debit basis accounting

*BT: Comprehension*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2*

47. In January, the Huntington Beach Resort (HBR) accepts your reservation and receives your  
(p. 98) \$2,000 payment for a week of sun and fun in California during spring break in March. The  
\$2,000 would be recorded by HBR during January as a debit to:

- A. Cash and a credit to Unearned Revenue.
- B. Accounts Payable and a credit to Service Revenue.
- C. Cash and a credit to Service Revenue.
- D. Service Revenue and a credit to Cash.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #47*

48. Which of the following groups of accounts contains only those accounts that normally have  
(p. 98) credit balances?

- A. Accounts Payable; Retained Earnings; Service Revenue.
- B. Equipment; Cash; Contributed Capital.
- C. Notes Payable; Wages Payable; Rent Expense.
- D. Accounts Receivable; Accounts Payable; Unearned Revenue.

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #48*

49. All other accounts remaining the same, an increase in revenue will always:

*(p. 98)*

- A. increase Shareholders' equity.
- B. increase assets.
- C. decrease Shareholders' equity.
- D. decrease assets.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #49*

50. Which of the following journal entries would decrease Shareholders' equity?

*(p. 98)*

- A. Debiting Prepaid Utilities and crediting Cash.
- B. Debiting Unearned Revenue and crediting Revenue.
- C. Debiting Inventory and crediting Accounts Payable.
- D. None of the above.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #50*

51. In January, a company pays for advertising space in the local paper for ads to be run during the months of January, February, and March at \$1,500 a month. The payment would be recorded in January as a:

(p. 98)

- A. debit of \$4,500 to Cash, a credit of \$1,500 to Advertising Expense, and a credit of \$3,000 to Prepaid Advertising.
- B. debit of \$4,500 to Accounts Payable and a credit of \$4,500 to Cash.
- C. debit of \$4,500 to Accounts Payable and a credit of \$4,500 to Shareholders' Equity.
- D. debit of \$1,500 to Advertising Expense, a debit of \$3,000 to Prepaid Advertising, and a credit of \$4,500 to Cash.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #51*

52. Austin Insurance (AI) earned \$10,000 revenue for services provided. Which of the following is correct?

(p. 98)

- A. AI would credit Accounts Receivable, regardless of the timing of cash receipts.
- B. AI would credit Accounts Receivable, but only if cash has not been received.
- C. AI would credit Revenue, regardless of the timing of cash receipts.
- D. AI would credit Revenue, but only if cash has been received.

*BT: Comprehension*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #52*

53. Trudy's Café paid its employees \$50,000 in September for work done that month. What journal entry will Trudy's record in September, assuming Trudy's did not owe any amounts to employees at the end of August?

*(p. 98)*

- A. Debit Cash, credit Wages Revenue.
- B. Debit Cash, credit Wages Payable.
- C. Debit Wages Revenue, credit Cash.
- D. Debit Wages Expense, credit Cash.

*BT: Comprehension*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #53*

54. Which account is least likely to be credited when an expense is recorded?

*(p. 98)*

- A. Cash.
- B. Accounts Payable.
- C. Prepaid Expenses.
- D. Accounts Receivable.

*BT: Comprehension*

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #54*

55. The unadjusted trial balance:

*(p. 104)*

- A. does not yet include income tax expense.
- B. might balance even if there is a mistake.
- C. does not yet include end-of-the-accounting period adjustments.
- D. all of the above.

*BT: Knowledge*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 4*

*Phillips - Chapter 03 #55*

56. The unadjusted trial balance:

*(p. 104)*

- A. is a preliminary financial statement for external users.
- B. generally lists account names in alphabetical order.
- C. is created to determine that total debits equal total credits.
- D. demonstrates that the accounting process is error free.

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 4*

*Phillips - Chapter 03 #56*



57. Which of the following statements is true?

(p. 97)

- A. When operating income is positive, revenue is greater than expenses.
- B. When net income is negative, retained earnings decrease, all other things being equal.
- C. When net income is positive, Shareholders' equity increases, all other things being equal.
- D. All of the above.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 1*

*Phillips - Chapter 03 #57*

58. During the three months of this quarter, Asbar, Inc., has generated service revenues of

(p. 91)

\$16,500, \$21,000, and \$43,800, respectively. The cost of providing the services is \$3,600, \$6,000, and \$9,400, respectively. In addition, salaries and wages for the quarter total \$17,900 while general administrative expenses total \$14,300. The company also earned interest revenue of \$6,900 and incurred income taxes of \$7,400. Net income for the quarter is:

- A. \$15,800.
- B. \$30,100
- C. \$29,600.
- D. \$22,700.

$$(16,500 + 21,000 + 43,800 + 6,900) - (3,600 + 6,000 + 9,400 + 17,900 + 14,300 + 7,400)$$

$$= 88,200 - 58,600 = 29,600$$

*BT: Comprehension*

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 1*

*Phillips - Chapter 03 #58*

59. Which of the following statements is true?

(p. 90)

- A. Expenses are listed before revenues on the income statement.
- B.** Operating income is listed before net income on the income statement.
- C. The income statement demonstrates the effect of net income on the balance sheet.
- D. Net income is listed before net operating income on the income statement.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 1*

*Phillips - Chapter 03 #59*

60. Which of the following is an example of an error that would not cause the trial balance to be out of balance?

(p. 104)

- A. A journal entry was posted as a debit to Cash for \$525 and credited to Accounts Receivable for \$552.
- B.** A journal entry was posted as a debit to Cash and a credit to Sales Revenue when the company received a customer payment on account.
- C. A journal entry was posted as a debit to Wages Expense and a debit to Wages Payable.
- D. All of the above errors would cause the trial balance to be out of balance.

*BT: Comprehension*

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 4*

*Phillips - Chapter 03 #60*

61. A company's revenue recognition policy:

(p. 95)

- A. affects the income statement but not the balance sheet.
- B. defines when its revenue should be collected.
- C. is usually described in the notes to a company's financial statements.
- D. states that revenues should not be recorded until payments are received from customers.

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #61*

62. In September, a customer signed a contract to have his house painted and paid for the job in October. The painting company bought the paint in August on account and paid for it in September. The painting company painted the house in November. According to the revenue and matching principles, the painting company should record:

(p. 94)

- A. the revenues in November and the expenses in September.
- B. the revenues and the expenses in September.
- C. the revenues and the expenses in November.
- D. the revenues in September and the expenses in August.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #62*

63. The Rainbow House Painting Company has been contracted to strip, repair, prime, and paint a house for \$3,600 to be paid in instalments as phases of the work are completed. The company has not started painting and has only received one payment. The company decides to record \$3,600 as revenue. This decision violates the:

(p. 94)

- A. fourth condition of the revenue principle which states that regulatory approval be acquired.
- B. second condition of the revenue principle, that measurability is reasonably certain.
- C. third condition of the revenue principle that collectability is reasonably assured.
- D. first condition of the revenue principle, that risks and rewards have passed or the earnings process is substantially complete.

*BT: Comprehension*

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #63*

64. Which of the following is *not* a condition for reporting revenues?

(p. 94)

- A. The goods or services have been delivered.
- B. The customer has already paid for the good or service.
- C. The price is fixed or determinable.
- D. Collection is reasonably assured.

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #64*

65. A dance studio accepts \$1,500 to provide a series of dance lessons to a youth group during the month of July. The studio decides to record the revenue in July. The studio decided to record the July expenses of rent, utilities and salaries in August, when it pays for them. One or both of these decisions:

(p. 96)

- A. violate the matching principle.
- B. violate principles of accrual accounting.
- C. violate the revenue principle.
- D. violate the accounting equation.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #65*

66. Creative Ads Inc., provides \$5 million of advertising development services on account to a large, existing customer who has previously purchased similar amounts of services and has always paid on time. Creative Ads Inc., then decides to credit \$5 million to revenue. This decision:

(p. 94)

- A. violates the condition that risks and rewards be passed or the earnings process be substantially complete.
- B. violates the condition that measurability be reasonably certain.
- C. violates the condition that collectability be reasonably assured.
- D. does not violate any of the above conditions of the revenue principle.

*BT: Comprehension*

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #66*

67. One of the ways companies can mislead investors is by inappropriately capitalizing costs.

(p. 96) When is it appropriate to capitalize costs?

- A. When the work has already been performed.
- B.** When future economic benefits are associated with the cost.
- C. When the good or service being purchased by the company has been received and used.
- D. When the good or service being purchased by the company has not yet been paid.

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #67*

68. The matching principle requires:

(p. 96)

- A. that expenses should be recognized on periodic basis.
- B. that expenses should be split between Cost of Goods Sold (sometimes called Cost of Sales) and Selling Expenses.
- C. that current assets and current liabilities are stated in a certain order on the balance sheet.
- D.** that costs are recognized as expenses in the same period as the revenues they generate.

*BT: Application*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #66*

69. What entry would be made in account receivable when a company has billed its client  
(p. 94) \$230,000 during the financial year and client have sent in payments totalling \$87,908. The  
business uses cash-based accounting?

- A. 230,000
- B. 87,908
- C. 0
- D. 142,092.

*BT: Comprehension*

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 2*

*Learning Objective: 3*

*Phillips - Chapter 03 #69*

70. When Cash is paid *after* the cost is incurred to generate revenue, costs are stated as:  
(p. 96)

- A. Liability
- B. Asset
- C. Revenue
- D. Stockholders' equity

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #70*

71. The main purpose of preparing a trial balance is to ensure that:

(p. 104)

- A. The total of recorded debits and total of recorded credits are equal.
- B. The company is making a profit.
- C. The total of revenue is equal to expenses.
- D. The total of recorded debits in revenue accounts are equal to total of recorded credits

*BT: Knowledge*

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 4*

*Phillips - Chapter 03 #71*

72. Picasso Art School's operating activities for the month of February are summarized in the following transactions:

(p. 93)

1. Provided \$1,500 of instructional lessons.
  2. Received \$2,100 cash from students—of which \$1,200 is for lessons provided in February, and \$900 is for lessons provided in January.
  3. Paid January's rental bill of \$300. Received February's bill of \$450 but did not pay.
- Determine Picasso Art School's Net Income for February using the *cash basis* of accounting?

A. \$950

B. \$1,800

C. \$900

D. \$750

$$2,100 - 300 = 1,800$$

*BT: Comprehension*

*Difficulty: Medium*



73. Picasso Art School's operating activities for the month of February are summarized in the following transactions:

*(p. 93)*

1. Provided \$1,500 of instructional lessons.
2. Received \$2,100 cash from students—of which \$1,200 is for lessons provided in February, and \$900 is for lessons provided in January.
3. Paid January's rental bill of \$300. Received February's bill of \$450 but did not pay.

Determine Picasso Art School's Net Income for February using the *accrual basis* of accounting?

- A. \$1,050
- B. \$1,800
- C. \$900
- D. \$750

$$\$1,500 - \$450 = 1050$$

*BT: Comprehension*  
*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 1*  
*Phillips - Chapter 03 #73*

74. Revenues come solely from selling a company's goods or services.

*(p. 91)*

FALSE

*BT: Knowledge*  
*Difficulty: Medium*  
*Gradable: automatic*

75. Net income of a company is the same as the amount of cash flow generated by the business  
(p. 107) during the period.

**FALSE**

*BT: Comprehension  
Difficulty: Easy  
Gradable: automatic  
Learning Objective: 5  
Phillips - Chapter 03 #75*

76. Cash basis accounting measures financial performance very well when a business sells its  
(p. 93) customers on account.

**FALSE**

*BT: Knowledge  
Difficulty: Easy  
Gradable: automatic  
Learning Objective: 1  
Phillips - Chapter 03 #76*

77. If expenses grow faster than revenues compare to the previous period, the net income will  
(p. 91) increase.

**FALSE**

*BT: Comprehension  
Difficulty: Medium  
Gradable: automatic  
Learning Objective: 1  
Phillips - Chapter 03 #77*

78. Accrual basis of accounting is the only acceptable method for external reporting of financial statements under both ASPE and IFRS.  
(p. 109)

TRUE

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #78*

79. Costs that benefit future periods are reported as assets.  
(p. 96)

TRUE

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #79*

80. If payment is received at the same time a service is produced and sold, there is no difference between how cash and accrual accounting record the transaction.  
(p. 94)

TRUE

*BT: Comprehension*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #80*

81. The cash basis of accounting works best when a lengthy delay exists between the timing of cash flows and the underlying business activities to which they relate.  
(p. 93)

**FALSE**

*BT: Comprehension  
Difficulty: Medium  
Gradable: automatic  
Learning Objective: 2  
Phillips - Chapter 03 #81*

82. Using the accrual basis of accounting, if payment is received before delivery of a good or service, a liability is recorded at the time the payment is received.  
(p. 93)

**TRUE**

*BT: Comprehension  
Difficulty: Easy  
Gradable: automatic  
Learning Objective: 2  
Phillips - Chapter 03 #82*

83. Using the accrual basis of accounting, if payment is received after delivery of a good or service, an asset is recorded at the time the good or service was delivered.  
(p. 94)

**TRUE**

*BT: Comprehension  
Difficulty: Easy  
Gradable: automatic  
Learning Objective: 2  
Phillips - Chapter 03 #83*

84. GAAP (Generally Accepted Accounting Principles) requires the use of accrual basis of accounting for external financial reporting purposes.  
(p. 93)

**TRUE**

*BT: Knowledge*  
*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 2*  
*Phillips - Chapter 03 #84*

85. Unearned Revenue is a liability account.  
(p. 95)

**TRUE**

*BT: Knowledge*  
*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 2*  
*Phillips - Chapter 03 #85*

86. Both revenues and expenses typically have credit balances.  
(p. 98)

**FALSE**

*BT: Knowledge*  
*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 3*  
*Phillips - Chapter 03 #86*

87. Revenues and expenses are considered assets and liabilities, respectively.  
(p. 92)

**FALSE**

*BT: Knowledge*  
*Difficulty: Easy*

88. When a business receives a payment on account from a customer, the total assets of the  
*(p. 95)* business are unchanged.

**TRUE**

*BT: Comprehension*  
*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 3*  
*Phillips - Chapter 03 #88*

89. An increase in net income does not affect Shareholders' equity.  
*(p. 92)*

**FALSE**

*BT: Comprehension*  
*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 1*  
*Phillips - Chapter 03 #89*

90. Unearned Revenue is an alternative name for the Shareholders' equity account typically  
*(p. 95)* known as Retained Earnings.

**FALSE**

*BT: Knowledge*  
*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 2*  
*Phillips - Chapter 03 #90*

91. Recording a Debit in an expense account will reduce expenses.

(p. 98)

**FALSE**

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #91*

92. All operating activities will increase a company's resources.

(p. 90)

**FALSE**

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 1*

*Phillips - Chapter 03 #92*

93. The total credits recorded in revenue accounts must equal the total debits recorded in expense accounts.

(p. 98)

**FALSE**

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 3*

*Phillips - Chapter 03 #93*

94. When a business uses up its resources to generate revenues for the period, it reports an expense only when it pays for them.

(p. 91)

**FALSE**

*BT: Comprehension*

*Difficulty: Medium*  
*Gradable: automatic*  
*Learning Objective: 1*  
*Phillips - Chapter 03 #94*

95. Across all revenue accounts, the total value of all debits must equal the total value of all  
(p. 98) credits.

**FALSE**

*BT: Knowledge*  
*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 3*  
*Phillips - Chapter 03 #95*

96. A trial balance is included in the full set of external financial statements, just like an income  
(p. 104) statement.

**FALSE**

*BT: Knowledge*  
*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Phillips - Chapter 03 #96*

97. Corporate income taxes cannot be calculated until all adjustments are made to net income.  
(p. 105)

**TRUE**

*BT: Knowledge*  
*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Phillips - Chapter 03 #97*



98. If no of debits equal no of credits in the unadjusted trial balance, you have made no errors in preparing and posting journal entries.  
(p. 105)

**FALSE**

*BT: Knowledge*  
*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Phillips - Chapter 03 #98*

99. The balances for each account reported on an unadjusted trial balance are determined by adding the amounts on the "+" side and subtracting the amounts on the "-" side of each ledger or T-account.  
(p. 104)

**TRUE**

*BT: Knowledge*  
*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 4*  
*Phillips - Chapter 03 #99*

100. During August, your company sells \$10,000 of services that cost \$8,000 to provide. You report the revenue in August and the expenses (that is, the costs incurred to provide those services) in September and October when they are paid. This is an acceptable accounting procedure.  
(p. 94)

**FALSE**

*BT: Comprehension*  
*Difficulty: Easy*  
*Gradable: automatic*  
*Learning Objective: 2*  
*Phillips - Chapter 03 #100*

101. According to the Revenue Principle, a company should not record the revenue from a transaction until it is actually received in cash.  
(p. 94)

**FALSE**

*BT: Comprehension*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #101*

102. To ensure revenue reporting is consistent over time, a business adopts a revenue recognition policy that defines the time at which they report revenues from providing goods or services to customers.  
(p. 94)

**TRUE**

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #102*

103. The matching principle requires that expenses be determined first and then revenues be "matched" to those expenses.  
(p. 96)

**FALSE**

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #103*

104. An increase in unearned revenue would have an impact on the income of the company.

(p. 95)

**FALSE**

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2*

*Phillips - Chapter 03 #104*

105. Company's net income is the sole determinant of its value for the period the net income is generated.

(p. 108)

**FALSE**

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 5*

*Phillips - Chapter 03 #105*

106. Operating cycle is the time period from buying raw material to provide goods and services to customers through to collecting cash from them.

(p. 90)

**TRUE**

*BT: Knowledge*

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 1*

*Phillips - Chapter 03 #106*

107. Net income for the accounting period will increase retained earnings account.

(p. 98)

**TRUE**

*BT: Knowledge*

108. Prepare an income statement for Pet Sitters, Inc., using the following data for the year ending  
(p. 91) December 31, 2007. Show proper order of accounts and operating income and net income.

Income Tax Expense	\$637,900	Sales Revenue	\$8,964,500
Wages Expense	5,986,000	Amortization Expense	375,400
Operating and Administrative Expense	531,800	Interest Expense	268,400

**PET SITTERS, INC.**

Income Statement

For the Year Ended December 31, 2007

**Operating Revenues**

Sales Revenue \$8,964,500

**Operating Expenses**

Wages Expense 5,986,000

Operating and Administrative Expense 531,800

Amortization Expense 375,400

Operating Expenses 6,893,200

**Operating Income** **2,071,300**

**Other Expenses**

Interest Expense 268,400

**Income before Income Tax Expense** **1,802,900**

Income Tax Expense 637,900

**Net Income** **\$1,165,000**

109. For each of the following events, indicate the accounts affected, whether they would increase or decrease, and the amount by which they would change. Also demonstrate that the accounting equation will remain in balance after these effects are reported. If the event should not to be recorded as a transaction, state so.

(p. 98)

- A. Borrowed \$7,000,000 cash, signing a promissory note.
- B. Bought a factory for \$800,000, paying \$200,000 in cash and signing a promissory note for \$600,000.
- C. Rented equipment for \$10,000 a month and made a payment for six months in advance.
- D. Paid \$104,000 for insurance coverage that will begin next month.
- E. Purchased \$30,000 of supplies on account, of which \$10,000 is intended for use next month, and the remainder in later months.
- F. Hired 20 workers at \$500 a week each and paid all 20 workers for the four weeks of work done during the month.
- G. Raised prices by 10%.
- H. Received a 50% prepayment from a customer on a \$20,000 order to be filled next month.

A.

Transaction Analysis:

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
Cash	+7,000,000		Notes Payable		+7,000,000

Assets = Liabilities + Shareholders' Equity.

Assets increased \$7 million and liabilities increased \$7 million.

The accounting equation still balances.

B. Transaction Analysis:

Transaction Analysis:

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
Cash	-200,000		Notes Payable		+600,000
Factory	+800,000				

Assets = Liabilities + Shareholders' Equity.

Assets increased \$600,000 (+\$800,000 in property and -\$200,000 in cash) and Liabilities increased \$600,000.

The accounting equation still balances.

Transaction Analysis:

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
C.	Prepaid expenses +60,000				
	Cash -60,000				

Assets = Liabilities + Shareholders' Equity

Assets are unchanged (+\$60,000 in prepaid expenses and -\$60,000 in cash).

The accounting equation still balances.

Transaction Analysis:

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
D.	Cash -104,000				
	Prepaid insurance +104,000				

Assets = Liabilities + Shareholders' Equity.

Assets were unchanged (+104,000 in prepaid insurance and -104,000 in cash).

The accounting equation still balances.

Transaction Analysis:

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
E.	Supplies +30,000		Accounts Payable +30,000		

Assets = Liabilities + Shareholders' Equity.

Assets increased \$30,000 and Liabilities increased \$30,000.

The accounting equation still balances.

Transaction Analysis:

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
F.	Cash -40,000				Wages expense -40,000

Assets = Liabilities + Shareholders' Equity.

Assets decreased \$40,000 and Shareholders' Equity decreased by \$40,000.

The accounting equation still balances.

G. This event would not be recorded as a transaction; there is no impact on the accounting equation.

Transaction Analysis:

H. 

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
Cash +10,000		Unearned revenue +10,000		

Assets = Liabilities + Shareholders' Equity.

Assets increased \$10,000 and Liabilities increased \$10,000.

The accounting equation still balances.

*BT: Application*

*Difficulty: Medium*

*Gradable: manual*

*Learning Objective: 3*

*Phillips - Chapter 03 #109*

110. The Pet Sitters, Inc., had the following transactions during the month of January. For each of (p. 98) the transactions, prepare journal entries.

- A. Paid \$5,000 cash for cat litter, of which \$600 was used during January, and \$4,400 will be used during February through April.
- B. Paid \$4,480 for wages and salaries, one-half of which employees had earned in December and one-half of which related to January.
- C. Paid \$480 in advance for February utilities.
- D. Provided \$12,000 in services on account.
- E. Paid \$800 on accounts payable.
- F. Received \$210 from customers as deposits for future pet sitting services.
- G. Obtained \$390 in vet services during the month, but will not pay the bill until February.
- H. Paid \$780 for equipment.

A.	<i>Dr</i> Supplies (+A)	4,400	
	<i>dr</i> Supplies Expense (+E, -SE)	600	
	<i>Cr</i> Cash (-A)		5,000
B.	<i>Dr</i> Accrued Liabilities (Wage Payable) (-L)	2,240	
	<i>Dr</i> Wages Expense (+E, -SE)	2,240	
	<i>Cr</i> Cash (-A)		4,480
C.	<i>Dr</i> Prepaid Utilities (+A)	480	
	<i>Cr</i> Cash (-A)		480
D.	<i>Dr</i> Accounts Receivable (+A)	12,000	
	<i>Cr</i> Service Revenue (+R)		12,000
E.	<i>Dr</i> Accounts Payable (-L)	800	
	<i>Cr</i> Cash (-A)		800
F.	<i>Dr</i> Cash (+A)	210	
	<i>Cr</i> Unearned Revenue (+L)		210
G.	<i>Dr</i> Vet Expenses (+E, -SE)	390	
	<i>Cr</i> Accounts Payable (+L)		390
H.	<i>Dr</i> Equipment (+A)	780	
	<i>Cr</i> Cash (-A)		780



111. The following is a series of accounts for the Sprinkler Blowout Company, listed alphabetically and numbered for identification. Following the accounts is a series of transactions. For each transaction, indicate the account(s) that should be debited and credited by entering the appropriate account number(s) to the right of each transaction. If no journal entry is needed, write *none* after the transaction.

(p. 98)

<b>Acct. #</b>	<b>Account Title</b>	<b>Acct. #</b>	<b>Account Title</b>
1	Accounts payable	9	Land
2	Accounts receivable	10	Note payable
3	Advertising expense	11	Prepaid insurance
4	Building	12	Service revenue
5	Cash	13	Supplies
6	Contributed capital	14	Supplies expense
7	Income taxes payable	15	Wages expense
8	Insurance expense	16	Wages payable

Transactions	Debit	Credit
A. Performed services for customers this month for cash.		
B. Purchased on credit but did not use supplies this month.		
C. Purchased a building, paying part cash and signing a note for the rest.		
D. Paid insurance premium for coverage beginning next month.		
E. Booked blowouts to be done next month; didn't collect cash.		

A: 5, 12; B: 13, 1; C: 4, 5/10; D: 11, 5; E: none.

112. Show journal entries for each of the following January activities, and post results to the relevant T-accounts.  
 (p. 98-103)

- A. Provided \$26,000 of services. \$17,000 was received in cash and \$9,000 was provided on credit.
- B. Used \$423 of supplies.
- C. Provided \$3,500 of services paid for in previous months.
- D. Bought \$15,000 of new equipment signing a promissory note.
- E. Paid \$689 on account for December's utilities.
- F. Paid workers \$8,300 for work done in January.

A.

	dr Cash (+A)	17,000	
	dr Accounts Receivable (+A)	9,000	
	cr Revenue (+R, +SE)		26,000
+    Cash (A)    -    +Accounts Receivable (A)    -    Revenue (R)    +			
17,000		9,000	
			26,000

B.

	Dr Supplies Expense (+E, -SE)	423	
	cr Supplies (-A)		423
+    Supplies (A)    -    +    Supplies Expense (E)    -			
	423	423	

C.

	Dr Unearned Revenue (-L)	3,500	
	cr Revenue (+R, +SE)		3,500
-    Unearned Revenue (L)    +    -    Revenue (R)    +			
3,500			3,500

D.

<i>Dr</i> Equipment (+A)	15,000	
<i>cr</i> Notes Payable (+L)		15,000

+ Equipment (A) -	-	Notes Payable (L) +
15,000		15,000

E.

<i>dr</i> Accounts Payable (-L)	689	
<i>cr</i> Cash (-A)		689

+ Cash (A) -	-	Accounts Payable (L) +
689		689

F.

<i>Dr</i> Wage Expense (+E, -SE)	8,300	
<i>cr</i> Cash (-A)		8,300

+ Wage Expense (E) -	+	Cash (A) -
8,300		8,300

*BT: Analysis*  
*Difficulty: Hard*  
*Gradable: manual*  
*Learning Objective: 3*  
*Phillips - Chapter 03 #112*

113. At September 30, Balance Corporation reported the following unadjusted amounts for its  
 (p. 104) accounts, each of which is considered to be a "normal" balance, i.e., an account that normally  
 has a debit balance actually does have a debit balance. Prepare an unadjusted trial balance.

Accounts Payable	\$12,000
Accounts Receivable	1,000
Advertising Expense	400
Cash	85,000
Contributed Capital	64,000
Equipment	60,000
Note Payable	36,000
Rent Revenue	42,000
Retained Earnings	24,800
Supplies	1,400
Supplies Expense	600
Utilities Expense	2,000
Wages Expense	28,400

**Balance Corporation**  
 Unadjusted Trial Balance  
 September 30

	<u>Debit</u>	<u>Credit</u>
Cash	\$85,000	
Accounts Receivable	1,000	
Supplies	1,400	
Equipment	60,000	
Accounts Payable		\$12,000
Note Payable		36,000
Contributed Capital		64,000
Retained Earnings		24,800
Rent Revenue		42,000
Advertising Expense	400	
Supplies Expense	600	
Utilities Expense	2,000	
Wages Expense	28,400	
TOTALS	<u>\$178,800</u>	<u>\$178,800</u>

*BT: Synthesis*

*Difficulty: Hard*

*Gradable: manual*

*Learning Objective: 4*

*Phillips - Chapter 03 #113*

114. Match the term and the explanation. There are more definitions than terms.

(p. 90)

- \_\_\_\_\_ cash basis
- \_\_\_\_\_ net resources
- \_\_\_\_\_ unadjusted trial balance
- \_\_\_\_\_ prepaid expense
- \_\_\_\_\_ loss
- \_\_\_\_\_ unearned revenue
- \_\_\_\_\_ revenue recognition policy
- \_\_\_\_\_ gain
- \_\_\_\_\_ matching principle

- A. Reported when a company sells goods or services in the ordinary course of business for more than it cost to produce.
- B. Reporting expenses and revenue according to the time the underlying activities occur.
- C. Reported when a clothing company sells land for more than its book value.
- D. Reported when a clothing company sells land for less than its book value.
- E. A list of account balances when the accounts do not yet include all revenues and expenses.
- F. The concept that expenses should be reported at the same time as the related revenue.
- G. Also known as the accounting period, it is the interval of time covered by the financial statements.
- H. An asset account indicating customers have already paid for goods not yet received.
- I. The principle that changes in assets must be matched by changes in liabilities.
- J. Also known as net assets, this is the value of assets minus liabilities.
- K. An asset account indicating a company has already paid a cost not yet incurred.
- L. A company's policy on when to report revenue in the financial statements.
- M. A liability account indicating a company has already paid a cost not yet incurred.
- N. Reporting expenses and revenues according to the time the cash is paid or received.
- O. A liability account indicating customers have already paid for goods not yet received.
- P. Means a financial statement does not balance.

N, J, E, K, D, O, L, C and F

*BT: Knowledge*

*Difficulty: Medium*

*Gradable: manual*

*Learning Objective: 1*

*Phillips - Chapter 03 #114*

115. Match the term and the definition. There are more definitions than terms.

(p. 90)

\_\_\_\_\_ core activities

\_\_\_\_\_ unearned revenue

\_\_\_\_\_ expenditure

\_\_\_\_\_ revenue principle

\_\_\_\_\_ accrual basis

\_\_\_\_\_ capitalize

\_\_\_\_\_ expense

\_\_\_\_\_ net income

A. When line items are broken down into their component subcategories.

B. To reduce the recorded value of an asset to reflect its true market value.

C. The secondary or peripheral activities of a company.

D. Any outlay of money by a company whether related to production or not.

E. Also known as operating income.

F. The concept that revenue and expenses should be recorded at the time received or paid.

G. When a cost is reported as an asset on the balance sheet.

H. The main business activities of a company.

I. The concept that revenue should be recorded when earned, not necessarily when payment is received.

J. Revenues should be recorded when they are earned and expenses when they are incurred.

K. Total revenue minus total expenses.

L. Any use or sacrifice of a company's resources to generate revenue.

M. The increase in value of financial assets held by a company.

N. Payments received for goods that have not yet been delivered or services that have not yet been performed.

O. The concept that a company should record revenue during the same period as expenses.

H, N, D, I, J, G, L, and K

*BT: Knowledge*

*Difficulty: Medium*

*Gradable: manual*

*Learning Objective: 1*

*Phillips - Chapter 03 #115*

116. For each of the following, indicate the effect the given situation would have on net income in the current period.

*(p. 94-108)*

O overstate net income

U understate net income

N/A not applicable; no effect on net income

\_\_\_\_\_ recording prepaid costs as current expenses.

\_\_\_\_\_ recording an expense at more than the actual cost.

\_\_\_\_\_ failing to record the receipt of a payment by a customer on account.

\_\_\_\_\_ underestimating amortization expense.

\_\_\_\_\_ failing to record some supplies received.

\_\_\_\_\_ recording unearned revenue as revenue.

\_\_\_\_\_ recording an expense as revenue.

\_\_\_\_\_ failing to record the company issuing additional shares of its own common stock.

\_\_\_\_\_ overestimating payroll tax expense.

U, U, N/A, O, N/A, O, O, N/A, and U

*BT: Analyze*

*Difficulty: Medium*

*Gradable: manual*

*Learning Objective: 2; 5*



117. Indicate whether a debit (dr) or credit (cr) would be used to *increase* each of the following  
(p. 98) accounts.

- \_\_\_\_\_ prepaid expenses.
- \_\_\_\_\_ rental revenue.
- \_\_\_\_\_ salaries and wages expense.
- \_\_\_\_\_ service revenue.
- \_\_\_\_\_ property and equipment.
- \_\_\_\_\_ wages expense.
- \_\_\_\_\_ retained earnings.
- \_\_\_\_\_ loss on sale of property.
- \_\_\_\_\_ supplies expense.

dr, cr, dr, cr, dr, dr, cr, dr, dr

*BT: Comprehension*

*Difficulty: Medium*

*Gradable: manual*

*Learning Objective: 3*

*Phillips - Chapter 03 #117*

118. Match the letter and the blank in each transaction description to complete the analysis. All letters will not be used and some letters may be used more than once.

(p. 98)

- A. debit
- B. cash
- C. revenue
- D. supplies
- E. credit
- F. expense
- G. accrued liabilities
- H. unearned revenue
- I. accounts receivable
- J. notes payable

- a. A company pays wages. This is posted as a(n) \_\_\_\_ to cash and a(n) \_\_\_\_ to wages expense.
- b. A company is paid for a job completed last month. This is posted as a debit to \_\_\_\_ and a credit to \_\_\_\_.
- c. A restaurant buys and immediately uses ingredients. This is posted as a(n) \_\_\_\_ to an expense and a(n) \_\_\_\_ to cash.
- d. A company pays the original amount owed on a promissory note. This is posted as a debit to \_\_\_\_ and a credit to \_\_\_\_.
- e. A company receives money for a job to be done next month. This is posted as a debit to \_\_\_\_ and a credit to \_\_\_\_.

a. E, A; b. B, I; c. A, E; d. J, B; e. B, H

*Gradable: manual*

*Learning Objective: 3*

*Phillips - Chapter 03 #118*

## 3 Summary

<u>Category</u>	<u># of Questions</u>
BT: Analysis	4
BT: Analyze	1
BT: Application	2
BT: Comprehension	64
BT: Knowledge	45
BT: Synthesis	2
Difficulty: Easy	53
Difficulty: Hard	17
Difficulty: Medium	48
Gradable: automatic	107
Gradable: manual	11
Learning Objective: 1	28
Learning Objective: 2	38
Learning Objective: 2; 5	1
Learning Objective: 3	41
Learning Objective: 4	9
Learning Objective: 5	2
Phillips - Chapter 03	118