

## The Accounting Cycle: During the Period

### True / False Questions

1. External transactions are transactions the firm conducts with a separate economic entity, such as selling products to a customer, purchasing supplies from a vendor, paying salaries to an employee, and borrowing money from a bank.

True   False

2. Internal transactions are events that affect the financial position of the company but do not include an exchange with a separate economic entity. Examples are using supplies on hand and earning revenues after having received cash in advance from a customer.

True   False

3. A list of all account names used to record transactions of a company is referred to as a T-account.

True   False

4. After recording each transaction, total assets must equal total liabilities plus stockholders' equity.

True   False

5. If a transaction causes total assets of the company to increase by \$2,000, then liabilities plus stockholders' equity also increases by \$2,000.

True   False

6. If a transaction causes total assets of the company to increase by \$5,000 and total liabilities to increase by \$3,000, then stockholders' equity increases by \$8,000.

True   False

7. Borrowing cash from the bank causes assets to increase and liabilities to increase.

True   False

8. Purchasing equipment using cash causes assets to increase.

True   False

9. Providing services to customers for cash causes stockholders' equity to increase.

True   False

10. Paying employees' salaries for the current month causes no change to stockholders' equity.

True   False

11. Paying dividends to its stockholders causes a company's stockholders' equity to decrease.

True   False

12. Selling common stock for cash causes assets to increase and stockholders' equity to decrease.

True   False

13. Purchasing office supplies on account causes assets to increase and liabilities to increase.

True   False

14. Providing services to customers on account causes assets to increase and stockholders' equity to increase.

True   False

15. Receiving cash in advance from a customer for services to be provided in the future causes assets to increase and stockholders' equity to increase.

True False

16. Paying for one year of rent in advance does not affect the accounting equation.

True False

17. Purchasing supplies on account increases the balance of the Accounts Receivable account.

True False

18. Amounts owed from customers are recorded in the Accounts Receivable account.

True False

19. The two components of stockholders' equity are Debits and Credits.

True False

20. Revenues have the effect of increasing retained earnings.

True False

21. Expenses have the effect of decreasing retained earnings.

True False

22. Receiving cash in advance from customers increases the Service Revenue account.

True False

23. Deferred Revenue is a liability account.

True False

24. Liability accounts increase with a debit and decrease with a credit.

True   False

25. Liability accounts increase with a credit and decrease with a debit.

True   False

26. Common Stock increases with a credit and decreases with a debit.

True   False

27. Revenue accounts increase with a debit and decrease with a credit.

True   False

28. Expense accounts increase with a debit and decrease with a credit.

True   False

29. The Dividends account increases with a credit and decreases with a debit.

True   False

30. A debit to an account balance always results in the balance increasing.

True   False

31. A credit to an account balance always results in the balance decreasing.

True   False

32. A journal provides a chronological record of all transactions affecting a firm.

True   False

33. For each transaction, there must be at least one debit amount and one credit amount.

True   False

34. For each transaction, the total debit amounts must equal the total credit amounts.

True   False

35. Selling common stock for cash is recorded with a debit to common stock.

True   False

36. Borrowing cash from the bank is recorded with a debit to cash.

True   False

37. Purchasing office supplies is recorded with a credit to office supplies.

True   False

38. Paying employees' salaries for the current period is recorded with a debit to Salaries Expense.

True   False

39. Providing services to customers is recorded with a debit to Service Revenue.

True   False

40. The general ledger includes all accounts used to record the company's transactions.

True   False

41. The process of transferring the debit and credit information from the journal to individual accounts in the general ledger is called journalizing.

True   False

42. After posting transactions to the general ledger accounts, the sum of the accounts with debit balances should equal the sum of the accounts with credit balances.

True   False

43. A trial balance is a list of all accounts and their balances at a particular date, showing that assets equal liabilities.

True   False

44. If total debits equal total credits in the trial balance, then all balances are correct.

True   False

### Multiple Choice Questions

45. Which of the following is not part of measuring external transactions?

- A. Using source documents to analyze accounts affected.
- B. Recording transactions.
- C. Making payments on all amounts owed.
- D. Analyzing transactions for their effect on the accounting equation.

46. External events include all of the following except:

- A. Paying rent.
- B. Purchasing equipment.
- C. Using office supplies.
- D. Collecting an account receivable.

47. The full set of procedures used to accomplish the measurement/communication process of financial accounting is referred to as the:
- A. Trial balance
  - B. Accounting cycle
  - C. Chart of accounts
  - D. General ledger
48. Which step in the process of measuring external transactions involves assessing the equality of total debits and total credits for the period?
- A. Use source documents to determine accounts affected by the transaction.
  - B. Prepare a trial balance.
  - C. Analyze the impact of the transaction on the accounting equation.
  - D. Post the transaction to the T-account in the general ledger.
49. A(n) \_\_\_\_\_ summarizes all transactions related to a particular item over a period of time.
- A. Debit
  - B. Account
  - C. Chart of accounts
  - D. Source document
50. A list of all account names used to record transactions of a company is referred to as the:
- A. Chart of Accounts
  - B. Income statement
  - C. General journal
  - D. Balance sheet

51. For each transaction recorded in an accounting system, the basic equation that must be maintained at all times is:

- A. Assets = Liabilities + Stockholders' Equity.
- B. Cash Increases = Cash Decreases.
- C. Revenues = Expenses + Dividends.
- D. Assets = Liabilities.

52. The following amounts are reported in the ledger of Mariah Company:

Assets	\$80,000
Liabilities	36,000
Retained Earnings	12,000

What is the balance in the Common Stock account?

- A. \$44,000.
- B. \$32,000.
- C. \$48,000.
- D. \$42,000.

53. When a company pays employees' salaries for the current period, how will the basic accounting equation be affected?

- A. Stockholders' equity decreases.
- B. Revenues decrease.
- C. Expenses decrease.
- D. Liabilities decrease.



54. When cash payments are made to stockholders, what is the effect on the company's accounts?

- A. Cash decreases and dividends increase.
- B. Cash increases and dividends decrease.
- C. Cash decreases and common stock decreases.
- D. Cash increases and common stock increases.

55. Receiving cash from customers before services are performed results in:

- A. Prepaid Assets.
- B. Service Revenue.
- C. Deferred Revenues.
- D. Accounts Receivable.

56. When the company pays stockholders a dividend, what is the effect on the accounting equation for that company?

- A. Decrease stockholders' equity and increase assets.
- B. Increase liabilities and increase assets.
- C. Decrease assets and decrease liabilities.
- D. Decrease assets and decrease stockholders' equity.

57. Pumpkin Inc. sold \$500 in pumpkins to a customer on account on January 1. On January 11 Pumpkin collected the cash from that customer. What is the impact on Pumpkin's accounting equation from the collection of cash?

- A. No net effect to the accounting equation.
- B. Decrease assets and increase liabilities.
- C. Increase assets and increase liabilities.
- D. Decrease assets and decrease liabilities.

58. A company receives a \$50,000 cash deposit from a customer on October 15 but will not provide services until November 20. Which of the following statements is true?
- A. The company records service revenue on October 15.
  - B. The company records cash collection on November 20.
  - C. The company records deferred revenue on October 15.
  - D. The company records nothing on October 15.
59. Which of the following would increase assets and increase liabilities?
- A. Provide services to customers on account.
  - B. Purchase office supplies on account.
  - C. Pay dividends to stockholders.
  - D. Receive a utility bill but do not pay it immediately.
60. Receiving cash from an account receivable:
- A. Increases revenue and decreases an asset.
  - B. Decreases a liability and increases an asset.
  - C. Increases an asset and increases revenue.
  - D. Increases one asset and decreases another asset.
61. An expense has what effect on the accounting equation?
- A. Decrease liabilities.
  - B. Decrease stockholders' equity.
  - C. Increase assets.
  - D. No effect.

62. Revenues have what effect on the accounting equation?

- A. Increase liabilities.
- B. Decrease assets.
- C. Increase stockholders' equity.
- D. No effect.

63. Investments by stockholders have what effect on the accounting equation?

- A. Assets increase and liabilities increase.
- B. Expenses increase and liabilities increase.
- C. Assets increase and revenues increase.
- D. Assets increase and stockholders' equity increases.

64. Which of the following is not possible when recording a transaction?

- A. Liabilities increase and assets decrease.
- B. Stockholders' equity increases and assets increase.
- C. One asset increases and another asset decreases.
- D. Stockholders' equity decreases and assets decrease.

65. Purchasing office supplies on account will:

- A. Not change assets.
- B. Increase assets and decrease liabilities.
- C. Increase assets and increase liabilities.
- D. Increase assets and increase stockholders' equity.

66. Providing services and receiving cash will:

- A. Increase assets and increase stockholders' equity.
- B. Increase assets and increase liabilities.
- C. Decrease assets and increase liabilities.
- D. Decrease liabilities and increase stockholders' equity.

67. When a company provides services on account, the accounting equation would be affected as follows:

- A. Assets increase.
- B. Revenues increase.
- C. Assets increase and liabilities decrease.
- D. Assets increase and stockholders' equity increases.

68. If a company provides services on account, which of the following is true?

- A. Expenses increase.
- B. Liabilities increase.
- C. Stockholders' equity increases.
- D. Assets decrease.

69. When a payment is made on an account payable:

- A. Assets and stockholders' equity decrease.
- B. Assets and liabilities decrease.
- C. Liabilities and revenues decrease.
- D. Assets and expenses decrease.

70. Purchasing office equipment on account has what impact on the accounting equation?
- A. Stockholders' equity decreases and assets increase.
  - B. Liabilities increase and assets increase.
  - C. Assets decrease and liabilities decrease.
  - D. Assets increase and stockholders' equity increases.
71. Purchasing supplies for cash has what effect on the accounting equation?
- A. Increase assets.
  - B. Decrease stockholders' equity.
  - C. Decrease liabilities.
  - D. No effect.
72. On January 1, Brad Inc. sold \$30,000 in products to a customer on account. Then on January 10, Brad collected the cash on that account. What is the impact on Brad's accounting equation from the collection of cash on January 10?
- A. No net effect on the accounting equation.
  - B. Assets increase and liabilities decrease.
  - C. Assets decrease and liabilities decrease.
  - D. Assets increase and stockholders' equity increases.
73. On September 30, MFP Co. paid employee salaries of \$7,000, including \$1,000 it owed to its employees last month. What are the effects of this transaction on the accounting equation?
- A. Expenses increased, liabilities increased, and assets increased.
  - B. Assets decreased, liabilities decreased, and expenses increased.
  - C. Assets decreased, expenses decreased, and liabilities increased.
  - D. Expenses decreased, liabilities decreased, and assets decreased.
  - E. Assets increased, expenses increased, and liabilities decreased.

74. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

1. Issued 10,000 shares of common stock for \$15,000 cash.
2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

What was the total amount of Gotebo's liabilities following these six transactions?

- A. \$12,300.
- B. \$27,300.
- C. \$22,600.
- D. \$15,500.

75. Consider the following transactions:

- Issued common stock for cash.
- Purchased equipment by signing a note payable.
- Paid rent for the current month.
- Collected cash from customers on account.

How many of these four transactions increased the given company's total assets?

- A. One.
- B. Two.
- C. Three.
- D. Four.

76. Assume that Sallisaw Sideboards, Inc. had a retained earnings balance of \$10,000 on April 1, and that the company had the following transactions during April.

Issued common stock for cash, \$5,000.

Provided services to customers on account, \$2,000.

Provided services to customers in exchange for cash, \$900.

Purchased equipment and paid cash, \$4,300.

Paid April rent, \$800.

Paid employees' salaries for April, \$700.

What was Sallisaw's retained earnings balance at the end of April?

- A. \$11,400.
- B. \$12,100.
- C. \$16,400.
- D. Some other amount.

77. Consider the following transactions:

Issued common stock for cash.

Purchased equipment by signing a note payable.

Provided services to customers on account.

Collected cash from customers on account.

How many of these four transactions increased the given company's total liabilities?

- A. One.
- B. Two.
- C. Three.
- D. Four.

78. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

1. Issued 10,000 shares of common stock for \$15,000 cash.
2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

How many of these transactions decreased Gotebo's total assets?

- A. One.
- B. Two.
- C. Three.
- D. Four.

79. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

1. Issued 10,000 shares of common stock for \$15,000 cash.
2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

How many of these transactions increased Gotebo's liabilities?

- A. Four.
- B. Three.
- C. Two.
- D. One.



80. Which of the following transactions causes a decrease in stockholders' equity?

- A. Pay dividends to stockholders.
- B. Obtain cash by borrowing from a local bank.
- C. Provide services to customers on account.
- D. Purchase office equipment for cash.

81. How many of the following events would require an expense to be recorded?

- Ordering office supplies
- Hiring a receptionist
- Paying employees' salaries for the current month
- Receiving but not paying a current utility bill
- Paying for insurance in advance

- A. One.
- B. Two.
- C. Three.
- D. Four.

82. Which of the following is NOT possible for a business transaction?

- A. Increase assets and decrease revenue.
- B. Decrease assets and increase expense.
- C. Increase liabilities and increase expense.
- D. Decrease liabilities and increase revenue.

83. Which of the following transactions would cause a decrease in both assets and stockholders' equity?
- A. Paying insurance premium for the next two years.
  - B. Purchasing office equipment on account.
  - C. Paying advertising for the current month.
  - D. Providing installation services to customers.
84. When a company issues common stock for cash, what is the effect on the accounting equation for the company?
- A. Assets increase and liabilities increase.
  - B. Assets increase and stockholders' equity increases.
  - C. Assets decrease and liabilities decrease.
  - D. Liabilities decrease and stockholders' equity increases.
85. If the liabilities of a company increased by \$55,000 during a month and the stockholders' equity decreased by \$21,000 during that same month, did assets increase or decrease and by how much?
- A. \$34,000 increase.
  - B. \$55,000 increase.
  - C. \$34,000 decrease.
  - D. \$76,000 increase.
86. Which of the following transactions would cause an increase in both the assets and liabilities of a company?
- A. Paying for the current month's rent.
  - B. Pay for inventory purchased 90 days ago.
  - C. Purchase of a building by issuing a note payable.
  - D. Services received on account.

87. When a company pays cash for equipment, what is the effect on the accounting equation for that company?

- A. Increase assets and increase liabilities.
- B. Decrease assets and decrease liabilities.
- C. No change.
- D. Increase assets and increase stockholders' equity.

88. "Record revenue when goods or services are provided to customers" is the definition of which principle in accounting?

- A. Trial balance.
- B. Debits and credits.
- C. Revenue recognition.
- D. Accounting equation.

89. Which of the following is possible for a particular business transaction?

- A. Increase assets; Decrease liabilities
- B. Decrease assets; Increase assets
- C. Decrease assets; Increase stockholders' equity
- D. Decrease liabilities; Increase expenses

90. Which of the accounts are decreased on the debit side and increased on the credit side?

- A. Liabilities, stockholders' equity, and revenues.
- B. Dividends, liabilities, and assets.
- C. Expenses, dividends, and stockholders' equity.
- D. Assets, dividends, and expenses.

91. Which of the following is true about a "debit"?

- I. It is part of the double-entry procedure that keeps the accounting equation in balance.
- II. It represents an increase to assets.
- III. It represents a decrease to liabilities.
- IV. It is on the right side of a T-account.

- A. I and II.
- B. IV only.
- C. I, II, and III.
- D. I, II, III, and IV.

92. Which of the following is true about a "credit"?

- I. It is part of the double-entry procedure that keeps the accounting equation in balance.
- II. It represents a decrease to assets.
- III. It represents an increase to liabilities.
- IV. It is on the right side of a T-account.

- A. I and II.
- B. IV only.
- C. I, II, and III.
- D. I, II, III, and IV.

93. Assets normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.

- A. Debit; Statement of stockholders' equity
- B. Debit; Income statement
- C. Credit; Balance sheet
- D. Debit; Balance sheet

94. Revenues normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.

- A. Debit; Statement of stockholders' equity
- B. Credit; Income statement
- C. Credit; Balance sheet
- D. Debit; Balance sheet

95. Dividends normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.

- A. Debit; Statement of stockholders' equity
- B. Debit; Income statement
- C. Credit; Balance sheet
- D. Debit; Balance sheet

96. Expenses normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.

- A. Debit; Statement of stockholders' equity
- B. Debit; Income statement
- C. Credit; Balance sheet
- D. Debit; Balance sheet

97. Liabilities normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.

- A. Debit; Statement of stockholders' equity
- B. Debit; Income statement
- C. Credit; Balance sheet
- D. Debit; Balance sheet

98. Which of the following accounts has a debit balance?

- A. Accounts Payable.
- B. Deferred Revenue.
- C. Service Revenue.
- D. Salaries Expense.

99. Which of the following accounts would normally have a credit balance?

- A. Accounts Payable, Service Revenue, Common Stock.
- B. Salaries Payable, Deferred Revenue, Delivery Expense.
- C. Income Tax Payable, Service Revenue, Dividends.
- D. Cash, Repairs and Maintenance Expense, Dividends.

100. Which of the following accounts would normally have a debit balance?

- A. Accounts Payable, Service Revenue, Common Stock.
- B. Salaries Payable, Deferred Revenue, Utilities Expense.
- C. Income Tax Payable, Service Revenue, Dividends.
- D. Cash, Delivery expense, Dividends.

101. Which of the following accounts would normally have a debit balance and appear in the balance sheet?

- A. Accounts Receivable.
- B. Deferred Revenue.
- C. Salaries Expense.
- D. Dividends.

102. Which of the following accounts has a credit balance?

- A. Salaries Expense.
- B. Income Tax Payable.
- C. Land.
- D. Prepaid Rent.

103. An increase to an asset account is shown with a \_\_\_\_\_. An increase to a liability account is shown with a \_\_\_\_\_.

- A. Debit; Debit
- B. Credit; Debit
- C. Debit; Credit
- D. Credit; Credit

104. An increase to an expense account is shown with a \_\_\_\_\_. An increase to a revenue account is shown with a \_\_\_\_\_.

- A. Debit; Debit
- B. Debit; Credit
- C. Credit; Debit
- D. Credit; Credit

105. An increase to an asset account is shown with a \_\_\_\_\_. A decrease to an asset account is shown with a \_\_\_\_\_.

- A. Debit; Debit
- B. Credit; Debit
- C. Debit; Credit
- D. Credit; Credit

106. Which of the accounts are increased with a debit and decreased with a credit?

- A. Liabilities, stockholders' equity, and revenues.
- B. Dividends, liabilities, and assets.
- C. Expenses, dividends, and stockholders' equity.
- D. Assets, dividends, and expenses.

107. Consider the following list of accounts:

Cash	Retained Earnings
Service Revenue	Utilities Expense
Salaries Expense	Accounts Receivable
Accounts Payable	Common Stock
Equipment	Dividends

How many of these accounts have a normal debit balance?

- A. Four.
- B. Five.
- C. Six.
- D. Seven.



108. Consider the following list of accounts:

Accounts Payable  
Cash  
Prepaid Rent  
Common Stock  
Salaries Payable  
Equipment  
Supplies  
Rent Expense

How many of these accounts have a normal credit balance?

- A. Two.
- B. Three.
- C. Four.
- D. Five.

109. Consider the following accounts:

Utilities Expense  
Accounts Payable  
Service Revenue  
Common Stock

How many of these accounts are increased with debits?

- A. One.
- B. Two.
- C. Three.
- D. Four.

110. Which one of the following accounts will have a credit balance?

- A. Dividends
- B. Salary Expense
- C. Supplies
- D. Common Stock

111. Consider the following accounts:

Dividends  
Insurance Expense  
Cash  
Service Revenue

How many of these accounts are increased with credits?

- A. One.
- B. Two.
- C. Three.
- D. Four.

112. The term commonly used in accounting to describe the format for recording a transaction is:

- A. Chart of accounts
- B. Trial balance
- C. General ledger
- D. Journal entry

113. Which of the following is the appropriate debit/credit format for recording a business transaction?

A.	Credit Name	Credit Amount
	Debit Name	Debit Amount
B.	Debit Name	Debit Amount
	Credit Name	Credit Amount
C.	Debit Name	Debit Amount
	Credit Name	Credit Amount
D.	Credit Name	Credit Amount
	Debit Name	Debit Amount

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

114. The following statements pertain to recording transactions. Which of them are true?

- I. Total debits should equal total credits.
- II. It is possible to have multiple debits or credits in one journal entry.
- III. Assets are always listed first in journal entries.
- IV. Some journal entries will have debits only.

- A. I only.
- B. I and II.
- C. I, II, and IV.
- D. II, III, and IV.

115. Which of the following is not a possible journal entry?

- A. Credit assets; Debit expenses.
- B. Debit assets; Debit stockholders' equity.
- C. Credit revenues; Debit assets.
- D. Debit expenses; Credit liabilities.

116. Providing services on account would be recorded with a:

- A. Debit to Service Revenue.
- B. Credit to Accounts Receivable.
- C. Credit to Accounts Payable.
- D. Debit to Accounts Receivable.

117. Xenon Corporation borrows \$75,000 from First Bank. Xenon Corporation records this transaction with a:

- A. Debit to Investments.
- B. Credit to Retained Earnings.
- C. Credit to Notes Payable.
- D. Credit to Interest Expense.

118. Childers Service Company provides services to customers totaling \$3,000, for which it billed the customers. How would the transaction be recorded?

- A. Debit Cash \$3,000, credit Service Revenue \$3,000.
- B. Debit Accounts Receivable \$3,000, credit Service Revenue \$3,000.
- C. Debit Accounts Receivable \$3,000, credit Cash \$3,000.
- D. Debit Service Revenue \$3,000, credit Accounts Receivable \$3,000.

119. A company received a bill for newspaper advertising services, \$400. The bill will be paid in 10 days. How would the transaction be recorded today?

- A. Debit Advertising Expense \$400, credit Accounts Payable \$400.
- B. Debit Accounts Payable \$400, credit Advertising Expense \$400.
- C. Debit Accounts Payable \$400, credit Cash \$400.
- D. Debit Advertising Expense \$400, credit Cash \$400.

120. When a company pays utilities of \$1,800 in cash, the transaction is recorded as:

- A. Debit Utilities Expense \$1,800, credit Utilities Payable \$1,800.
- B. Debit Utilities Payable \$1,800, credit Cash \$1,800.
- C. Debit Cash \$1,800, credit Utilities Expense \$1,800.
- D. Debit Utilities Expense \$1,800, credit Cash \$1,800.

121. Assume that cash is paid for rent to cover the next year. The appropriate debit and credit are:

- A. Debit Rent Expense, credit Cash.
- B. Debit Prepaid Rent, credit Rent Expense.
- C. Debit Prepaid Rent, credit Cash.
- D. Debit Cash, credit Prepaid Rent.

122. Summer Leasing received \$12,000 for 24 months rent in advance. How should Summer record this transaction?

- A. Debit Prepaid Rent; credit Rent Expense.
- B. Debit Cash; credit Deferred Revenue.
- C. Debit Cash; credit Service Revenue.
- D. Debit Rent Expense; credit Cash.

123. Styleson Inc. performed cleaning services for its customers for cash. These transactions would be recorded as:

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

124. Assume that \$18,000 cash is paid for insurance to cover the next year. The appropriate debit and credit are:

- A. Debit Insurance Expense \$18,000, credit Prepaid Insurance \$18,000.
- B. Debit Prepaid Insurance \$18,000, credit Insurance Expense \$18,000.
- C. Debit Prepaid Insurance \$18,000, credit Cash \$18,000.
- D. Debit Cash \$18,000, credit Prepaid Insurance \$18,000.

125. Schooner Inc. purchased equipment by signing a note payable. This transaction would be recorded as:

- A. Debit Equipment, credit Cash.
- B. Debit Cash, credit Notes Payable.
- C. Debit Notes Payable, credit Equipment.
- D. Debit Equipment, credit Notes Payable.

126. When a company pays \$2,500 dividends to its stockholders, the transaction should be recorded as:

- A. Debit Cash; credit Dividends.
- B. Debit Retained Earnings; credit Dividends.
- C. Debit Dividends; credit Cash.
- D. Debit Dividends; credit Accounts Payable.

127. Daniel Dino Restaurant owes employees' salaries of \$15,000. This would be recorded as:

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

128. Jerome purchased a building for his business by signing a note to be repaid over the next ten years. Which of the following correctly describes how to record this transaction?

- A. Debit assets, credit liabilities.
- B. Debit assets, credit stockholders' equity.
- C. Debit liabilities, credit assets.
- D. Debit expenses, credit liabilities.

129. Incurring an expense for advertising on account would be recorded by:

- A. Debiting liabilities.
- B. Crediting assets.
- C. Debiting an expense.
- D. Debiting assets.

130. Tyler Incorporated receives \$150,000 from investors in exchange for shares of its common stock. Tyler Incorporated records this transaction with a:

- A. Debit to Investments.
- B. Credit to Retained Earnings.
- C. Credit to Common Stock.
- D. Credit to Service Revenue.

131. The owner of an office building should report rent collected in advance as a debit to Cash and a credit to:

- A. A liability.
- B. An asset other than Cash.
- C. Revenue.
- D. Stockholders' equity.

132. Clement Company paid an account payable related to a previous utility bill of \$1,000. This transaction should be recorded as follows on the payment date:

- A. Debit Accounts Payable \$1,000, credit Cash \$1,000.
- B. Debit Cash \$1,000, credit Accounts Payable \$1,000.
- C. Debit Utilities Expense \$1,000, credit Cash \$1,000.
- D. Debit Cash \$1,000, credit Utilities Expense \$1,000.

133. On July 7, Saints Inc. received \$10,000 in cash from a customer for services to be provided on October 10. Which of the following describes how the transaction should be recorded on July 7?

- A. Debit Cash \$10,000, credit Service Revenue \$10,000.
- B. Debit Accounts Receivable \$10,000, credit Service Revenue \$10,000.
- C. Debit Cash \$10,000, credit Deferred Revenue \$10,000.
- D. Debit Deferred Revenue \$10,000, credit Cash \$10,000.

134. On December 1, Bears Inc. signed a contract with a retailer to supply maintenance for the next calendar year. How should this transaction be recorded on December 1?

- A. Debit Cash, credit Service Revenue.
- B. Debit Cash, credit Accounts Receivable.
- C. Debit Accounts Receivable, credit Service Revenue.
- D. No transaction should be recorded on December 1.



135. Sooner purchased office supplies on account. The transaction would be recorded as:

- A. Debit Supplies, Credit Cash
- B. Debit Cash, Credit Accounts Payable
- C. Debit Accounts Payable, Credit Supplies
- D. Debit Supplies, Credit Accounts Payable

136. Tomlin & Company provides music for special occasions. On January 14, the Smith family hired Tomlin for an upcoming family wedding for an agreed upon fee of \$10,000. The wedding was scheduled for May 23. As part of the agreement, the Smiths paid Tomlin half of the fee at the end of April with the remaining amount due by the end of June. How would Tomlin record the receipt of the final payment in June?

- A. Credit to Accounts Receivable.
- B. Credit to Service Revenue.
- C. Credit to Cash.
- D. Debit to Deferred Revenue.

137. Bostel wanted to expand the size of its warehouse in order to generate more profits. The company decided to purchase the building adjacent to its existing warehouse. The company pays for the building by borrowing from the bank. The purchase would be recorded as:

- A. Debit Cash; credit Notes Payable.
- B. Debit Buildings; credit Cash.
- C. Debit Buildings; credit Notes Payable.
- D. Debit Cash and Buildings; credit Notes Payable.

138. On July 5, Harris Company purchased supplies from the hardware store for \$600 on account. On July 10, Harris receives a bill from the hardware store as a reminder about the account balance. On July 17, Harris pays the account in full. How does Harris record the transaction on July 17?

A.	Supplies	600	
	Accounts Payable		600
B.	Accounts Payable	600	
	Supplies		600
C.	Cash	600	
	Accounts Payable		600
D.	Accounts Payable	600	
	Cash		600

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

139. On July 31, ALOE Inc. received \$5,000 cash from a customer who previously purchased ALOE's products on account. What entry should ALOE Inc. record at the time it receives cash?

- A. Debit Accounts Receivable, \$5,000; credit Cash, \$5,000.
- B. Debit Cash, \$5,000; credit Accounts Receivable, \$5,000.
- C. Debit Cash, \$5,000; credit Accounts Payable, \$5,000.
- D. Debit Cash, \$5,000; credit Service Revenue, \$5,000.

140. A transaction is initially recorded in the general \_\_\_\_\_, and then subsequently posted to the general \_\_\_\_\_.

- A. Debit; Credit
- B. Statement; Account
- C. Journal; Ledger
- D. Chart; Statement

141. Posting is the process of:

- A. Analyzing the impact of the transaction on the accounting equation.
- B. Obtaining information about external transactions from source documents.
- C. Transferring the debit and credit information from the journal to individual accounts in the general ledger.
- D. Listing all accounts and their balances at a particular date.

142. A debit in a journal entry is always posted to the general ledger as a(n):

- A. Increase.
- B. Credit.
- C. Decrease.
- D. Debit.

143. Posting transactions to T-accounts involves:

- A. Analyzing source documents to determine the effects of transactions on the company's accounts.
- B. Listing all accounts and their balances at a particular date to ensure that debits equal credits.
- C. Preparing a chronological record of all transactions affecting the company.
- D. Transferring debit and credit information from the journal to the accounts in the general ledger.

144. Below is the company's Cash T-account.

Cash		
Beg.	1,200	
	5,200	
		3,100
End.	<u>3,300</u>	

The \$3,100 amount could represent which of the following?

- A. Purchase of supplies on account.
- B. Ending balance of cash.
- C. Payment for salaries.
- D. Collection from customers.

145. Below is the company's Cash T-account.

Cash		
Beg.	1,200	
	5,200	
		3,100
End.	<u>3,300</u>	

The \$5,200 amount could represent which of the following?

- A. Purchase of supplies on account.
- B. Ending balance of cash.
- C. Payment for salaries.
- D. Collection from customers.

146. The figure below is a depiction of a T-account.

Account		
	1,700	Beg.
1,200		
	800	
	<u>3,300</u>	End.

Which of the following statements is correct?

- A. The account is a liability account.
- B. During the period, a journal entry was recorded that included a credit to the account for \$800.
- C. The amount reported to stockholders at the end of the period for this account is \$3,300.
- D. All of the other answers provide a correct statement.

147. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

1. Issued 10,000 shares of common stock for \$15,000 cash.
2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

What was the balance of Gotebo's Cash account following these six transactions?

- A. \$29,800.
- B. \$19,300.
- C. \$17,800.
- D. \$22,400.

148. The Accounts Payable account has a beginning balance of \$12,000 and the company purchased \$50,000 of supplies on account during the month. The ending balance was \$10,000.

How much did the company pay to creditors during the month?

- A. \$50,000.
- B. \$52,000.
- C. \$60,000.
- D. \$62,000.

149. On March 3, Cobra Inc. purchased a desk for \$450 on account. On March 22, Cobra purchased another desk for \$500 also on account, and then on March 24, Cobra paid \$400 on account. At the end of March, what amount should Cobra report for desks (assuming these two desks were the only desks they had)?

- A. \$50.
- B. \$450.
- C. \$500.
- D. \$950.

150. The Accounts Receivable account has a beginning balance of \$10,000 and the company provides services of \$50,000 on account during the month. The ending balance was \$12,000.

How much did the company receive from customers during the month?

- A. \$50,000.
- B. \$52,000.
- C. \$48,000.
- D. \$62,000.

151. A trial balance can best be explained as a list of:

- A. The income statement accounts used to calculate net income.
- B. Revenue, expense, and dividend accounts used to show the balances of the components of retained earnings.
- C. The balance sheet accounts used to show the equality of the accounting equation.
- D. All accounts and their balances at a particular date.

152. A trial balance represents the:

- A. Source documents used to determine the effects of transactions on the company's accounts.
- B. List of all accounts and their balances at a particular date to ensure that debits equal credits.
- C. Chronological record of all transactions affecting the company.
- D. Process of transferring debit and credit information from the journal to the accounts in the general ledger.

153. Lithuanian Motors has the following balance sheet accounts:

Land	\$170,000
Equipment	66,000
Salaries Payable	?
Notes Payable	88,000
Supplies	14,000
Cash	26,000
Common Stock	100,000
Retained Earnings	40,000
Accounts Payable	?
Prepaid Rent	12,000

If the company has total assets of \$288,000, what is the balance of the company's Salaries Payable account?

- A. \$15,000.
- B. \$25,000.
- C. \$12,000.
- D. Cannot be determined given the information provided.



154. Finnish Motors has the following balance sheet accounts:

Land	\$150,000
Equipment	90,000
Salaries Payable	12,000
Notes Payable	99,000
Supplies	10,000
Cash	25,000
Common Stock	40,000
Retained Earnings	100,000
Accounts Payable	?
Prepaid Rent	?

If the company has total liabilities and stockholders' equity of \$290,000, what is the balance of the company's Prepaid Rent account?

- A. \$15,000.
- B. \$25,000.
- C. \$12,000.
- D. \$39,000.

### Matching Questions

155. Match each step of the measurement process with its description.

- |           |   |     |
|-----------|---|-----|
| 1. Step 6 | Use source documents to identify accounts affected by an external transaction.      | ___ |
| 2. Step 3 | Analyze the impact of the transaction on the accounting equation.                   | ___ |
|           | Assess whether the transaction results in a debit or credit to the account balance. | ___ |
| 3. Step 5 |   | ___ |
| 4. Step 2 | Record transactions in a journal using debits and credits.                          | ___ |
| 5. Step 4 | Post transactions to the general ledger.  | ___ |
| 6. Step 1 | Prepare a trial balance.  | ___ |

156. Match each term with its definition.

- |                          |  |     |
|--------------------------|--|-----|
| 1. Chart of accounts     | Full set of procedures used to accomplish the measurement/communication process of financial accounting.                 | ___ |
| 2. Internal transactions | Activities of the company conducted with separate economic entities.   | ___ |
| 3. Accounting cycle      | Events that affect the financial position of the company but do not include an exchange with a separate economic entity. | ___ |
| 4. External transactions | A summary of the effects of all transactions related to a particular item over a period of time.                         | ___ |
| 5. Accounts              | A list of all account names used to record transactions of a company.  | ___ |

157. Match each term with how related transactions affect the accounting equation.

- |                |   |     |
|----------------|---|-----|
| 1. Assets      | Transactions that affect the left side of the accounting equation.                                      | ___ |
|                | Transactions that affect the right side of the accounting equation not related to stockholders' equity. | ___ |
| 2. Revenues    |   | ___ |
| 3. Liabilities | Transactions that increase stockholders' equity.  | ___ |
|                | Transactions that decrease stockholders' equity related to cost of generating of generating revenues.   | ___ |
| 4. Dividends   |   | ___ |
|                | Transactions that decrease stockholders' equity related to distributions to stockholders.               | ___ |
| 5. Expenses    |   | ___ |

158. Match each term with its description.

- |                  |  |     |
|------------------|--|-----|
| 1. Debit         | Convention used to record transactions of a company.                       | ___ |
| 2. Journal entry | Left side of an account.   | ___ |
| 3. Journal       | Right side of an account.  | ___ |
| 4. Credit        | Chronological record of all transactions.                                  | ___ |
| 5. Trial balance | List of all accounts and their balances showing that debits equal credits. | ___ |
| 6. T-account     | Simplified form of a general ledger account.                               | ___ |

### Essay Questions

159. Below are the steps in the measurement process of external transactions. Arrange them from first (1) to last (6).

- (a) Post the transaction to the T-accounts in the general ledger.
- (b) Assess whether the impact of the transaction results in a debit or credit to the account balance.
- (c) Use source documents to identify accounts affected by external transactions.
- (d) Analyze the impact of the transaction on the accounting equation.
- (e) Prepare a trial balance.
- (f) Record transactions using debits and credits.

160. A company received a utility bill of \$600 but did not pay it. Indicate the amount of increases and decreases in the accounting equation.

161. A company purchases supplies on account for \$1,700. Indicate the amount of increases and decreases in the accounting equation.

162. A company provides services to customers on account for \$2,400. Indicate the amount of increases and decreases in the accounting equation.

163. A company pays \$800 dividends to stockholders. Indicate the amount of increases and decreases in the accounting equation.

164. A company pays \$1,300 on account for supplies previously purchased on account. Indicate the amount of increases and decreases in the accounting equation.

165. The following transactions occur for the Hamilton Manufacturers.

- (a) Provide services to customers on account for \$4,500.
- (b) Purchase equipment by signing a note with the bank for \$10,000.
- (c) Pay advertising of \$1,500 for the current month.

Analyze each transaction and indicate the amount of increases and decreases in the accounting equation.

166. Using the notion that the accounting equation (Assets = Liabilities + Stockholders' Equity) must remain in balance, indicate whether each of the following transactions is possible.

- (a) Cash decreases; Accounts Payable decreases.
- (b) Salaries Expense increases; Salaries Payable decreases.
- (c) Accounts Receivable decreases; Service Revenue increases.

167. Suppose a company has the following balance sheet accounts:

Accounts	Balances
Land	\$9,000
Building	?
Salaries payable	3,700
Common stock	?
Accounts payable	2,600
Cash	5,300
Retained earnings	11,600
Supplies	3,200
Equipment	4,500

Calculate the missing amounts assuming the company has total assets of \$40,000.

168. For each of the following accounts, indicate whether a debit or credit is used to increase (+) or decrease (-) the balance of the account.

Account	Debit	Credit
(a) Common Stock		
(b) Liability		
(c) Asset		
(d) Revenue		
(e) Dividend		
(f) Retained Earnings		
(g) Expense		



169. For each of the following accounts, indicate whether we use a debit or a credit to increase the balance of the account.

- (a) Accounts Receivable
- (b) Accounts Payable
- (c) Salaries Expense
- (d) Service Revenue
- (e) Supplies
- (f) Common Stock
- (g) Advertising Expense
- (h) Dividends

170. For each of the following accounts, indicate whether we use a debit or a credit to decrease the balance of the account.

- (a) Accounts Receivable
- (b) Accounts Payable
- (c) Salaries Expense
- (d) Service Revenue
- (e) Supplies
- (f) Common Stock
- (g) Advertising Expense
- (h) Dividends

171. A company sells common stock for \$20,000 cash. Record the transaction.

172. A company purchases a building for \$100,000, paying \$20,000 cash and signing a note payable for the remainder. Record the transaction.

173. A company purchases machinery for \$15,000 cash. Record the transaction.

174. A company purchases office supplies on account for \$7,500. Record the transaction.

175. A company provides services to customers on account, \$3,500. Record the transaction.

176. A company provides services to customers for \$2,400 cash. Record the transaction.

177. A company pays employees' salaries of \$4,200 for the current period. Record the transaction.

178. A company pays \$2,000 dividends to its stockholders. Record the transaction.

179. A company collects \$4,000 cash from customers for services previously provided on account.  
Record the transaction.

180. A company receives \$6,500 cash in advance from customers for services to be provided next year.  
Record the transaction.

181. A company pays \$5,400 for maintenance in the current period. Record the transaction.

182. A company pays \$12,000 to purchase a one-year insurance policy. Record the transaction.

183. Record the following transactions for Acme Builders:

- (a) Purchase office supplies on account, \$1,200.
- (b) Provide services to customers for cash, \$2,500.
- (c) Pay \$1,100 in salaries for the current month.

184. Record the following transactions for the Stroud Music Store:

- (a) Provide music lessons to students for \$12,000 on account.
- (b) Purchase music supplies on account, \$1,500.
- (c) Pay rent for the current month, \$2,000.
- (d) Receive \$10,000 cash from students in (a) above.

185. Rite Shoes was involved in the transactions described below. Record each transaction. If an entry is not required, state "No Entry."

- (a) Purchased \$8,200 of supplies on account.
- (b) Paid weekly salaries, \$920.
- (c) Provide services to customers: Cash: \$7,100; On account: \$5,300.
- (d) Paid for supplies purchased in (a) above.
- (e) Placed an order for \$6,200 of supplies.

186. Record the following transactions. If an entry is not required, state "No Entry."

- (a) Started business by issuing 10,000 shares of common stock for \$20,000.
- (b) Hired Rebecca as an administrative assistant, promising to pay her \$2,000 every two weeks.
- (c) Rented a building for three years at \$500 per month and paid six months' rent in advance.
- (d) Purchased equipment for \$5,400 cash.
- (e) Purchased \$1,800 of supplies on account.
- (f) Provided services to customers for \$7,800 cash.
- (g) Paid employees' salaries, \$5,200.
- (h) Paid for supplies purchased in item (e).
- (i) Paid \$800 for current advertising in a local newspaper.
- (j) Paid utility bill of \$1,300 for the current month.



187. Consider the following T-account for Accounts Payable.

Accounts Payable	
	10,200
8,800	
	4,500

1. Compute the balance of the Accounts Payable account.
2. Give an example of a transaction that would have resulted in the \$8,800 posting to the account.
3. Give an example of a transaction that would have resulted in the \$4,500 posting to the account.

188. Consider the following transactions for Mittel Corporation:

- a. Sell common stock for \$10,000.
- b. Purchase equipment for \$11,500 cash.
- c. Pay employees' salaries of \$3,700.
- e. Provide services to customers for \$6,200 cash.

- 1. Post these transactions to the Cash T-account. Assume the balance of Cash before these transactions is \$4,200.
- 2. Calculate the ending balance of the Cash account.

189. Use the following information to prepare a trial balance.

Cash	\$6,200	Dividends	\$1,200
Deferred revenue	1,200	Salaries expense	2,200
Prepaid insurance	1,200	Accounts receivable	3,400
Accounts payable	1,900	Common stock	6,200
Retained earnings	1,600	Service revenue	7,100
Utilities expense	3,000	Maintenance expense	800

190. Below is a list of activities.

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Obtain a loan at the bank	Increase	=	Increase	+	No Effect
2. Issue common stock to stockholders for cash.					
3. Purchase equipment for cash.					
4. Pay cash for insurance in advance.					
5. Pay cash for workers' employees' salaries in the current period.					
6. Pay accounts payable.					
7. Purchase office supplies on account.					
8. Provide services to customers for cash.					
9. Provide services to customers on account.					
10. Pay cash dividends to stockholders.					
11. Pay cash for utilities in the current period.					

**Required:**

For each activity, indicate whether the transaction increases, decreases, or has no effect on assets, liabilities, and/or stockholders' equity.

191. Below is a list of activities.

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Issue common stock in exchange for cash, \$15,000	+\$15,000	=	\$0	+	+\$15,000
2. Purchase equipment for cash, 20,000.					
3. Pay cash for insurance in advance, \$2,400.					
4. Pay cash for workers' employees' salaries in the current period, \$17,200.					
5. Pay accounts payable, \$1,000.					
6. Purchase office supplies on account, \$3,750.					
7. Provide services to customers for cash, \$6,800.					
8. Provide services to customers on account, \$12,300.					
9. Pay cash dividends to stockholders, \$2,500.					
10. Pay cash for utilities in the current period, \$1,200.					
Totals					

**Required:**

For each activity, indicate the impact on the accounting equation. After doing all the transactions, ensure that the accounting equation remains in balance.

192. Reed owns a consulting company, while Sophie operates a maintenance shop. For the month of June, the following transactions occurred.

June 2	Sophie decides that she would like consulting at the end of the month and pays Reed \$300 in advance.
June 5	Sophie provides maintenance to Reed on account, \$175.
June 7	Reed borrows \$500 from Sophie by signing a note.
June 14	Sophie purchases maintenance supplies from Tap Corporation, paying cash of \$250.
June 19	Reed pays \$225 to Sophie for maintenance provided on June 5.
June 25	Reed pays the utility bill for the month of June, \$200.
June 28	Sophie receives consulting from Reed equaling the amount paid on June 2.
June 30	Reed pays \$500 to Sophie for money borrowed on June 7.

**Required:**

Record each transaction for Reed. Keep in mind that Reed may not need to record all transactions.

193. Reed owns a consulting company, while Sophie operates a maintenance shop. For the month of June, the following transactions occurred.

June 2	Sophie decides that she would like consulting at the end of the month and pays Reed \$300 in advance.
June 5	Sophie provides maintenance to Reed on account, \$175.
June 7	Reed borrows \$500 from Sophie by signing a note.
June 14	Sophie purchases maintenance supplies from Tap Corporation, paying cash of \$250.
June 19	Reed pays \$225 to Sophie for maintenance provided on June 5.
June 25	Reed pays the utility bill for the month of June, \$200.
June 28	Sophie receives consulting from Reed equaling the amount paid on June 2.
June 30	Reed pays \$500 to Sophie for money borrowed on June 7.

	Reed					Sophie				
	Assets	=	Liabilities	+	Stockholders' Equity	Assets	=	Liabilities	+	Stockholders' Equity
June 2	+\$300	=	+\$300	+	\$0	+\$300	=	\$0	+	\$0
						-\$300				
5										
7										
14										
19										
25										
28										
30										

**Required:**

1. Record transactions for Sophie. Keep in mind that Sophie may not need to record all transactions.
2. Using the format shown above, indicate the impact of each transaction on the accounting equation for each company.



194. Below is a list of typical accounts.

Accounts	Type of Account	Normal Balance (Debit or Credit)
1. Service Revenue		
2. Common Stock		
3. Dividends		
4. Salaries Expense		
5. Accounts Payable		
6. Buildings		
7. Interest Revenue		
8. Accounts Receivable		
9. Retained Earnings		
10. Accounts Payable		
11. Utilities Expense		
12. Advertising Expense		

**Required:**

For each account, (1) indicate the type of account and (2) whether the normal account balance is a debit or credit. For type of account, choose from asset, liability, stockholders' equity, dividend, revenue, or expense.



195. Below are the transactions for Racer, Inc. for April, the first month of operations.

April 1	Obtain a loan of \$50,000 from the bank.
April 2	Issue common stock in exchange for cash of \$20,000.
April 7	Purchase equipment for \$40,000 cash.
April 10	Purchase cleaning supplies of \$4,000 on account.
April 12	Provide services of \$5,000 for cash.
April 16	Pay employees \$1,200 for work performed.
April 19	Pay for advertising in a local newspaper, costing \$500.
April 23	Provide services of \$7,000 on account.
April 29	Pay employees \$1,500 for work performed.
April 30	A utility bill of \$1,200 for the current month is paid.
April 30	Pay dividends of \$700 to stockholders.

**Required:**

1. Record each transaction.
2. Post each transaction to the appropriate T-accounts.
3. Calculate the balance of each account.
4. Prepare a trial balance for June.

Racer uses the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Notes Payable, Common Stock, Dividends, Service Revenue, Salaries Expense, Advertising Expense, and Utilities Expense.

196. Wolverine Incorporated had the following trial balance at the beginning of April.

Account Title	Debits	Credits
Cash	\$2,800	
Accounts receivable	900	
Supplies	3,600	
Equipment	9,100	
Accounts payable		\$2,200
Notes payable		3,600
Common stock		9,000
Retained earnings		1,600

The following transactions occur in April:

April 1	Issue common stock in exchange for \$15,000 cash.
April 2	Purchase equipment with a long-term note for \$4,500 from Hoosier Corporation.
April 4	Purchase supplies for \$1,500 on account.
April 10	Provide services to customers on account for \$9,000.
April 15	Pay creditors on account, \$1,200.
April 20	Pay employees \$2,300 for the first half of the month.
April 22	Provide services to customers for \$11,500 cash.
April 24	Pay \$1,300 on the note from Hoosier Corporation.
April 26	Collect \$7,100 on account from customers.
April 28	Pay \$1,700 to the local utility company for April gas and electricity.
April 30	Pay \$3,200 rent for the April.

**Required:**

1. Record each transaction.
2. Post each transaction to the appropriate T-accounts.
3. Calculate the balance of each account at April 30. (Hint: Be sure to include the balance at the beginning of April in each T-account.)
4. Prepare a trial balance as of April 30.



197. Baker Incorporated specializes in training and veterinary services to for household pets, such as dogs, birds, lizards, fish, and of course, cats. After the first 11 months of operations in 2018, Baker has the following account balances.

Account Title	Debits	Credits
Cash	\$13,300	
Supplies	2,600	
Prepaid rent	4,800	
Equipment	82,100	
Buildings	200,000	
Accounts payable		\$9,500
Deferred revenue		3,400
Common stock		145,000
Retained earnings		50,200
Dividends	9,000	
Service revenue		250,000
Salaries expense	100,000	
Advertising expense	15,600	
Utilities expense	<u>30,700</u>	<u>          </u>
Totals	<u>458,100</u>	<u>\$458,100</u>

The following transactions occur during December 2018:

December 1-31	Throughout the month, Baker provides services to customers for cash, \$25,400. (Hint: Record the entire month's services in a single entry.)
December 4	Purchase pet supplies on account, \$2,700.
December 8	Pay for fliers to be distributed to local residences to advertise the company's services, \$3,100.
December 9	Pay for supplies purchased on December 4.
December 12	Issue additional shares of common stock for cash, \$6,000.
December 16	Pay cash on accounts payable, \$6,600.
December 19	Purchase equipment with cash, \$7,800.
December 22	Pay utilities for December, \$4,400.

December 24	Receive cash from customers for services to be provided next January, \$2,500.
December 27	One of Baker's trainers takes a part-time job at the zoo and earns a salary of \$1,300. The zoo and Baker are separate companies.
December 30	Pay employees' salaries for the current month, \$10,000.
December 31	Pay dividends to stockholders, \$3,000.

**Required:**

1. Record each transaction.
2. Post each transaction to the appropriate T-accounts.
3. Calculate the balance of each account at December 31. (Hint: Be sure to include the balance at the beginning of December in each T-account.)
4. Prepare a trial balance as of December 31.

198. Below are the account balances of Heron Company at the end of November.

Accounts	Balances
Cash	\$12,000
Accounts Receivable	?
Rent Expense	1,000
Supplies	5,000
Equipment, net	19,000
Accounts Payable	7,000
Service Revenue	40,000
Utilities Payable	1,000
Deferred Revenue	6,000
Common Stock	19,000
Utilities Expense	2,000
Retained Earnings	15,000
Salaries Payable	2,000
Salaries Expense	9,000
Insurance Expense	6,000
Advertising Expense	1,000
Supplies Expense	10,000
Dividends	3,000
Prepaid Insurance	4,000
Legal Fees Expense	6,000

**Required:**

Prepare a trial balance by placing amounts in the appropriate debit or credit column and determining the balance of the Accounts Receivable account.

199. Describe the difference between external events and internal events and give two examples of each.

200. Describe the six steps in the measurement process of external transactions.

201. Explain what it means that external transactions have a dual effect.

## Chapter 02 The Accounting Cycle: During the Period **Answer Key**

### True / False Questions

1. External transactions are transactions the firm conducts with a separate economic entity, such as selling products to a customer, purchasing supplies from a vendor, paying salaries to an employee, and borrowing money from a bank.

TRUE

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

*Topic: External Transactions*

2. Internal transactions are events that affect the financial position of the company but do not include an exchange with a separate economic entity. Examples are using supplies on hand and earning revenues after having received cash in advance from a customer.

TRUE

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

*Topic: External Transactions*



3. A list of all account names used to record transactions of a company is referred to as a T-account.

**FALSE**

This is referred to as a chart of accounts.

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

*Topic: External Transactions*

4. After recording each transaction, total assets must equal total liabilities plus stockholders' equity.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

5. If a transaction causes total assets of the company to increase by \$2,000, then liabilities plus stockholders' equity also increases by \$2,000.

**TRUE**

*AACSB: Analytical Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

6. If a transaction causes total assets of the company to increase by \$5,000 and total liabilities to increase by \$3,000, then stockholders' equity increases by \$8,000.

TRUE

*AACSB: Analytical Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

7. Borrowing cash from the bank causes assets to increase and liabilities to increase.

TRUE

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

8. Purchasing equipment using cash causes assets to increase.

FALSE

One asset goes up; another asset goes down. There is no change to total assets.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

9. Providing services to customers for cash causes stockholders' equity to increase.

TRUE

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

10. Paying employees' salaries for the current month causes no change to stockholders' equity.

FALSE

Salaries expense would reduce stockholders' equity.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

11. Paying dividends to its stockholders causes a company's stockholders' equity to decrease.

TRUE

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

12. Selling common stock for cash causes assets to increase and stockholders' equity to decrease.

**FALSE**

Stockholders' equity increases.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

13. Purchasing office supplies on account causes assets to increase and liabilities to increase.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

14. Providing services to customers on account causes assets to increase and stockholders' equity to increase.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

15. Receiving cash in advance from a customer for services to be provided in the future causes assets to increase and stockholders' equity to increase.

**FALSE**

Assets increase and liabilities increase.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

16. Paying for one year of rent in advance does not affect the accounting equation.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

17. Purchasing supplies on account increases the balance of the Accounts Receivable account.

**FALSE**

The balance of Accounts Payable increases.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

18. Amounts owed from customers are recorded in the Accounts Receivable account.

TRUE

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

19. The two components of stockholders' equity are Debits and Credits.

FALSE

The two components of stockholders' equity are Common Stock and Retained Earnings.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

20. Revenues have the effect of increasing retained earnings.

TRUE

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

21. Expenses have the effect of decreasing retained earnings.

TRUE

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

22. Receiving cash in advance from customers increases the Service Revenue account.

FALSE

Receiving cash in advance from customers increases the Deferred Revenue account.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

23. Deferred Revenue is a liability account.

TRUE

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

24. Liability accounts increase with a debit and decrease with a credit.

**FALSE**

Liability accounts increase with a credit and decrease with a debit.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

25. Liability accounts increase with a credit and decrease with a debit.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

26. Common Stock increases with a credit and decreases with a debit.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*



27. Revenue accounts increase with a debit and decrease with a credit.

**FALSE**

Revenue accounts increase with a credit and decrease with a debit.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

28. Expense accounts increase with a debit and decrease with a credit.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

29. The Dividends account increases with a credit and decreases with a debit.

**FALSE**

The Dividends account increases with a debit and decreases with a credit.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

30. A debit to an account balance always results in the balance increasing.

**FALSE**

A debit increases assets, dividends, and expenses, but decreases liabilities, stockholders' equity, and revenues.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

31. A credit to an account balance always results in the balance decreasing.

**FALSE**

A credit decreases assets, dividends, and expenses, but increases liabilities, stockholders' equity, and revenues.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

32. A journal provides a chronological record of all transactions affecting a firm.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

33. For each transaction, there must be at least one debit amount and one credit amount.

TRUE

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

34. For each transaction, the total debit amounts must equal the total credit amounts.

TRUE

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

35. Selling common stock for cash is recorded with a debit to common stock.

FALSE

Selling common stock for cash is recorded with a credit to common stock.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

36. Borrowing cash from the bank is recorded with a debit to cash.

TRUE

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

37. Purchasing office supplies is recorded with a credit to office supplies.

FALSE

Purchasing office supplies is recorded with a debit to office supplies.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

38. Paying employees' salaries for the current period is recorded with a debit to Salaries Expense.

TRUE

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

39. Providing services to customers is recorded with a debit to Service Revenue.

**FALSE**

Providing services to customers is recorded with a credit to Service Revenue.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

40. The general ledger includes all accounts used to record the company's transactions.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Post transactions to the general ledger.*

*Topic: Posting to the General Ledger*

41. The process of transferring the debit and credit information from the journal to individual accounts in the general ledger is called journalizing.

**FALSE**

The process is called posting.

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Post transactions to the general ledger.*

*Topic: Posting to the General Ledger*

42. After posting transactions to the general ledger accounts, the sum of the accounts with debit balances should equal the sum of the accounts with credit balances.

TRUE

*AACSB: Reflective Thinking*  
*AICPA: BB Critical Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Understand*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-06 Prepare a trial balance.*  
*Topic: Trial Balance*

43. A trial balance is a list of all accounts and their balances at a particular date, showing that assets equal liabilities.

FALSE

The trial balance shows that total debits equal total credits.

*AACSB: Reflective Thinking*  
*AICPA: BB Critical Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Remember*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-06 Prepare a trial balance.*  
*Topic: Trial Balance*

44. If total debits equal total credits in the trial balance, then all balances are correct.

FALSE

A trial balance could contain offsetting errors where the balance of one account is misstated in one direction but the balance of another account (with the same type of debit or credit balance) is misstated in the other direction.

*AACSB: Reflective Thinking*  
*AICPA: BB Critical Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Understand*

## Multiple Choice Questions

45. Which of the following is not part of measuring external transactions?

- A. Using source documents to analyze accounts affected.
- B. Recording transactions.
- C. Making payments on all amounts owed.
- D. Analyzing transactions for their effect on the accounting equation.

*AACSB: Reflective Thinking*  
*AICPA: BB Critical Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Remember*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*  
*Topic: External Transactions*

46. External events include all of the following except:

- A. Paying rent.
- B. Purchasing equipment.
- C. Using office supplies.
- D. Collecting an account receivable.

*AACSB: Reflective Thinking*  
*AICPA: BB Critical Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Understand*  
*Difficulty: 2 Medium*  
*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*  
*Topic: External Transactions*

47. The full set of procedures used to accomplish the measurement/communication process of financial accounting is referred to as the:

- A. Trial balance
- B. Accounting cycle**
- C. Chart of accounts
- D. General ledger

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

*Topic: External Transactions*

48. Which step in the process of measuring external transactions involves assessing the equality of total debits and total credits for the period?

- A. Use source documents to determine accounts affected by the transaction.
- B. Prepare a trial balance.**
- C. Analyze the impact of the transaction on the accounting equation.
- D. Post the transaction to the T-account in the general ledger.

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

*Topic: External Transactions*



49. A(n) \_\_\_\_\_ summarizes all transactions related to a particular item over a period of time.

- A. Debit
- B. Account**
- C. Chart of accounts
- D. Source document

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

*Topic: External Transactions*

50. A list of all account names used to record transactions of a company is referred to as the:

- A. Chart of Accounts**
- B. Income statement
- C. General journal
- D. Balance sheet

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

*Topic: External Transactions*

51. For each transaction recorded in an accounting system, the basic equation that must be maintained at all times is:

- A. Assets = Liabilities + Stockholders' Equity.
- B. Cash Increases = Cash Decreases.
- C. Revenues = Expenses + Dividends.
- D. Assets = Liabilities.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

52. The following amounts are reported in the ledger of Mariah Company:

Assets	\$80,000
Liabilities	36,000
Retained Earnings	12,000

What is the balance in the Common Stock account?

- A. \$44,000.
- B. \$32,000.
- C. \$48,000.
- D. \$42,000.

*AACSB: Analytical Thinking*

*AICPA: FN Measurement*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

53. When a company pays employees' salaries for the current period, how will the basic accounting equation be affected?

- A. Stockholders' equity decreases.
- B. Revenues decrease.
- C. Expenses decrease.
- D. Liabilities decrease.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

54. When cash payments are made to stockholders, what is the effect on the company's accounts?

- A. Cash decreases and dividends increase.
- B. Cash increases and dividends decrease.
- C. Cash decreases and common stock decreases.
- D. Cash increases and common stock increases.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

55. Receiving cash from customers before services are performed results in:

- A. Prepaid Assets.
- B. Service Revenue.
- C. Deferred Revenues.
- D. Accounts Receivable.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

56. When the company pays stockholders a dividend, what is the effect on the accounting equation for that company?

- A. Decrease stockholders' equity and increase assets.
- B. Increase liabilities and increase assets.
- C. Decrease assets and decrease liabilities.
- D. Decrease assets and decrease stockholders' equity.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

57. Pumpkin Inc. sold \$500 in pumpkins to a customer on account on January 1. On January 11 Pumpkin collected the cash from that customer. What is the impact on Pumpkin's accounting equation from the collection of cash?

- A. No net effect to the accounting equation.
- B. Decrease assets and increase liabilities.
- C. Increase assets and increase liabilities.
- D. Decrease assets and decrease liabilities.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

58. A company receives a \$50,000 cash deposit from a customer on October 15 but will not provide services until November 20. Which of the following statements is true?

- A. The company records service revenue on October 15.
- B. The company records cash collection on November 20.
- C. The company records deferred revenue on October 15.
- D. The company records nothing on October 15.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

59. Which of the following would increase assets and increase liabilities?

- A. Provide services to customers on account.
- B.** Purchase office supplies on account.
- C. Pay dividends to stockholders.
- D. Receive a utility bill but do not pay it immediately.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

60. Receiving cash from an account receivable:

- A. Increases revenue and decreases an asset.
- B. Decreases a liability and increases an asset.
- C. Increases an asset and increases revenue.
- D.** Increases one asset and decreases another asset.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

61. An expense has what effect on the accounting equation?

- A. Decrease liabilities.
- B. Decrease stockholders' equity.
- C. Increase assets.
- D. No effect.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

62. Revenues have what effect on the accounting equation?

- A. Increase liabilities.
- B. Decrease assets.
- C. Increase stockholders' equity.
- D. No effect.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

63. Investments by stockholders have what effect on the accounting equation?

- A. Assets increase and liabilities increase.
- B. Expenses increase and liabilities increase.
- C. Assets increase and revenues increase.
- D. Assets increase and stockholders' equity increases.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

64. Which of the following is not possible when recording a transaction?

- A. Liabilities increase and assets decrease.
- B. Stockholders' equity increases and assets increase.
- C. One asset increases and another asset decreases.
- D. Stockholders' equity decreases and assets decrease.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*



65. Purchasing office supplies on account will:

- A. Not change assets.
- B. Increase assets and decrease liabilities.
- C. Increase assets and increase liabilities.
- D. Increase assets and increase stockholders' equity.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

66. Providing services and receiving cash will:

- A. Increase assets and increase stockholders' equity.
- B. Increase assets and increase liabilities.
- C. Decrease assets and increase liabilities.
- D. Decrease liabilities and increase stockholders' equity.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

67. When a company provides services on account, the accounting equation would be affected as follows:

- A. Assets increase.
- B. Revenues increase.
- C. Assets increase and liabilities decrease.
- D. Assets increase and stockholders' equity increases.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

68. If a company provides services on account, which of the following is true?

- A. Expenses increase.
- B. Liabilities increase.
- C. Stockholders' equity increases.
- D. Assets decrease.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

69. When a payment is made on an account payable:

- A. Assets and stockholders' equity decrease.
- B. Assets and liabilities decrease.**
- C. Liabilities and revenues decrease.
- D. Assets and expenses decrease.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

70. Purchasing office equipment on account has what impact on the accounting equation?

- A. Stockholders' equity decreases and assets increase.
- B. Liabilities increase and assets increase.**
- C. Assets decrease and liabilities decrease.
- D. Assets increase and stockholders' equity increases.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

71. Purchasing supplies for cash has what effect on the accounting equation?

- A. Increase assets.
- B. Decrease stockholders' equity.
- C. Decrease liabilities.
- D. No effect.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

72. On January 1, Brad Inc. sold \$30,000 in products to a customer on account. Then on January 10, Brad collected the cash on that account. What is the impact on Brad's accounting equation from the collection of cash on January 10?

- A. No net effect on the accounting equation.
- B. Assets increase and liabilities decrease.
- C. Assets decrease and liabilities decrease.
- D. Assets increase and stockholders' equity increases.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

73. On September 30, MFP Co. paid employee salaries of \$7,000, including \$1,000 it owed to its employees last month. What are the effects of this transaction on the accounting equation?

- A. Expenses increased, liabilities increased, and assets increased.
- B. Assets decreased, liabilities decreased, and expenses increased.**
- C. Assets decreased, expenses decreased, and liabilities increased.
- D. Expenses decreased, liabilities decreased, and assets decreased.
- E. Assets increased, expenses increased, and liabilities decreased.

*AACSB: Reflective Thinking*

*A/CPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

74. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

1. Issued 10,000 shares of common stock for \$15,000 cash.
2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

What was the total amount of Gotebo's liabilities following these six transactions?

- A. \$12,300.**
- B. \$27,300.
- C. \$22,600.
- D. \$15,500.

Liabilities = (\$12,000 + \$300) = \$12,300.

*AACSB: Analytical Thinking*

*AICPA: FN Measurement*  
*Accessibility: Keyboard Navigation*  
*Blooms: Analyze*  
*Blooms: Understand*  
*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*  
*Topic: Effects of Transactions on the Basic Accounting Equation*

75. Consider the following transactions:

- Issued common stock for cash.
- Purchased equipment by signing a note payable.
- Paid rent for the current month.
- Collected cash from customers on account.

How many of these four transactions increased the given company's total assets?

- A. One.
- B. Two.**
- C. Three.
- D. Four.

(1) Issued common stock for cash and (2) purchased equipment by signing a note payable.

*AACSB: Reflective Thinking*  
*AICPA: FN Measurement*  
*Accessibility: Keyboard Navigation*  
*Blooms: Apply*  
*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*  
*Topic: Effects of Transactions on the Basic Accounting Equation*

76. Assume that Sallisaw Sideboards, Inc. had a retained earnings balance of \$10,000 on April 1, and that the company had the following transactions during April.

Issued common stock for cash, \$5,000.

Provided services to customers on account, \$2,000.

Provided services to customers in exchange for cash, \$900.

Purchased equipment and paid cash, \$4,300.

Paid April rent, \$800.

Paid employees' salaries for April, \$700.

What was Sallisaw's retained earnings balance at the end of April?

- A. \$11,400.
- B. \$12,100.
- C. \$16,400.
- D. Some other amount.

Beginning retained earnings \$10,000 + Net income \$1,400 - Dividends \$0 = Ending retained earnings \$11,400. Net Income = Revenue (\$2,000 + \$900) - Expenses (\$800 + \$700) = \$1,400.

*AACSB: Analytical Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

77. Consider the following transactions:

Issued common stock for cash.

Purchased equipment by signing a note payable.

Provided services to customers on account.

Collected cash from customers on account.

How many of these four transactions increased the given company's total liabilities?

A. One.

B. Two.

C. Three.

D. Four.

Purchased equipment by signing a note payable.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*



78. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

1. Issued 10,000 shares of common stock for \$15,000 cash.
2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

How many of these transactions decreased Gotebo's total assets?

- A. One.
- B. Two.
- C. Three.
- D. Four.

Transaction #6.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

79. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

1. Issued 10,000 shares of common stock for \$15,000 cash.
2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

How many of these transactions increased Gotebo's liabilities?

- A. Four.
- B. Three.
- C. Two.
- D. One.

Transactions #2 and #5.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

80. Which of the following transactions causes a decrease in stockholders' equity?

- A. Pay dividends to stockholders.
- B. Obtain cash by borrowing from a local bank.
- C. Provide services to customers on account.
- D. Purchase office equipment for cash.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

81. How many of the following events would require an expense to be recorded?

Ordering office supplies

Hiring a receptionist

Paying employees' salaries for the current month

Receiving but not paying a current utility bill

Paying for insurance in advance

A. One.

**B.** Two.

C. Three.

D. Four.

(1) Paying employee salaries for the current month and (2) Receiving but not paying a current utility bill.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

82. Which of the following is NOT possible for a business transaction?

**A.** Increase assets and decrease revenue.

B. Decrease assets and increase expense.

C. Increase liabilities and increase expense.

D. Decrease liabilities and increase revenue.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

83. Which of the following transactions would cause a decrease in both assets and stockholders' equity?

- A. Paying insurance premium for the next two years.
- B. Purchasing office equipment on account.
- C. Paying advertising for the current month.
- D. Providing installation services to customers.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

84. When a company issues common stock for cash, what is the effect on the accounting equation for the company?

- A. Assets increase and liabilities increase.
- B. Assets increase and stockholders' equity increases.
- C. Assets decrease and liabilities decrease.
- D. Liabilities decrease and stockholders' equity increases.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

85. If the liabilities of a company increased by \$55,000 during a month and the stockholders' equity decreased by \$21,000 during that same month, did assets increase or decrease and by how much?

- A. \$34,000 increase.
- B. \$55,000 increase.
- C. \$34,000 decrease.
- D. \$76,000 increase.

Increase in Liabilities (\$55,000) - Decrease in Stockholders' Equity (\$21,000) = Increase in Assets (\$34,000).

*AACSB: Analytical Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

86. Which of the following transactions would cause an increase in both the assets and liabilities of a company?

- A. Paying for the current month's rent.
- B. Pay for inventory purchased 90 days ago.
- C. Purchase of a building by issuing a note payable.
- D. Services received on account.

One asset (building) and one liability (note payable) increases.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

87. When a company pays cash for equipment, what is the effect on the accounting equation for that company?

- A. Increase assets and increase liabilities.
- B. Decrease assets and decrease liabilities.
- C. No change.
- D. Increase assets and increase stockholders' equity.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

88. "Record revenue when goods or services are provided to customers" is the definition of which principle in accounting?

- A. Trial balance.
- B. Debits and credits.
- C. Revenue recognition.
- D. Accounting equation.

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

89. Which of the following is possible for a particular business transaction?

- A. Increase assets; Decrease liabilities
- B. Decrease assets; Increase assets**
- C. Decrease assets; Increase stockholders' equity
- D. Decrease liabilities; Increase expenses

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

*Topic: Recording Transactions in a Journal*

90. Which of the accounts are decreased on the debit side and increased on the credit side?

- A. Liabilities, stockholders' equity, and revenues.**
- B. Dividends, liabilities, and assets.
- C. Expenses, dividends, and stockholders' equity.
- D. Assets, dividends, and expenses.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

91. Which of the following is true about a "debit"?

- I. It is part of the double-entry procedure that keeps the accounting equation in balance.
- II. It represents an increase to assets.
- III. It represents a decrease to liabilities.
- IV. It is on the right side of a T-account.

- A. I and II.
- B. IV only.
- C. I, II, and III.
- D. I, II, III, and IV.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

92. Which of the following is true about a "credit"?

- I. It is part of the double-entry procedure that keeps the accounting equation in balance.
- II. It represents a decrease to assets.
- III. It represents an increase to liabilities.
- IV. It is on the right side of a T-account.

- A. I and II.
- B. IV only.
- C. I, II, and III.
- D. I, II, III, and IV.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*



93. Assets normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.

- A. Debit; Statement of stockholders' equity
- B. Debit; Income statement
- C. Credit; Balance sheet
- D. Debit; Balance sheet

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

94. Revenues normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.

- A. Debit; Statement of stockholders' equity
- B. Credit; Income statement
- C. Credit; Balance sheet
- D. Debit; Balance sheet

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

95. Dividends normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.

- A. Debit; Statement of stockholders' equity
- B. Debit; Income statement
- C. Credit; Balance sheet
- D. Debit; Balance sheet

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

96. Expenses normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.

- A. Debit; Statement of stockholders' equity
- B. Debit; Income statement
- C. Credit; Balance sheet
- D. Debit; Balance sheet

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

97. Liabilities normally carry a \_\_\_\_\_ balance and are shown in the \_\_\_\_\_.

- A. Debit; Statement of stockholders' equity
- B. Debit; Income statement
- C. Credit; Balance sheet
- D. Debit; Balance sheet

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

98. Which of the following accounts has a debit balance?

- A. Accounts Payable.
- B. Deferred Revenue.
- C. Service Revenue.
- D. Salaries Expense.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

99. Which of the following accounts would normally have a credit balance?

- A. Accounts Payable, Service Revenue, Common Stock.
- B. Salaries Payable, Deferred Revenue, Delivery Expense.
- C. Income Tax Payable, Service Revenue, Dividends.
- D. Cash, Repairs and Maintenance Expense, Dividends.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

100. Which of the following accounts would normally have a debit balance?

- A. Accounts Payable, Service Revenue, Common Stock.
- B. Salaries Payable, Deferred Revenue, Utilities Expense.
- C. Income Tax Payable, Service Revenue, Dividends.
- D. Cash, Delivery expense, Dividends.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

101. Which of the following accounts would normally have a debit balance and appear in the balance sheet?

- A. Accounts Receivable.
- B. Deferred Revenue.
- C. Salaries Expense.
- D. Dividends.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

102. Which of the following accounts has a credit balance?

- A. Salaries Expense.
- B. Income Tax Payable.
- C. Land.
- D. Prepaid Rent.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

103. An increase to an asset account is shown with a \_\_\_\_\_. An increase to a liability account is shown with a \_\_\_\_\_.

- A. Debit; Debit
- B. Credit; Debit
- C. Debit; Credit
- D. Credit; Credit

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

104. An increase to an expense account is shown with a \_\_\_\_\_. An increase to a revenue account is shown with a \_\_\_\_\_.

- A. Debit; Debit
- B. Debit; Credit
- C. Credit; Debit
- D. Credit; Credit

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

105. An increase to an asset account is shown with a \_\_\_\_\_. A decrease to an asset account is shown with a \_\_\_\_\_.

- A. Debit; Debit
- B. Credit; Debit
- C. Debit; Credit
- D. Credit; Credit

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

106. Which of the accounts are increased with a debit and decreased with a credit?

- A. Liabilities, stockholders' equity, and revenues.
- B. Dividends, liabilities, and assets.
- C. Expenses, dividends, and stockholders' equity.
- D. Assets, dividends, and expenses.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

107. Consider the following list of accounts:

Cash	Retained Earnings
Service Revenue	Utilities Expense
Salaries Expense	Accounts Receivable
Accounts Payable	Common Stock
Equipment	Dividends

How many of these accounts have a normal debit balance?

- A. Four.
- B. Five.
- C. Six.
- D. Seven.

Cash, Salaries Expense, Equipment, Utilities Expense, Accounts Receivable, Dividends.

*AACSB: Reflective Thinking*

*A/CPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*



108. Consider the following list of accounts:

Accounts Payable  
Cash  
Prepaid Rent  
Common Stock  
Salaries Payable  
Equipment  
Supplies  
Rent Expense

How many of these accounts have a normal credit balance?

- A. Two.
- B. Three.**
- C. Four.
- D. Five.

Accounts Payable, Common Stock, Salaries Payable.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

109. Consider the following accounts:

Utilities Expense  
Accounts Payable  
Service Revenue  
Common Stock

How many of these accounts are increased with debits?

- A. One.
- B. Two.
- C. Three.
- D. Four.

Utilities Expense.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

110. Which one of the following accounts will have a credit balance?

- A. Dividends
- B. Salary Expense
- C. Supplies
- D. Common Stock

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

111. Consider the following accounts:

Dividends  
Insurance Expense  
Cash  
Service Revenue

How many of these accounts are increased with credits?

- A. One.
- B. Two.
- C. Three.
- D. Four.

Service Revenue.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

112. The term commonly used in accounting to describe the format for recording a transaction is:

- A. Chart of accounts
- B. Trial balance
- C. General ledger
- D. Journal entry

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

113. Which of the following is the appropriate debit/credit format for recording a business transaction?

A.	Credit Name	Credit Amount
	Debit Name	Debit Amount
B.	Debit Name	Debit Amount
	Credit Name	Credit Amount
C.	Debit Name	Debit Amount
	Credit Name	Credit Amount
D.	Credit Name	Credit Amount
	Debit Name	Debit Amount

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

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-04 Record transactions in a journal using debits and credits.

Topic: Recording Transactions in a Journal

114. The following statements pertain to recording transactions. Which of them are true?

- I. Total debits should equal total credits.
- II. It is possible to have multiple debits or credits in one journal entry.
- III. Assets are always listed first in journal entries.
- IV. Some journal entries will have debits only.

- A. I only.
- B. I and II.**
- C. I, II, and IV.
- D. II, III, and IV.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

115. Which of the following is not a possible journal entry?

- A. Credit assets; Debit expenses.
- B. Debit assets; Debit stockholders' equity.**
- C. Credit revenues; Debit assets.
- D. Debit expenses; Credit liabilities.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

116. Providing services on account would be recorded with a:

- A. Debit to Service Revenue.
- B. Credit to Accounts Receivable.
- C. Credit to Accounts Payable.
- D. Debit to Accounts Receivable.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

117. Xenon Corporation borrows \$75,000 from First Bank. Xenon Corporation records this transaction with a:

- A. Debit to Investments.
- B. Credit to Retained Earnings.
- C. Credit to Notes Payable.
- D. Credit to Interest Expense.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

118. Childers Service Company provides services to customers totaling \$3,000, for which it billed the customers. How would the transaction be recorded?

- A. Debit Cash \$3,000, credit Service Revenue \$3,000.
- B.** Debit Accounts Receivable \$3,000, credit Service Revenue \$3,000.
- C. Debit Accounts Receivable \$3,000, credit Cash \$3,000.
- D. Debit Service Revenue \$3,000, credit Accounts Receivable \$3,000.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

119. A company received a bill for newspaper advertising services, \$400. The bill will be paid in 10 days. How would the transaction be recorded today?

- A.** Debit Advertising Expense \$400, credit Accounts Payable \$400.
- B. Debit Accounts Payable \$400, credit Advertising Expense \$400.
- C. Debit Accounts Payable \$400, credit Cash \$400.
- D. Debit Advertising Expense \$400, credit Cash \$400.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

120. When a company pays utilities of \$1,800 in cash, the transaction is recorded as:

- A. Debit Utilities Expense \$1,800, credit Utilities Payable \$1,800.
- B. Debit Utilities Payable \$1,800, credit Cash \$1,800.
- C. Debit Cash \$1,800, credit Utilities Expense \$1,800.
- D. Debit Utilities Expense \$1,800, credit Cash \$1,800.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

121. Assume that cash is paid for rent to cover the next year. The appropriate debit and credit are:

- A. Debit Rent Expense, credit Cash.
- B. Debit Prepaid Rent, credit Rent Expense.
- C. Debit Prepaid Rent, credit Cash.
- D. Debit Cash, credit Prepaid Rent.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*



122. Summer Leasing received \$12,000 for 24months rent in advance. How should Summer record this transaction?

- A. Debit Prepaid Rent; credit Rent Expense.
- B.** Debit Cash; credit Deferred Revenue.
- C. Debit Cash; credit Service Revenue.
- D. Debit Rent Expense; credit Cash.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

123. Styleson Inc. performed cleaning services for its customers for cash. These transactions would be recorded as:

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

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

124. Assume that \$18,000 cash is paid for insurance to cover the next year. The appropriate debit and credit are:

- A. Debit Insurance Expense \$18,000, credit Prepaid Insurance \$18,000.
- B. Debit Prepaid Insurance \$18,000, credit Insurance Expense \$18,000.
- C. Debit Prepaid Insurance \$18,000, credit Cash \$18,000.
- D. Debit Cash \$18,000, credit Prepaid Insurance \$18,000.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

125. Schooner Inc. purchased equipment by signing a note payable. This transaction would be recorded as:

- A. Debit Equipment, credit Cash.
- B. Debit Cash, credit Notes Payable.
- C. Debit Notes Payable, credit Equipment.
- D. Debit Equipment, credit Notes Payable.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

126. When a company pays \$2,500 dividends to its stockholders, the transaction should be recorded as:

- A. Debit Cash; credit Dividends.
- B. Debit Retained Earnings; credit Dividends.
- C. Debit Dividends; credit Cash.
- D. Debit Dividends; credit Accounts Payable.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

127. Daniel Dino Restaurant owes employees' salaries of \$15,000. This would be recorded as:

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

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

128. Jerome purchased a building for his business by signing a note to be repaid over the next ten years. Which of the following correctly describes how to record this transaction?

- A. Debit assets, credit liabilities.
- B. Debit assets, credit stockholders' equity.
- C. Debit liabilities, credit assets.
- D. Debit expenses, credit liabilities.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

129. Incurring an expense for advertising on account would be recorded by:

- A. Debiting liabilities.
- B. Crediting assets.
- C. Debiting an expense.
- D. Debiting assets.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

130. Tyler Incorporated receives \$150,000 from investors in exchange for shares of its common stock. Tyler Incorporated records this transaction with a:

- A. Debit to Investments.
- B. Credit to Retained Earnings.
- C. Credit to Common Stock.
- D. Credit to Service Revenue.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

131. The owner of an office building should report rent collected in advance as a debit to Cash and a credit to:

- A. A liability.
- B. An asset other than Cash.
- C. Revenue.
- D. Stockholders' equity.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

132. Clement Company paid an account payable related to a previous utility bill of \$1,000. This transaction should be recorded as follows on the payment date:

- A. Debit Accounts Payable \$1,000, credit Cash \$1,000.
- B. Debit Cash \$1,000, credit Accounts Payable \$1,000.
- C. Debit Utilities Expense \$1,000, credit Cash \$1,000.
- D. Debit Cash \$1,000, credit Utilities Expense \$1,000.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

133. On July 7, Saints Inc. received \$10,000 in cash from a customer for services to be provided on October 10. Which of the following describes how the transaction should be recorded on July 7?

- A. Debit Cash \$10,000, credit Service Revenue \$10,000.
- B. Debit Accounts Receivable \$10,000, credit Service Revenue \$10,000.
- C. Debit Cash \$10,000, credit Deferred Revenue \$10,000.
- D. Debit Deferred Revenue \$10,000, credit Cash \$10,000.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

134. On December 1, Bears Inc. signed a contract with a retailer to supply maintenance for the next calendar year. How should this transaction be recorded on December 1?

- A. Debit Cash, credit Service Revenue.
- B. Debit Cash, credit Accounts Receivable.
- C. Debit Accounts Receivable, credit Service Revenue.
- D. No transaction should be recorded on December 1.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

135. Sooner purchased office supplies on account. The transaction would be recorded as:

- A. Debit Supplies, Credit Cash
- B. Debit Cash, Credit Accounts Payable
- C. Debit Accounts Payable, Credit Supplies
- D. Debit Supplies, Credit Accounts Payable

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

136. Tomlin & Company provides music for special occasions. On January 14, the Smith family hired Tomlin for an upcoming family wedding for an agreed upon fee of \$10,000. The wedding was scheduled for May 23. As part of the agreement, the Smiths paid Tomlin half of the fee at the end of April with the remaining amount due by the end of June. How would Tomlin record the receipt of the final payment in June?

- A. Credit to Accounts Receivable.
- B. Credit to Service Revenue.
- C. Credit to Cash.
- D. Debit to Deferred Revenue.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

137. Bostel wanted to expand the size of its warehouse in order to generate more profits. The company decided to purchase the building adjacent to its existing warehouse. The company pays for the building by borrowing from the bank. The purchase would be recorded as:

- A. Debit Cash; credit Notes Payable.
- B. Debit Buildings; credit Cash.
- C. Debit Buildings; credit Notes Payable.
- D. Debit Cash and Buildings; credit Notes Payable.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*



138. On July 5, Harris Company purchased supplies from the hardware store for \$600 on account. On July 10, Harris receives a bill from the hardware store as a reminder about the account balance. On July 17, Harris pays the account in full. How does Harris record the transaction on July 17?

A.	Supplies	600	
	Accounts Payable		600
B.	Accounts Payable	600	
	Supplies		600
C.	Cash	600	
	Accounts Payable		600
D.	Accounts Payable	600	
	Cash		600

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

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

139. On July 31, ALOE Inc. received \$5,000 cash from a customer who previously purchased ALOE's products on account. What entry should ALOE Inc. record at the time it receives cash?

- A. Debit Accounts Receivable, \$5,000; credit Cash, \$5,000.  
B. Debit Cash, \$5,000; credit Accounts Receivable, \$5,000.  
 C. Debit Cash, \$5,000; credit Accounts Payable, \$5,000.  
 D. Debit Cash, \$5,000; credit Service Revenue, \$5,000.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*  
*Accessibility: Keyboard Navigation*  
*Blooms: Understand*  
*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*  
*Topic: Recording Transactions in a Journal*

140. A transaction is initially recorded in the general \_\_\_\_\_, and then subsequently posted to the general \_\_\_\_\_.

- A. Debit; Credit
- B. Statement; Account
- C. Journal; Ledger
- D. Chart; Statement

*AACSB: Reflective Thinking*  
*AICPA: BB Critical Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Remember*  
*Blooms: Understand*  
*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*  
*Learning Objective: 02-05 Post transactions to the general ledger.*  
*Topic: Posting to the General Ledger*  
*Topic: Recording Transactions in a Journal*

141. Posting is the process of:

- A. Analyzing the impact of the transaction on the accounting equation.
- B. Obtaining information about external transactions from source documents.
- C. Transferring the debit and credit information from the journal to individual accounts in the general ledger.
- D. Listing all accounts and their balances at a particular date.

*AACSB: Reflective Thinking*  
*AICPA: BB Critical Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Remember*  
*Difficulty: 1 Easy*

*Learning Objective: 02-05 Post transactions to the general ledger.*

142. A debit in a journal entry is always posted to the general ledger as a(n):

- A. Increase.
- B. Credit.
- C. Decrease.
- D. Debit.

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-05 Post transactions to the general ledger.

Topic: Posting to the General Ledger

143. Posting transactions to T-accounts involves:

- A. Analyzing source documents to determine the effects of transactions on the company's accounts.
- B. Listing all accounts and their balances at a particular date to ensure that debits equal credits.
- C. Preparing a chronological record of all transactions affecting the company.
- D. Transferring debit and credit information from the journal to the accounts in the general ledger.

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-05 Post transactions to the general ledger.

Topic: Posting to the General Ledger

144. Below is the company's Cash T-account.

Cash		
Beg.	1,200	
	5,200	
		3,100
End.	<u>3,300</u>	

The \$3,100 amount could represent which of the following?

- A. Purchase of supplies on account.
- B. Ending balance of cash.
- C. Payment for salaries.
- D. Collection from customers.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Post transactions to the general ledger.*

*Topic: Posting to the General Ledger*

145. Below is the company's Cash T-account.

Cash		
Beg.	1,200	
	5,200	
		3,100
End.	<u>3,300</u>	

The \$5,200 amount could represent which of the following?

- A. Purchase of supplies on account.
- B. Ending balance of cash.
- C. Payment for salaries.
- D. Collection from customers.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Post transactions to the general ledger.*

*Topic: Posting to the General Ledger*

146. The figure below is a depiction of a T-account.

Account		
	1,700	Beg.
1,200		
	800	
	<u>3,300</u>	End.

Which of the following statements is correct?

- A. The account is a liability account.
- B. During the period, a journal entry was recorded that included a credit to the account for \$800.
- C. The amount reported to stockholders at the end of the period for this account is \$3,300.
- D. All of the other answers provide a correct statement.

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Post transactions to the general ledger.*

*Topic: Posting to the General Ledger*

147. Following are transactions of Gotebo Tanners, Inc., a new company, during the month of January:

1. Issued 10,000 shares of common stock for \$15,000 cash.
2. Purchased land for \$12,000, signing a note payable for the full amount.
3. Purchased office equipment for \$1,200 cash.
4. Received cash of \$14,000 for services provided to customers during the month.
5. Purchased \$300 of office supplies on account.
6. Paid employees \$10,000 for their first month's salaries.

What was the balance of Gotebo's Cash account following these six transactions?

- A. \$29,800.
- B. \$19,300.
- C. \$17,800.
- D. \$22,400.

$$\text{Cash} = (\$15,000 - \$1,200 + \$14,000 - \$10,000) = \$17,800.$$

*AACSB: Analytical Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-05 Post transactions to the general ledger.*

*Topic: Posting to the General Ledger*

148. The Accounts Payable account has a beginning balance of \$12,000 and the company purchased \$50,000 of supplies on account during the month. The ending balance was \$10,000.

How much did the company pay to creditors during the month?

- A. \$50,000.
- B. \$52,000.**
- C. \$60,000.
- D. \$62,000.

$$\$12,000 + \$50,000 - \$10,000 = \$52,000.$$

*AACSB: Analytical Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-05 Post transactions to the general ledger.*

*Topic: Posting to the General Ledger*

149. On March 3, Cobra Inc. purchased a desk for \$450 on account. On March 22, Cobra purchased another desk for \$500 also on account, and then on March 24, Cobra paid \$400 on account. At the end of March, what amount should Cobra report for desks (assuming these two desks were the only desks they had)?

- A. \$50.
- B. \$450.
- C. \$500.
- D. \$950.**

$$\$450 + \$500 = \$950$$

*AACSB: Analytical Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Blooms: Understand*



*Difficulty: 3 Hard*

*Learning Objective: 02-05 Post transactions to the general ledger.*

*Topic: Posting to the General Ledger*

150. The Accounts Receivable account has a beginning balance of \$10,000 and the company provides services of \$50,000 on account during the month. The ending balance was \$12,000.

How much did the company receive from customers during the month?

- A. \$50,000.
- B. \$52,000.
- C. \$48,000.
- D. \$62,000.

$$\$10,000 + \$50,000 - \$12,000 = \$48,000.$$

*AACSB: Analytical Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-05 Post transactions to the general ledger.*

*Topic: Posting to the General Ledger*

151. A trial balance can best be explained as a list of:

- A. The income statement accounts used to calculate net income.
- B. Revenue, expense, and dividend accounts used to show the balances of the components of retained earnings.
- C. The balance sheet accounts used to show the equality of the accounting equation.
- D. All accounts and their balances at a particular date.

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-06 Prepare a trial balance.*

*Topic: Trial Balance*

152. A trial balance represents the:

- A. Source documents used to determine the effects of transactions on the company's accounts.
- B.** List of all accounts and their balances at a particular date to ensure that debits equal credits.
- C. Chronological record of all transactions affecting the company.
- D. Process of transferring debit and credit information from the journal to the accounts in the general ledger.

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-06 Prepare a trial balance.*

*Topic: Trial Balance*

153. Lithuanian Motors has the following balance sheet accounts:

Land	\$170,000
Equipment	66,000
Salaries Payable	?
Notes Payable	88,000
Supplies	14,000
Cash	26,000
Common Stock	100,000
Retained Earnings	40,000
Accounts Payable	?
Prepaid Rent	12,000

If the company has total assets of \$288,000, what is the balance of the company's Salaries Payable account?

- A. \$15,000.
- B. \$25,000.
- C. \$12,000.
- D. Cannot be determined given the information provided.

Total liabilities + Stockholders' equity = (\$288,000) = Accounts Payable (?) + Salaries Payable (?) + Notes Payable (\$88,000) + Common Stock (\$100,000) + Retained Earnings (\$40,000); therefore, with two unknowns there is not enough information to solve the problem.

*AACSB: Analytical Thinking*

*AICPA: FN Measurement*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-06 Prepare a trial balance.*

*Topic: Trial Balance*

154. Finnish Motors has the following balance sheet accounts:

Land	\$150,000
Equipment	90,000
Salaries Payable	12,000
Notes Payable	99,000
Supplies	10,000
Cash	25,000
Common Stock	40,000
Retained Earnings	100,000
Accounts Payable	?
Prepaid Rent	?

If the company has total liabilities and stockholders' equity of \$290,000, what is the balance of the company's Prepaid Rent account?

- A. \$15,000.
- B. \$25,000.
- C. \$12,000.
- D. \$39,000.

Total assets (\$290,000) = Land (\$150,000) + Equipment (\$90,000) + Supplies (\$10,000) + Cash (\$25,000) + Prepaid Rent (?); therefore, Prepaid Rent = \$15,000.

*AACSB: Analytical Thinking*

*AICPA: FN Measurement*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-06 Prepare a trial balance.*

*Topic: Trial Balance*

## Matching Questions

155. Match each step of the measurement process with its description.

- |           |  |          |
|-----------|--|----------|
|           | Use source documents to identify accounts affected by an external          |          |
| 1. Step 6 | transaction.   | <u>6</u> |
| 2. Step 3 | Analyze the impact of the transaction on the accounting equation.          | <u>4</u> |
|           | Assess whether the transaction results in a debit or credit to the account |          |
| 3. Step 5 | balance.   | <u>2</u> |
| 4. Step 2 | Record transactions in a journal using debits and credits.                 | <u>5</u> |
| 5. Step 4 | Post transactions to the general ledger.                                   | <u>3</u> |
| 6. Step 1 | Prepare a trial balance.   | <u>1</u> |

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

*Topic: External Transactions*

156. Match each term with its definition.

- |                          |  |          |
|--------------------------|--|----------|
|                          | Full set of procedures used to accomplish the                |          |
| 1. Chart of accounts     | measurement/communication process of financial accounting.   | <u>3</u> |
|                          | Activities of the company conducted with separate economic   |          |
| 2. Internal transactions | entities.  | <u>4</u> |
|                          | Events that affect the financial position of the company but |          |
| 3. Accounting cycle      | do not include an exchange with a separate economic entity.  | <u>2</u> |
|                          | A summary of the effects of all transactions related to a    |          |
| 4. External transactions | particular item over a period of time.                       | <u>5</u> |
|                          | A list of all account names used to record transactions of a |          |
| 5. Accounts              | company.   | <u>1</u> |

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

*Topic: External Transactions*

157. Match each term with how related transactions affect the accounting equation.

- |                |  |          |
|----------------|--|----------|
| 1. Assets      | Transactions that affect the left side of the accounting equation.       | <u>1</u> |
|                | Transactions that affect the right side of the accounting equation not   |          |
| 2. Revenues    | related to stockholders' equity.   | <u>3</u> |
| 3. Liabilities | Transactions that increase stockholders' equity.                         | <u>2</u> |
|                | Transactions that decrease stockholders' equity related to cost of       |          |
| 4. Dividends   | generating of generating revenues.                                       | <u>5</u> |
|                | Transactions that decrease stockholders' equity related to distributions |          |
| 5. Expenses    | to stockholders.   | <u>4</u> |

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

158. Match each term with its description.

- |                  |   |          |
|------------------|---|----------|
| 1. Debit         | Convention used to record transactions of a company.              | <u>2</u> |
| 2. Journal entry | Left side of an account.  | <u>1</u> |
| 3. Journal       | Right side of an account.   | <u>4</u> |
| 4. Credit        | Chronological record of all transactions.                         | <u>3</u> |
|                  | List of all accounts and their balances showing that debits equal |          |
| 5. Trial balance | credits.  | <u>5</u> |
| 6. T-account     | Simplified form of a general ledger account.                      | <u>6</u> |

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Learning Objective: 02-05 Post transactions to the general ledger.*

*Learning Objective: 02-06 Prepare a trial balance.*

*Topic: Posting to the General Ledger*

*Topic: Recording Transactions in a Journal*

*Topic: Trial Balance*

## Essay Questions

159. Below are the steps in the measurement process of external transactions. Arrange them from first (1) to last (6).

- (a) Post the transaction to the T-accounts in the general ledger.
- (b) Assess whether the impact of the transaction results in a debit or credit to the account balance.
- (c) Use source documents to identify accounts affected by external transactions.
- (d) Analyze the impact of the transaction on the accounting equation.
- (e) Prepare a trial balance.
- (f) Record transactions using debits and credits.

(a) 5; (b) 3; (c) 1; (d) 2; (e) 6; (f) 4

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

*Topic: External Transactions*

160. A company received a utility bill of \$600 but did not pay it. Indicate the amount of increases and decreases in the accounting equation.

Assets	=	Liabilities	+	Stockholders' Equity
\$0	=	\$600	+	-\$600

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

Difficulty: 2 Medium

Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.

Topic: Effects of Transactions on the Basic Accounting Equation

161. A company purchases supplies on account for \$1,700. Indicate the amount of increases and decreases in the accounting equation.

Assets	=	Liabilities	+	Stockholders' Equity
\$1,700	=	\$1,700	+	\$0

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.

Topic: Effects of Transactions on the Basic Accounting Equation

162. A company provides services to customers on account for \$2,400. Indicate the amount of increases and decreases in the accounting equation.

Assets	=	Liabilities	+	Stockholders' Equity
\$2,400	=	\$0	+	\$2,400

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.

Topic: Effects of Transactions on the Basic Accounting Equation



163. A company pays \$800 dividends to stockholders. Indicate the amount of increases and decreases in the accounting equation.

Assets	=	Liabilities	+	Stockholders' Equity
-\$800	=	\$0	+	-\$800

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

164. A company pays \$1,300 on account for supplies previously purchased on account. Indicate the amount of increases and decreases in the accounting equation.

Assets	=	Liabilities	+	Stockholders' Equity
-\$1,300	=	-\$1,300	+	\$0

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

165. The following transactions occur for the Hamilton Manufacturers.

- (a) Provide services to customers on account for \$4,500.
- (b) Purchase equipment by signing a note with the bank for \$10,000.
- (c) Pay advertising of \$1,500 for the current month.

Analyze each transaction and indicate the amount of increases and decreases in the accounting equation.

	Assets	=	Liabilities	+	Stockholders' Equity
(a)	+\$4,500	=	\$0	+	+\$4,500
(b)	+\$10,000	=	+\$10,000	+	\$0
(c)	-\$1,500	=	\$0	+	-\$1,500

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

166. Using the notion that the accounting equation (Assets = Liabilities + Stockholders' Equity) must remain in balance, indicate whether each of the following transactions is possible.

- (a) Cash decreases; Accounts Payable decreases.
- (b) Salaries Expense increases; Salaries Payable decreases.
- (c) Accounts Receivable decreases; Service Revenue increases.

(a) Yes; (b) No; (c) No

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Apply*

167. Suppose a company has the following balance sheet accounts:

Accounts	Balances
Land	\$9,000
Building	?
Salaries payable	3,700
Common stock	?
Accounts payable	2,600
Cash	5,300
Retained earnings	11,600
Supplies	3,200
Equipment	4,500

Calculate the missing amounts assuming the company has total assets of \$40,000.

Building = \$18,000; Common stock = \$22,100.

Feedback: \$40,000 = Land (\$9,000) + Building (?) + Cash (\$5,300) + Supplies (\$3,200) + Equipment (\$4,500); therefore, Building = \$18,000.

\$40,000 = Salaries Payable (\$3,700) + Common Stock (?) + Accounts Payable (\$2,600) + Retained Earnings (\$11,600); therefore, Common Stock = \$22,100.

168. For each of the following accounts, indicate whether a debit or credit is used to increase (+) or decrease (-) the balance of the account.

Account	Debit	Credit
(a) Common Stock		
(b) Liability		
(c) Asset		
(d) Revenue		
(e) Dividend		
(f) Retained Earnings		
(g) Expense		

(a) -,+; (b) -,+; (c) +,-; (d) -,+; (e) +,-; (f) -,+; (g) +,-

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

169. For each of the following accounts, indicate whether we use a debit or a credit to increase the balance of the account.

- (a) Accounts Receivable
- (b) Accounts Payable
- (c) Salaries Expense
- (d) Service Revenue
- (e) Supplies
- (f) Common Stock
- (g) Advertising Expense
- (h) Dividends

(a) debit; (b) credit; (c) debit; (d) credit; (e) debit; (f) credit; (g) debit; (h) debit

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

170. For each of the following accounts, indicate whether we use a debit or a credit to decrease the balance of the account.

- (a) Accounts Receivable
- (b) Accounts Payable
- (c) Salaries Expense
- (d) Service Revenue
- (e) Supplies
- (f) Common Stock
- (g) Advertising Expense
- (h) Dividends

(a) credit; (b) debit; (c) credit; (d) debit; (e) credit; (f) debit; (g) credit; (h) credit

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

171. A company sells common stock for \$20,000 cash. Record the transaction.

Cash	20,000	
Common Stock		20,000

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

172. A company purchases a building for \$100,000, paying \$20,000 cash and signing a note payable for the remainder. Record the transaction.

Building	100,000	
Cash		20,000
Notes Payable		80,000

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

173. A company purchases machinery for \$15,000 cash. Record the transaction.

Equipment	15,000	
Cash		15,000

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

174. A company purchases office supplies on account for \$7,500. Record the transaction.

Office Supplies	7,500	
Accounts Payable		7,500

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

175. A company provides services to customers on account, \$3,500. Record the transaction.

Accounts Receivable	3,500	
Service Revenue		3,500

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

176. A company provides services to customers for \$2,400 cash. Record the transaction.

Cash	2,400	
Service Revenue		2,400

*AACSB: Reflective Thinking*



AICPA: FN Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Record transactions in a journal using debits and credits.

Topic: Recording Transactions in a Journal

177. A company pays employees' salaries of \$4,200 for the current period. Record the transaction.

Salaries Expense	4,200	
Cash		4,200

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Record transactions in a journal using debits and credits.

Topic: Recording Transactions in a Journal

178. A company pays \$2,000 dividends to its stockholders. Record the transaction.

Dividends	2,000	
Cash		2,000

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Record transactions in a journal using debits and credits.

Topic: Recording Transactions in a Journal

179. A company collects \$4,000 cash from customers for services previously provided on account. Record the transaction.

Cash	4,000	
Accounts Receivable		4,000

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

180. A company receives \$6,500 cash in advance from customers for services to be provided next year. Record the transaction.

Cash	6,500	
Deferred Revenue		6,500

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

181. A company pays \$5,400 for maintenance in the current period. Record the transaction.

Repairs and Maintenance Expense	5,400	
Cash		5,400

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

182. A company pays \$12,000 to purchase a one-year insurance policy. Record the transaction.

Prepaid Insurance	12,000	
Cash		12,000

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

183. Record the following transactions for Acme Builders:

- (a) Purchase office supplies on account, \$1,200.
- (b) Provide services to customers for cash, \$2,500.
- (c) Pay \$1,100 in salaries for the current month.

(a)	Supplies	1,200	
	Accounts Payable		1,200
(b)	Cash	2,500	
	Service Revenue		2,500
(c)	Salaries Expense	1,100	
	Cash		1,100

*AACSB: Reflective Thinking*

*A/CPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

184. Record the following transactions for the Stroud Music Store:

- (a) Provide music lessons to students for \$12,000 on account.
- (b) Purchase music supplies on account, \$1,500.
- (c) Pay rent for the current month, \$2,000.
- (d) Receive \$10,000 cash from students in (a) above.

(a)	Accounts Receivable	12,000	
	Service Revenue		12,000
(b)	Supplies	1,500	
	Accounts Payable		1,500
(c)	Rent Expense	2,000	
	Cash		2,000
(d)	Cash	10,000	
	Accounts Receivable		10,000

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

185. Rite Shoes was involved in the transactions described below. Record each transaction. If an entry is not required, state "No Entry."

- (a) Purchased \$8,200 of supplies on account.
- (b) Paid weekly salaries, \$920.
- (c) Provide services to customers: Cash: \$7,100; On account: \$5,300.
- (d) Paid for supplies purchased in (a) above.
- (e) Placed an order for \$6,200 of supplies.

(a)	Supplies	8,200	
	Accounts Payable		8,200
(b)	Salaries expense	920	
	Cash		920
(c)	Cash	7,100	
	Accounts Receivable	5,300	
	Service Revenue		12,400
(d)	Accounts Payable	8,200	
	Cash		8,200
(e)	No Entry.		

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

186. Record the following transactions. If an entry is not required, state "No Entry."

- (a) Started business by issuing 10,000 shares of common stock for \$20,000.
- (b) Hired Rebecca as an administrative assistant, promising to pay her \$2,000 every two weeks.
- (c) Rented a building for three years at \$500 per month and paid six months' rent in advance.
- (d) Purchased equipment for \$5,400 cash.
- (e) Purchased \$1,800 of supplies on account.
- (f) Provided services to customers for \$7,800 cash.
- (g) Paid employees' salaries, \$5,200.
- (h) Paid for supplies purchased in item (e).
- (i) Paid \$800 for current advertising in a local newspaper.
- (j) Paid utility bill of \$1,300 for the current month.

(a)	Cash	20,000	
	Common Stock		20,000
(b)	No Entry.		
(c)	Prepaid Rent	3,000	
	Cash		3,000
(d)	Equipment	5,400	
	Cash		5,400
(e)	Supplies	1,800	
	Accounts Payable		1,800
(f)	Cash	7,800	
	Service Revenue		7,800
(g)	Salaries expense	5,200	
	Cash		5,200
(h)	Accounts Payable	1,800	
	Cash		1,800
(i)	Advertising Expense	800	
	Cash		800
(j)	Utilities Expense	1,300	

	Cash		1,300
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*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Recording Transactions in a Journal*

187. Consider the following T-account for Accounts Payable.

Accounts Payable	
	10,200
8,800	
	4,500

1. Compute the balance of the Accounts Payable account.
2. Give an example of a transaction that would have resulted in the \$8,800 posting to the account.
3. Give an example of a transaction that would have resulted in the \$4,500 posting to the account.

1.  $\$10,200 - \$8,800 + \$4,500 = \$5,900$ .
2. Postings on the left side (or debit side) of the Accounts Payable T-account represent decreases to accounts payable, such as making a payment on the account.
3. Postings on the right side (or credit side) of the Accounts Payable T-account represent increases to accounts payable, such as purchasing office supplies on account.

*AACSB: Analytical Thinking*

*AICPA: FN Measurement*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-05 Post transactions to the general ledger.*

*Topic: Posting to the General Ledger*



188. Consider the following transactions for Mittel Corporation:

- a. Sell common stock for \$10,000.
- b. Purchase equipment for \$11,500 cash.
- c. Pay employees' salaries of \$3,700.
- e. Provide services to customers for \$6,200 cash.

- 1. Post these transactions to the Cash T-account. Assume the balance of Cash before these transactions is \$4,200.
- 2. Calculate the ending balance of the Cash account.

Cash	
4,200	
10,000	11,500
<u>6,200</u>	<u>3,700</u>
<u>5,200</u>	

*AACSB: Analytical Thinking*

*AICPA: FN Measurement*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-05 Post transactions to the general ledger.*

*Topic: Posting to the General Ledger*

189. Use the following information to prepare a trial balance.

Cash	\$6,200	Dividends	\$1,200
Deferred revenue	1,200	Salaries expense	2,200
Prepaid insurance	1,200	Accounts receivable	3,400
Accounts payable	1,900	Common stock	6,200
Retained earnings	1,600	Service revenue	7,100
Utilities expense	3,000	Maintenance expense	800

Trial Balance		
	Debit	Credit
Cash	\$6,200	
Accounts Receivable	3,400	
Prepaid insurance	1,200	
Accounts payable		\$1,900
Deferred revenue		1,200
Common stock		6,200
Retained earnings		1,600
Dividends	1,200	
Service revenue		7,100
Salaries expense	2,200	
Utilities expense	3,000	
Maintenance expense	800	
Totals	<u>\$18,000</u>	<u>\$18,000</u>

*AICPA: FN Measurement*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-06 Prepare a trial balance.*

*Topic: Trial Balance*

190. Below is a list of activities.

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Obtain a loan at the bank	Increase	=	Increase	+	No Effect
2. Issue common stock to stockholders for cash.					
3. Purchase equipment for cash.					
4. Pay cash for insurance in advance.					
5. Pay cash for workers' employees' salaries in the current period.					
6. Pay accounts payable.					
7. Purchase office supplies on account.					
8. Provide services to customers for cash.					
9. Provide services to customers on account.					
10. Pay cash dividends to stockholders.					
11. Pay cash for utilities in the current period.					

**Required:**

For each activity, indicate whether the transaction increases, decreases, or has no effect on assets, liabilities, and/or stockholders' equity.

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Obtain a loan at the bank.	Increase	=	Increase	+	No effect
2. Issue common stock to	Increase	=	No effect	+	Increase

stockholders for cash.					
3. Purchase equipment for cash.	No effect*	=	No effect	+	No effect
4. Pay cash for insurance in advance.	No effect*	=	No effect	+	No effect
5. Pay cash for workers' employees' salaries in the current period.	Decrease	=	No effect	+	Decrease
6. Pay accounts payable.	Decrease	=	Decrease	+	No effect
7. Purchase office supplies on account.	Increase	=	Increase	+	No effect
8. Provide services to customers for cash.	Increase	=	No effect	+	Increase
9. Provide services to customers on account.	Increase	=	No effect	+	Increase
10. Pay cash dividends to stockholders.	Decrease	=	No effect	+	Decrease
11. Pay cash for utilities in the current period.	Decrease	=	No effect	+	Decrease

\*One asset increases and another asset decreases

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Apply*

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

191. Below is a list of activities.

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Issue common stock in exchange for cash, \$15,000	+\$15,000	=	\$0	+	+\$15,000
2. Purchase equipment for cash, 20,000.					
3. Pay cash for insurance in advance, \$2,400.					
4. Pay cash for workers' employees' salaries in the current period, \$17,200.					
5. Pay accounts payable, \$1,000.					
6. Purchase office supplies on account, \$3,750.					
7. Provide services to customers for cash, \$6,800.					
8. Provide services to customers on account, \$12,300.					
9. Pay cash dividends to stockholders, \$2,500.					
10. Pay cash for utilities in the current period, \$1,200.					
Totals					

**Required:**

For each activity, indicate the impact on the accounting equation. After doing all the transactions, ensure that the accounting equation remains in balance.

Transaction	Assets	=	Liabilities	+	Stockholders' Equity

1. Issue common stock in exchange for cash, \$15,000.	+ \$15,000	=	\$0	+	+ \$15,000
2. Purchase equipment for cash, 20,000.	+ \$20,000	=	\$0	+	\$0
	- \$20,000				
3. Pay cash for insurance in advance, \$2,400.	+ \$2,400	=	\$0	+	\$0
	- \$2,400				
4. Pay cash for workers' salaries in the current period, \$7,200.	- \$17,200	=	\$0	+	- \$17,200
5. Pay accounts payable, \$1,000.	- \$1,000	=	- \$1,000	+	\$0
6. Purchase office supplies on account, \$3,750.	\$+ \$3,750	=	\$+ \$3,750	+	\$0
7. Provide services to customers for cash, \$6,800.	+ \$6,800	=	\$0	+	+ \$6,800
8. Provide services to customers on account, \$12,300.	+ \$12,300	=	\$0	+	+ \$12,300
9. Pay cash dividends to stockholders, \$2,500.	- \$2,500	=	\$0	+	- \$2,500
10. Pay cash for utilities in the current period, \$1,200.	<u>- \$1,200</u>	=	<u>\$0</u>	+	<u>- \$1,200</u>
Totals	<u>+ \$15,950</u>	=	<u>+ \$2,750</u>	+	<u>+ \$13,200</u>

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.

Topic: Effects of Transactions on the Basic Accounting Equation

192. Reed owns a consulting company, while Sophie operates a maintenance shop. For the month of June, the following transactions occurred.

June 2	Sophie decides that she would like consulting at the end of the month and pays Reed \$300 in advance.
June 5	Sophie provides maintenance to Reed on account, \$175.
June 7	Reed borrows \$500 from Sophie by signing a note.
June 14	Sophie purchases maintenance supplies from Tap Corporation, paying cash of \$250.
June 19	Reed pays \$225 to Sophie for maintenance provided on June 5.
June 25	Reed pays the utility bill for the month of June, \$200.
June 28	Sophie receives consulting from Reed equaling the amount paid on June 2.
June 30	Reed pays \$500 to Sophie for money borrowed on June 7.

**Required:**

Record each transaction for Reed. Keep in mind that Reed may not need to record all transactions.

Transactions for Reed			
		Debit	Credit
June 2	Cash	300	
	Deferred Revenue		300
	(Receive cash in advance from customer)		
June 5	Repairs and Maintenance Expense	175	
	Accounts Payable		175
	(Receive maintenance on account)		
June 7	Cash	500	
	Notes Payable		500
	(Receive cash and sign note payable)		
June 14	No entry for Reed.		



June 19	Accounts Payable	225	
	Cash		225
	(Pay cash on account)		
June 25	Utilities Expense	200	
	Cash		200
	(Pay utilities for the current month)		
June 28	Deferred Revenue	300	
	Service Revenue		300
	(Provide service previously paid)		
June 30	Notes Payable	500	
	Cash		500
	(Pay cash on note payable)		

*AACSB: Analytical Thinking*

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Analyze*

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Topic: Effects of Transactions on the Basic Accounting Equation*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

*Topic: Recording Transactions in a Journal*

193. Reed owns a consulting company, while Sophie operates a maintenance shop. For the month of June, the following transactions occurred.

June 2	Sophie decides that she would like consulting at the end of the month and pays Reed \$300 in advance.
June 5	Sophie provides maintenance to Reed on account, \$175.
June 7	Reed borrows \$500 from Sophie by signing a note.
June 14	Sophie purchases maintenance supplies from Tap Corporation, paying cash of \$250.
June 19	Reed pays \$225 to Sophie for maintenance provided on June 5.
June 25	Reed pays the utility bill for the month of June, \$200.
June 28	Sophie receives consulting from Reed equaling the amount paid on June 2.
June 30	Reed pays \$500 to Sophie for money borrowed on June 7.

	Reed				Sophie			
	Assets	=	Liabilities	+ Stockholders' Equity	Assets	=	Liabilities	+ Stockholders' Equity
June 2	+\$300	=	+\$300	+	\$0	+\$300	=	\$0 + \$0
						-\$300		
5								
7								
14								
19								
25								
28								
30								

**Required:**

- Record transactions for Sophie. Keep in mind that Sophie may not need to record all transactions.
- Using the format shown above, indicate the impact of each transaction on the accounting equation for each company.

# Requirement 1

	Transactions for Sophie	Debit	Credit
June 2	Prepaid Consulting	300	
	Cash		300
	(Pay for consulting in advance)		
June 5	Accounts Receivable	175	
	Service Revenue		175
	(Provide services on account)		
June 7	Notes Receivable	500	
	Cash		500
	(Loan cash and accept note receivable)		
June 14	Supplies	250	
	Cash		250
	(Purchase maintenance supplies with cash)		
June 19	Cash	225	
	Accounts Receivable		225
	(Receive cash on account)		
June 25	No entry for Sophie.		
June 28	Consulting Expense	300	
	Prepaid Consulting		300
	(Received services paid in advance)		
June 30	Cash	500	
	Notes Receivable		500
	(Receive cash on note receivable)		

# Requirement 2

Services Reed	Services Sophie
---------------	-----------------

	Assets	=	Liabilities	+	Stockholders' Equity	Assets	=	Liabilities	+	Stockholders' Equity
June 2	+\$300	=	+\$300	+	\$0	+\$300	=	\$0	+	\$0
						-\$300				
5	\$0	=	+\$175	+	-\$175	+\$175	=	\$0	+	+\$175
7	+\$500	=	+\$500	+	\$0	+\$500	=	\$0	+	\$0
						-\$500				
14	\$0	=	\$0	+	\$0	+\$250	=	\$0	+	\$0
						-\$250				
19	-\$225	=	-\$225	+	\$0	+\$225	=	\$0	+	\$0
						-\$225				
25	-\$200	=	\$0	+	-\$200	\$0	=	\$0	+	\$0
28	\$0	=	-\$300	+	+\$300	-\$300	=	\$0	+	-\$300
30	-\$500	=	-\$500	+	\$0	+\$500	=	\$0	+	\$0
						-\$500				

AACSB: Analytical Thinking

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Analyze

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.

Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.

Learning Objective: 02-04 Record transactions in a journal using debits and credits.

Topic: Effects of Transactions on the Basic Accounting Equation

Topic: Effects on Account Balances in the Basic Accounting Equation

Topic: Recording Transactions in a Journal

194. Below is a list of typical accounts.

Accounts	Type of Account	Normal Balance (Debit or Credit)
1. Service Revenue		
2. Common Stock		
3. Dividends		
4. Salaries Expense		
5. Accounts Payable		
6. Buildings		
7. Interest Revenue		
8. Accounts Receivable		
9. Retained Earnings		
10. Accounts Payable		
11. Utilities Expense		
12. Advertising Expense		

**Required:**

For each account, (1) indicate the type of account and (2) whether the normal account balance is a debit or credit. For type of account, choose from asset, liability, stockholders' equity, dividend, revenue, or expense.

Account Title	Type of Account	Normal Balance (Debit or Credit)
1. Service Revenue	Revenue	Credit
2. Common Stock	Stockholders' equity	Credit
3. Dividends	Dividends	Debit
4. Salaries Expense	Expense	Debit
5. Accounts Payable	Liability	Credit
6. Building	Asset	Debit

7. Interest Revenue	Revenue	Credit
8. Accounts Receivable	Asset	Debit
9. Retained Earnings	Stockholders' equity	Credit
10. Accounts Payable	Liability	Credit
11. Utilities Expense	Expense	Debit
12. Advertising Expense	Expense	Debit

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Assess whether the impact of external transactions results in a debit or credit to an account balance.*

*Topic: Effects on Account Balances in the Basic Accounting Equation*

195 Below are the transactions for Racer, Inc. for April, the first month of operations.

April 1	Obtain a loan of \$50,000 from the bank.
April 2	Issue common stock in exchange for cash of \$20,000.
April 7	Purchase equipment for \$40,000 cash.
April 10	Purchase cleaning supplies of \$4,000 on account.
April 12	Provide services of \$5,000 for cash.
April 16	Pay employees \$1,200 for work performed.
April 19	Pay for advertising in a local newspaper, costing \$500.
April 23	Provide services of \$7,000 on account.
April 29	Pay employees \$1,500 for work performed.
April 30	A utility bill of \$1,200 for the current month is paid.
April 30	Pay dividends of \$700 to stockholders.

**Required:**

1. Record each transaction.
2. Post each transaction to the appropriate T-accounts.
3. Calculate the balance of each account.
4. Prepare a trial balance for June.

Racer uses the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Notes Payable, Common Stock, Dividends, Service Revenue, Salaries Expense, Advertising Expense, and Utilities Expense.

**Requirement 1**

		Debit	Credit
April 1	Cash	50,000	
	Notes Payable		50,000
	(Obtain loan from bank)		
April 2	Cash	20,000	

	Common Stock		20,000
	(Issue common stock)		
April 7	Equipment	40,000	
	Cash		40,000
	(Purchase equipment)		
April 10	Supplies	4,000	
	Accounts Payable		4,000
	(Purchase cleaning supplies on account)		
April 12	Cash	5,000	
	Service Revenue		5,000
	(Provide services for cash)		
April 16	Salaries Expense	1,200	
	Cash		1,200
	(Pay employees' salaries)		
April 19	Advertising Expense	500	
	Cash		500
	(Pay for current advertising)		
April 23	Accounts Receivable	7,000	
	Service Revenue		7,000
	(Provide services on account)		

April 29	Salaries Expense	1,500	
	Cash		1,500
	(Pay employees' salaries)		
April 30	Utilities Expense	1,200	
	Cash		1,200
	(Pay current utility bill)		
April 30	Dividends	700	
	Cash		700
	(Pay dividends to stockholders)		

Requirements 2 and 3



Cash		Accounts Receivable		Supplies	
50,000	40,000	<u>7,000</u>		<u>4,000</u>	
20,000	1,200	<u>7,000</u>		<u>4,000</u>	
5,000	500				
	1,500	Equipment		Accounts Payable	
	1,200	40,000			4,000
<u>      </u>	<u>700</u>	<u>      </u>			<u>      </u>
<u>29,900</u>		<u>40,000</u>			<u>4,000</u>
Notes Payable		Common Stock		Dividends	
	<u>50,000</u>		<u>20,000</u>	<u>700</u>	
	<u>50,000</u>		<u>20,000</u>	<u>700</u>	
Service Revenue		Salaries Expense		Advertising Expense	
	5,000	1,200		500	
	<u>7,000</u>	<u>1,500</u>		<u>      </u>	
	<u>12,000</u>	<u>2,700</u>		<u>500</u>	
Utilities Expense					
<u>1,200</u>					
<u>1,200</u>					

#### Requirement 4

Cleaning Racer Inc. Trial Balance June 30		
Account Title	Debit	Credit
Cash	\$29,900	
Accounts Receivable	7,000	
Supplies	4,000	
Equipment	40,000	
Accounts Payable		\$4,000
Notes Payable		50,000
Common Stock		20,000
Dividends	700	
Service Revenue		12,000

Salaries Expense	2,700	
Advertising Expense	500	
Utilities Expense	<u>1,200</u>	<u>      </u>
Totals	<u>\$86,000</u>	<u>\$86,000</u>

*AACSB: Analytical Thinking*

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Learning Objective: 02-05 Post transactions to the general ledger.*

*Learning Objective: 02-06 Prepare a trial balance.*

*Topic: Posting to the General Ledger*

*Topic: Recording Transactions in a Journal*

*Topic: Trial Balance*

196. Wolverine Incorporated had the following trial balance at the beginning of April.

Account Title	Debits	Credits
Cash	\$2,800	
Accounts receivable	900	
Supplies	3,600	
Equipment	9,100	
Accounts payable		\$2,200
Notes payable		3,600
Common stock		9,000
Retained earnings		1,600

The following transactions occur in April:

April 1	Issue common stock in exchange for \$15,000 cash.
April 2	Purchase equipment with a long-term note for \$4,500 from Hoosier Corporation.
April 4	Purchase supplies for \$1,500 on account.
April 10	Provide services to customers on account for \$9,000.
April 15	Pay creditors on account, \$1,200.
April 20	Pay employees \$2,300 for the first half of the month.
April 22	Provide services to customers for \$11,500 cash.
April 24	Pay \$1,300 on the note from Hoosier Corporation.
April 26	Collect \$7,100 on account from customers.
April 28	Pay \$1,700 to the local utility company for April gas and electricity.
April 30	Pay \$3,200 rent for the April.

**Required:**

1. Record each transaction.
2. Post each transaction to the appropriate T-accounts.
3. Calculate the balance of each account at April 30. (Hint: Be sure to include the balance at the beginning of April in each T-account.)
4. Prepare a trial balance as of April 30.

Requirement 1

		Debit	Credit
April 1	Cash	15,000	
	Common Stock		15,000
	(Issue common stock)		
April 2	Equipment	4,500	
	Notes Payable		4,500
	(Purchase equipment with note payable)		
April 4	Supplies	1,500	
	Accounts Payable		1,500
	(Purchase supplies on account)		
April 10	Accounts Receivable	9,000	
	Service Revenue		9,000
	(Provide services on account)		
April 15	Accounts Payable	1,200	
	Cash		1,200
	(Pay cash on account)		
April 20	Salaries Expense	2,300	
	Cash		2,300
	(Pay current salaries)		
April 22	Cash	11,500	
	Service Revenue		11,500
	(Provide services for cash)		
April 24	Notes Payable	1,300	
	Cash		1,300
	(Pay on note payable)		
April 26	Cash	7,100	
	Accounts receivable		7,100
	(Receive cash on account)		
April 28	Utilities Expense	1,700	

	Cash		1,700
	(Pay utilities for current month)		
April 30	Rent Expense	3,200	
	Cash		3,200
	(Pay rent for current month)		

Requirements 2 and 3

Cash		Accounts Receivable		Supplies	
2,800	1,200	900	7,100	3,600	
15,000	2,300	9,000		1,500	
11,500	1,300				
7,100	1,700				
<u>      </u>	<u>3,200</u>	<u>      </u>		<u>      </u>	
<u>26,700</u>		<u>2,800</u>		<u>5,100</u>	
Equipment		Accounts Payable		Notes Payable	
9,100		1,200	2,200	1,300	3,600
<u>4,500</u>			<u>1,500</u>		<u>4,500</u>
<u>13,600</u>			<u>2,500</u>		<u>6,800</u>
Common Stock		Retained Earnings		Service Revenue	
	9,000		1,600		9,000
	<u>15,000</u>		<u>      </u>		<u>11,500</u>
	<u>24,000</u>		<u>1,600</u>		<u>20,500</u>
Salaries Expense		Utilities Expense		Rent Expense	
<u>2,300</u>		<u>1,700</u>		<u>3,200</u>	
<u>2,300</u>		<u>1,700</u>		<u>3,200</u>	

Requirement 4

Wolverine Incorporated Trial Balance April 30		
Account Title	Debit	Credit
Cash	\$26,700	

Accounts Receivable	2,800	
Supplies	5,100	
Equipment	13,600	
Accounts Payable		\$2,500
Notes Payable		6,800
Common Stock		24,000
Retained Earnings		1,600
Service Revenue		20,500
Salaries Expense	2,300	
Utilities Expense	1,700	
Rent Expense	<u>3,200</u>	<u>      </u>
Totals	<u>\$55,400</u>	<u>\$55,400</u>

*AACSB: Analytical Thinking*

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Analyze*

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-04 Record transactions in a journal using debits and credits.*

*Learning Objective: 02-05 Post transactions to the general ledger.*

*Learning Objective: 02-06 Prepare a trial balance.*

*Topic: Posting to the General Ledger*

*Topic: Recording Transactions in a Journal*

*Topic: Trial Balance*

197. Baker Incorporated specializes in training and veterinary services to for household pets, such as dogs, birds, lizards, fish, and of course, cats. After the first 11 months of operations in 2018, Baker has the following account balances.

Account Title	Debits	Credits
Cash	\$13,300	
Supplies	2,600	
Prepaid rent	4,800	
Equipment	82,100	
Buildings	200,000	
Accounts payable		\$9,500
Deferred revenue		3,400
Common stock		145,000
Retained earnings		50,200
Dividends	9,000	
Service revenue		250,000
Salaries expense	100,000	
Advertising expense	15,600	
Utilities expense	<u>30,700</u>	<u>          </u>
Totals	<u>458,100</u>	<u>\$458,100</u>

The following transactions occur during December 2018:

December 1-31	Throughout the month, Baker provides services to customers for cash, \$25,400. (Hint: Record the entire month's services in a single entry.)
December 4	Purchase pet supplies on account, \$2,700.
December 8	Pay for fliers to be distributed to local residences to advertise the company's services, \$3,100.
December 9	Pay for supplies purchased on December 4.
December 12	Issue additional shares of common stock for cash, \$6,000.
December 16	Pay cash on accounts payable, \$6,600.
December 19	Purchase equipment with cash, \$7,800.
December 22	Pay utilities for December, \$4,400.
December 24	Receive cash from customers for services to be provided next January,

	\$2,500.
December 27	One of Baker's trainers takes a part-time job at the zoo and earns a salary of \$1,300. The zoo and Baker are separate companies.
December 30	Pay employees' salaries for the current month, \$10,000.
December 31	Pay dividends to stockholders, \$3,000.

**Required:**

1. Record each transaction.
2. Post each transaction to the appropriate T-accounts.
3. Calculate the balance of each account at December 31. (Hint: Be sure to include the balance at the beginning of December in each T-account.)
4. Prepare a trial balance as of December 31.

**Requirement 1**

Entries are numbered for posting.

			Debit	Credit
(1)	December 1-31	Cash	25,400	
		Service Revenue		25,400
		(Provide services for cash)		
(2)	December 4	Supplies	2,700	
		Accounts Payable		2,700
		(Purchase supplies on account)		
(3)	December 8	Advertising Expense	3,100	
		Cash		3,100
		(Purchase advertising for December)		
(4)	December 9	Accounts Payable	2,700	
		Cash		2,700
		(Pay cash on account)		
(5)	December 12	Cash	6,000	
		Common Stock		6,000



		(Issue shares of common stock)		
(6)	December 16	Accounts Payable	6,600	
		Cash		6,600
		(Pay cash on account)		
(7)	December 19	Equipment	7,800	
		Cash		7,800
		(Purchase equipment)		
(8)	December 22	Utilities Expense	4,400	
		Cash		4,400
		(Pay utilities for current month)		
(9)	December 24	Cash	2,500	
		Deferred Revenue		2,500
		(Receive cash in advance from customers)		

	December 27	No journal entry is required		
(10)	December 30	Salaries Expense	10,000	
		Cash		10,000
		(Pay salaries for December)		
(11)	December 31	Dividends	3,000	
		Cash		3,000
		(Pay dividends);		

Requirements 2 and 3

Cash		Supplies		Prepaid Rent	
Bal.	3,100	Bal.		Bal.	
13,300	(3)	2,600		4,800	
	2,700				
(1)	(4)	(2)			
25,400	6,600	2,700			
	(6)				
(5)	7,800				
6,000	(7)				
	4,400				
(9)	(8)				

2,500	10,000 (10) 3,000 (11);				
<u>9,600</u>		<u>5,300</u>		<u>4,800</u>	
<b>Equipment</b>		<b>Buildings</b>		<b>Accounts Payable</b>	
Bal. 82,100		Bal. 200,000		(4); 2,700	9,500 Bal.
(7) 7,800				(6); 6,600	2,700 (2)
<u>89,900</u>		<u>200,000</u>			<u>2,900</u>
<b>Deferred Revenue</b>		<b>Common Stock</b>		<b>Retained Earnings</b>	
	3,400 Bal. 2,500 (9)		145,000 Bal. 6,000 (5)		50,200 Bal.
	<u>5,900</u>		<u>151,000</u>		<u>50,200</u>
<b>Dividends</b>		<b>Service Revenue</b>		<b>Salaries Expense</b>	
Bal. 9,000			250,000 Bal. 25,400 (1)	Bal. 100,000 (10) 10,000	
(11) 3,000					
<u>12,000</u>			<u>275,400</u>	<u>110,000</u>	
<b>Advertising Expense</b>		<b>Utilities Expense</b>			

Bal.		Bal.		
15,600		30,700		
(3)		(8)		
3,100		4,400		
<u>18,700</u>		<u>35,100</u>		

#### Requirement 4

Baker Incorporated Trial Balance December 31		
Accounts	Debit	Credit
Cash	\$9,600	
Supplies	5,300	
Prepaid Rent	4,800	
Equipment	89,900	
Buildings	200,000	
Accounts Payable		\$2,900
Deferred Revenue		5,900
Common Stock		151,000
Retained Earnings		50,200
Dividends	12,000	
Service Revenue		275,400
Salaries Expense	110,000	
Advertising Expense	18,700	
Utilities Expense	<u>35,100</u>	<u>          </u>
Totals	<u>\$485,400</u>	<u>\$485,400</u>

AACSB: Analytical Thinking

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Analyze

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-04 Record transactions in a journal using debits and credits.

Learning Objective: 02-05 Post transactions to the general ledger.

*Learning Objective: 02-06 Prepare a trial balance.*

*Topic: Posting to the General Ledger*

*Topic: Recording Transactions in a Journal*

*Topic: Trial Balance*

198. Below are the account balances of Heron Company at the end of November.

Accounts	Balances
Cash	\$12,000
Accounts Receivable	?
Rent Expense	1,000
Supplies	5,000
Equipment, net	19,000
Accounts Payable	7,000
Service Revenue	40,000
Utilities Payable	1,000
Deferred Revenue	6,000
Common Stock	19,000
Utilities Expense	2,000
Retained Earnings	15,000
Salaries Payable	2,000
Salaries Expense	9,000
Insurance Expense	6,000
Advertising Expense	1,000
Supplies Expense	10,000
Dividends	3,000
Prepaid Insurance	4,000
Legal Fees Expense	6,000

**Required:**

Prepare a trial balance by placing amounts in the appropriate debit or credit column and determining the balance of the Accounts Receivable account.

Accounts	Debits	Credits
Cash	\$12,000	

Accounts Receivable	12,000	
Supplies	5,000	
Prepaid Insurance	4,000	
Equipment, net	19,000	
Accounts Payable		\$7,000
Utilities Payable		1,000
Salaries Payable		2,000
Deferred Revenue		6,000
Common Stock		19,000
Retained Earnings		15,000
Dividends	3,000	
Service Revenue		40,000
Rent Expense	1,000	
Utilities Expense	2,000	
Salaries Expense	9,000	
Insurance Expense	6,000	
Advertising Expense	1,000	
Supplies Expense	10,000	
Legal Fees Expense	6,000	
	<u>\$90,000</u>	<u>\$90,000</u>

*AACSB: Analytical Thinking*

*AACSB: Reflective Thinking*

*AICPA: FN Measurement*

*Blooms: Analyze*

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-06 Prepare a trial balance.*

*Topic: Trial Balance*

199. Describe the difference between external events and internal events and give two examples of each.

External events involve an exchange between the company and a separate economic entity. Examples include purchasing office supplies on account or borrowing money from a bank. Internal events directly affect the financial position of the company but do not involve exchange transactions with another entity. Examples include depreciation of equipment or use of supplies.

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

*Topic: External Transactions*

200. Describe the six steps in the measurement process of external transactions.

The six steps include: (1) Use source documents to identify accounts affected by external transactions, (2) analyze the impact of the transaction on the accounting equation, (3) assess whether the impact of the transaction results in a debit or credit to the account balance, (4) record transactions using debits and credits, (5) post the transaction to the T-accounts in the general ledger, and (6) prepare a trial balance.

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Identify the basic steps in measuring external transactions.*

*Topic: External Transactions*

201. Explain what it means that external transactions have a dual effect.

Dual effect refers to each transaction having at least two effects on the accounting equation. Either an economic event increases (decreases) one side of the equation and also increases (decreases) the other side of the equation by the same amount, or the economic event increases one element and decreases another element by an equal amount, both on the same side of the accounting equation.

*AICPA: BB Critical Thinking*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Analyze the impact of external transactions on the accounting equation.*

*Topic: Effects of Transactions on the Basic Accounting Equation*