

***Financial Accounting, 2nd Cdn. Ed. (Waybright)***

**Chapter 2 Analyzing and Recording Business Transactions**

**2.1 Define accounts and understand how they are used in accounting**

1) A listing of all accounts in numerical order is called a chart of accounts.

Answer: TRUE

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

2) Account titles such as marketing expense and depreciation expense would be numbered starting with a 3.

Answer: FALSE

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

3) An account numbered 321 would be considered a shareholders' equity account as it begins with a 3.

Answer: TRUE

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

4) Items of value that a company owns are called shareholders' equity.

Answer: FALSE

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

5) The shareholders' equity section would include the accounts such as retained earnings and revenues.

Answer: TRUE

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

6) Which is part of shareholders' equity?

- A) Cash
- B) Notes payable
- C) Dividends
- D) Assets
- E) Liabilities

Answer: C

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

7) Dividends are paid with cash to shareholders. Dividends are in what category of the chart of accounts?

- A) Revenue
- B) Assets
- C) Shareholders' equity
- D) Liabilities
- E) Revenue

Answer: C

Diff: 2

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

8) Dividends, revenues, and expenses all:

- A) start with the same chart of accounts number.
- B) start with different chart of accounts numbers.
- C) appear in the chart of accounts under assets.
- D) appear in the chart of accounts under liabilities.
- E) do not appear in the chart of accounts.

Answer: B

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

9) Which of the following would start with a 1 in the chart of accounts?

- A) Land and buildings
- B) Depreciation expense and marketing expense
- C) Merchandise sales and rent revenue
- D) Common shares and cash
- E) Accounts payable and notes payable

Answer: A

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

10) Which of the following would start with a 2 in the chart of accounts?

- A) Income taxes to be paid and wages to be paid
- B) Common shares and preferred shares
- C) Cash and accounts receivable
- D) Sales and fees revenue
- E) Marketing expense and rent expense

Answer: A

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

11) A chart of accounts includes:

- A) balances of accounts.
- B) names of customers
- C) assets and liabilities.
- D) accounts with unusual balances.
- E) account activity.
- F) vendor account balances.

Answer: C

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

12) Which of the following is an expense account?

- A) Prepaid insurance
- B) Advertising
- C) Accounts payable
- D) Cash
- E) Notes payable

Answer: B

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

13) Which of the following is a revenue account?

- A) Professional fees
- B) Accounts payable
- C) Accounts receivable
- D) Wages
- E) Cash

Answer: A

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

14) Marketing expenditures account 511 would belong to what category of accounts?

Answer: Expenses

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

15) Monies owed to a company on a written promise to pay a fixed amount of money by a certain date would be called a \_\_\_\_\_.

Answer: note payable

Diff: 2

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

16) Accounts starting with the number 4 would typically represent \_\_\_\_\_.

Answer: revenues

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

17) An account starting with a number 1 would indicate \_\_\_\_\_.

Answer: an asset

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

18) Accounts that start with the numbers 6-9 would probably be \_\_\_\_\_.

Answer: other revenues and expenses

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

19) The order in which accounts appear in the chart of accounts is: \_\_\_\_\_.

Answer: assets, liabilities, shareholders' equity, revenues, expenses

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

20) Items such as wages and interest that have been incurred, but not yet paid, are called \_\_\_\_\_.

Answer: accrued liabilities

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

21) Obligations that are owed to others due to past transactions are categorized as \_\_\_\_\_.

Answer: liabilities

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

22) All payables are listed as \_\_\_\_\_.

Answer: liabilities

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

23) A type of company asset in which a customer owes the company money would be a \_\_\_\_\_.

Answer: receivable

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

24) Land, cash, office equipment, and accounts receivable belong to what category of accounts?

Answer: Assets

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

25) A promissory note owed to another company would most likely appear in which categories?

Answer: Notes payable

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

26) List the order in which each of the following accounts would appear in a chart of accounts.

Utilities expenses, Tax return revenue, Accounts receivable, Income taxes payable

Answer: Accounts receivable, Income tax payable, Tax return revenue, Utilities expenses

Diff: 2

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Application

Blooms: Application

27) Expenses paid in advance such as rent and insurance are classified as prepaid expenses. Into what category are they placed?

Answer: Assets

Diff: 2

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Application

Blooms: Application

28) Payment of a telephone bill in the same month that it is received is a(n) \_\_\_\_\_.

Answer: expense

Diff: 2

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Application

Blooms: Application

29) Obligations owed by a company to banks, for instance, are called \_\_\_\_\_.

Answer: notes payable

Diff: 2

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Application

Blooms: Application

30) Net income and dividends are part of \_\_\_\_\_.

Answer: shareholders' equity

Diff: 1

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Recall

Blooms: Knowledge

31) Review the transactions below and determine whether you would use a debit or a credit to record the following changes. Indicate your decision by entering "Debit" or "Credit" in the right-hand column.

|                                       |  |
|---------------------------------------|--|
| 1. An increase in Wage Expense        |  |
| 2. A decrease in Notes Payable        |  |
| 3. An increase in Prepaid Insurance   |  |
| 4. An increase in Common Shares       |  |
| 5. A decrease in Office Supplies      |  |
| 6. An increase in Dividends           |  |
| 7. An increase in Revenue             |  |
| 8. A decrease in Notes Receivable     |  |
| 9. An increase in Advertising Expense |  |
| 10. A decrease in Cash                |  |

Answer:

|                                       |        |
|---------------------------------------|--------|
| 1. An increase in Wage Expense        | Debit  |
| 2. A decrease in Notes Payable        | Debit  |
| 3. An increase in Prepaid Insurance   | Debit  |
| 4. An increase in Common Shares       | Credit |
| 5. A decrease in Office Supplies      | Credit |
| 6. An increase in Dividends           | Debit  |
| 7. An increase in Revenue             | Credit |
| 8. A decrease in Notes Receivable     | Credit |
| 9. An increase in Advertising Expense | Debit  |
| 10. A decrease in Cash                | Credit |

Diff: 3

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Critical Thinking

Blooms: Analysis

32) For the following general ledger accounts, identify the normal balance of the account.

Example:

Accounts Payable    Credit

Accounts Receivable

Building

Cash

Common Shares

Dividends

Equipment

Inventory

Land

Notes Payable

Office Equipment

Office Supplies

Rental Expense

Service Revenue

Travel Expense

Utilities Expense

Wages Expense

Answer:

|                     |        |
|---------------------|--------|
| Accounts Payable    | Credit |
| Accounts Receivable | Debit  |
| Building            | Debit  |
| Cash                | Debit  |
| Common Shares       | Credit |
| Dividends           | Debit  |
| Equipment           | Debit  |
| Inventory           | Debit  |
| Land                | Debit  |
| Notes Payable       | Credit |
| Office Equipment    | Debit  |
| Office Supplies     | Debit  |
| Rental Expense      | Debit  |
| Service Revenue     | Credit |
| Travel Expense      | Debit  |
| Utilities Expense   | Debit  |
| Wages Expense       | Debit  |

Diff: 2

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Concept

Blooms: Comprehension



33) For the accounts listed below, identify the type of account. Is it an (A) Asset, (L) Liability, (S) Shareholders equity, (R) Revenue, or (E) Expense.

Accounts Payable  
 Accounts Receivable  
 Building  
 Cash  
 Common Shares  
 Dividends  
 Equipment  
 Inventory  
 Land  
 Notes Payable  
 Office Equipment  
 Office Supplies  
 Rental Expense  
 Service Revenue  
 Travel Expense  
 Utilities Expense  
 Wages Expense

Answer:

|                     |   |
|---------------------|---|
| Accounts Payable    | L |
| Accounts Receivable | A |
| Building            | A |
| Cash                | A |
| Common Shares       | S |
| Dividends           | S |
| Equipment           | A |
| Inventory           | A |
| Land                | A |
| Notes Payable       | L |
| Office Equipment    | A |
| Office Supplies     | A |
| Rental Expense      | E |
| Service Revenue     | R |
| Travel Expense      | E |
| Utilities Expense   | E |
| Wages Expense       | E |

Diff: 2

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Concept

Blooms: Comprehension

34) For the accounts listed below, determine the normal balance of the account is it a debit or credit.

|                        | Normal Balance  |
|------------------------|-----------------|
| Accounts               | Debit or Credit |
| 1. Revenue             |                 |
| 2. Cash                |                 |
| 3. Accounts Receivable |                 |
| 4. Accounts Payable    |                 |
| 5. Retained Earnings   |                 |
| 6. Prepaid Insurance   |                 |
| 7. Insurance Expense   |                 |
| 8. Wages Expense       |                 |
| 9. Office Building     |                 |
| 10. Notes Receivable   |                 |
| 11. Sales              |                 |
| 12. Common Shares      |                 |

Answer:

|                        | Normal Balance  |
|------------------------|-----------------|
| Accounts               | Debit or Credit |
| 1. Revenue             | Credit          |
| 2. Cash                | Debit           |
| 3. Accounts Receivable | Debit           |
| 4. Accounts Payable    | Credit          |
| 5. Retained Earnings   | Credit          |
| 6. Prepaid Insurance   | Debit           |
| 7. Insurance Expense   | Debit           |
| 8. Wages Expense       | Debit           |
| 9. Office Building     | Debit           |
| 10. Notes Receivable   | Debit           |
| 11. Sales              | Credit          |
| 12. Common Shares      | Credit          |

Diff: 3

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Critical Thinking

Blooms: Analysis

35) Hugh Munroe sells fine china in its antique store. A customer named Jacob Xie purchases a collectors' plate from the store for \$5,000 and agrees to pay this within 90 days of purchase. After 90 days passed Xie was unable to pay for the collectors' plate. Munroe agreed to convert the receivable into an interest bearing note with a term of one year and an interest rate of 10%. Does the note meet the definition of an asset? Explain in detail why that is the case or not the case.

Answer: Yes, the note in this case does meet the definition of an asset because it arose out of a transaction with a customer and it is expected to generate economic benefits in the future. It is a current asset because it is expected to be collected within a year.

Diff: 3

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Concept

Blooms: Comprehension

36) A customer purchases a tuxedo from a company called Tuxedo Deluxe. The tuxedo was purchased for \$1,000. The tuxedo had to be tailor fit to the customer's specifications, so as per company policy a 10% deposit was required from the customer. The customer paid the \$100 deposit. Does this deposit meet the definition of a liability? Explain in detail why that is the case or not the case.

Answer: The deposit does meet the definition of a liability because there is a present obligation for Tuxedo Deluxe to deliver a suit that fits the specifications of the customer. The deposit is an unearned revenue because the transaction will only be complete when Tuxedo Deluxe delivers the suit to the customer.

Diff: 3

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Concept

Blooms: Comprehension

37) Game Genie paid out 10% of its earnings to its shareholders. Does this meet the definition of equity? Explain in detail why that is the case or not the case.

Answer: These are dividends. This meets the definition of equity because it is considered a distribution to the owners. It represents a reduction in retained earnings and shareholder's equity.

Diff: 3

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Concept

Blooms: Comprehension

## 2.2 Explain debits, credits, and the double entry system of accounting

1) Double-entry accounting requires that every business transaction impacts at least two different accounts.

Answer: TRUE

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

2) The debit (left) side of an account always indicates an increase in the value of the account.

Answer: FALSE

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

3) A T-account is a way to visualize the increases and decreases to the value of an account.

Answer: TRUE

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

4) Accounts that decrease on the credit side are liabilities, common shares, revenues, and retained earnings.

Answer: FALSE

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

5) The credit (right) side of an account shows an increase or decrease depending upon the type of account.

Answer: TRUE

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

6) Accounts that increase on the credit side are assets, dividends, and expenses.

Answer: FALSE

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

7) Normal balance refers to the positive increase of an account and identifies the side of the account (Debit or Credit) to which this positive balance is recorded.

Answer: TRUE

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

8) Dividends paid out to shareholders are a liability.

Answer: FALSE

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

9) A promissory note with a term of 10% and a term of one year is an asset.

Answer: TRUE

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

10) Which of the following is an unofficial tool of accounting?

A) Account

B) T-account

C) Debit

D) Credit

E) Accountant

Answer: B

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

11) Accounts payable, taxes payable, and notes payable increase on the debit side and decrease on the credit side.

Answer: FALSE

Diff: 2

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

12) The T-account aids in separating:

- A) increases and decreases in an account.
- B) the equality of the credits.
- C) the equality of debits and credits in the accounting equation.
- D) the balances of all of the accounts.
- E) errors and omissions.

Answer: A

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

13) Credit means:

- A) decrease.
- B) increase.
- C) the right side of an account.
- D) the left side of an account.
- E) the total of the T-account.

Answer: C

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

14) An example of accounts with normal debit balances would be:

- A) liabilities.
- B) expenses.
- C) revenues.
- D) shareholders' equity.
- E) retained earnings

Answer: B

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

15) An example of accounts with normal credit balances would be:

- A) revenues.
- B) assets.
- C) expenses.
- D) dividends.
- E) accounts receivable.

Answer: A

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

16) The difference between the total debits and total credits of an account is called a:

- A) trial balance.
- B) sub-total.
- C) ruling.
- D) balance.
- E) normal balance.

Answer: D

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

17) The fact that each transaction has a dual effect on the accounting equation provides the basis for what is called:

- A) single-entry accounting.
- B) double-entry accounting.
- C) compound-entry accounting.
- D) multiple-entry accounting.
- E) re-allocation of accounting.

Answer: B

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

18) Debit means:

- A) decrease.
- B) increase.
- C) the right side of an account.
- D) the left side of an account.
- E) the total of the T-account.

Answer: D

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

19) A T-account has a \$759 debit balance. This account is most likely:

- A) accounts payable.
- B) sales revenue.
- C) accounts receivable.
- D) common share.
- E) notes payable.

Answer: C

Diff: 2

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Application

Blooms: Application

20) A T-account has a \$509 credit balance. This account is most likely:

- A) common shares.
- B) land.
- C) advertising expense.
- D) dividends.
- E) cash.

Answer: A

Diff: 2

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Application

Blooms: Application

21) A T-account has a \$382 debit balance. This account is most likely:

- A) income taxes payable.
- B) common shares.
- C) cash.
- D) magazine sales.
- E) sales revenue.

Answer: C

Diff: 2

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Application

Blooms: Application

22) A T-account has a \$299 debit balance. This account is most likely:

- A) accounts receivable.
- B) bicycle repairs revenue.
- C) wages payable.
- D) common shares.
- E) service fees.

Answer: A

Diff: 2

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Application

Blooms: Application

23) A T-account has a \$922 credit balance. This account is most likely:

- A) office equipment.
- B) rent expense.
- C) dividends.
- D) sales revenue.
- E) cash.

Answer: D

Diff: 2

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Application

Blooms: Application



24) A promissory note with a term of one year and a rate of 5% is considered a(n):

- A) Notes Receivable
- B) Accounts Receivable
- C) Dividends
- D) Prepaid Expenses
- E) Revenue

Answer: A

Diff: 2

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Application

Blooms: Application

25) A deposit received for custom-made furniture is considered a(n):

- A) Accounts Receivable
- B) Notes Receivable
- C) Unearned Revenue
- D) Accounts Payable
- E) Revenue

Answer: C

Diff: 2

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Application

Blooms: Application

26) XYZ reported the following results for fiscal year 20X4:

|               |           |
|---------------|-----------|
| Assets        | \$ 50,000 |
| Liabilities   | \$ 10,000 |
| Common Shares | \$ 10,000 |
| Revenue       | \$ 40,000 |
| Expenses      | ?         |
| Dividends     | \$ 5,000  |

What were the expenses reported by XYZ in 20X4?

- A) \$10,000
- B) \$5,000
- C) \$20,000
- D) \$30,000
- E) \$40,000

Answer: B

Diff: 2

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Application

Blooms: Application

27) An investment of cash in a business increases which account?

Answer: Cash

Diff: 2

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Application

Blooms: Application

28) Name the three major parts of a T-account.

Answer: 1. A title

2. A debit side

3. A credit side

| Account Title ( Name) |  |        |
|-----------------------|--|--------|
|                       |  |        |
| Debit                 |  | Credit |
|                       |  |        |

Diff: 2

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Concept

Blooms: Comprehension

29) What is the normal account balance for revenue, accounts receivable, and common shares?

Answer: credit, debit, and credit, respectively

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

30) Office furniture, wages payable, and dividends have normal balances of \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_, respectively.

Answer: debit, credit, and debit

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

31) The retained earnings accounts of dividends, revenues, and expenses have normal balances of \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_, respectively.

Answer: debit, credit, and debit

Diff: 1

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Recall

Blooms: Knowledge

Answer: double-entry accounting

Blooms: Knowledge

Blooms: Comprehension

Blooms: Comprehension

Blooms: Comprehension

36) Freddy's Fir Tree Company is a new business. The following accounts are required in the general ledger.

|                   |                     |
|-------------------|---------------------|
| Accounts Payable  | Accounts Receivable |
| Cash              | Prepaid Rent        |
| Equipment         | Rent Expense        |
| Sales/Revenue     | Salary Expense      |
| Insurance Expense | Salaries Payable    |
| Retained Earnings | Supplies            |
| Prepaid Insurance | Supplies Expense    |

Organize the accounts into the order in which they should appear in the general ledger of Freddy's Fir Tree Company and assign account numbers.

Use the following system to assign account numbers.

|           |                              |
|-----------|------------------------------|
| 1000–1999 | Assets                       |
| 2000–2999 | Liabilities                  |
| 3000–3999 | Shareholder's equity account |
| 4000–4999 | Revenues                     |
| 5000–5999 | Expenses                     |

Answer: There are several possible correct account numbers. The first digit needs to align with the assigned account numbers. The order of the accounts is important.

1001- Cash  
1012- Accounts Receivable  
1013- Supplies  
1014- Prepaid Insurance  
1015- Prepaid Rent  
1060- Equipment

2010- Accounts Payable  
2020- Salaries Payable

3010- Retained Earnings

4010- Sales Revenue

5010- Salary Expense  
5020- Supplies Expense  
5030- Rent Expense  
5040- Insurance Expense

Diff: 3

LO: 2-1 Define accounts and understand how they are used in accounting

Skill: Application

Blooms: Application

37) Tito Corporation started business in 2015 and reported the following results:

|               |            |
|---------------|------------|
| Assets        | \$ 85,000  |
| Liabilities   | \$ 25,000  |
| Common Shares | \$ 15,000  |
| Revenue       | \$ 100,000 |
| Expenses      | \$ 20,000  |
| Dividends     | ?          |

Calculate the total dividends paid out.

Answer: Dividends = \$35,000 (\$25,000 + \$15,000 + \$100,000 - \$85,000 - \$20,000)

Diff: 3

LO: 2-2 Explain debits, credits and the double entry system of accounting

Skill: Application

Blooms: Application

## 2.3 Demonstrate the use of the general journal and the general ledger to record business transactions

1) The general journal was developed to organize transactions by account.

Answer: FALSE

Diff: 1

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Recall

Blooms: Knowledge

2) The posting reference column of the general ledger shows the sources of the transferred information.

Answer: TRUE

Diff: 1

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Recall

Blooms: Knowledge

3) The general journal is used to record only the revenue transactions of a business.

Answer: FALSE

Diff: 1

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Recall

Blooms: Knowledge

4) Recording a transaction in the general journal is called "journalizing" the transaction.

Answer: TRUE

Diff: 1

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Recall

Blooms: Knowledge

5) Journalizing is the transfer of information from the general journal to the general ledger.

Answer: FALSE

Diff: 1

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Recall

Blooms: Knowledge

6) The posting reference column of the general journal will include the number of the account to which the information is being posted.

Answer: TRUE

Diff: 1

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Recall

Blooms: Knowledge

7) Transactions are recorded in order of the dollar amount of the transaction.

Answer: FALSE

Diff: 1

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Recall

Blooms: Knowledge

8) Chronological order dictates the order in which transactions are journalized.

Answer: TRUE

Diff: 1

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Recall

Blooms: Knowledge

9) Dividends are considered a contra-equity account.

Answer: TRUE

Diff: 1

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Recall

Blooms: Knowledge

10) An owner that invests money into his/her business will increase its assets and decrease its equity.

Answer: FALSE

Diff: 1

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Recall

Blooms: Knowledge

11) A purchase of equipment on account will cause assets to increase and liabilities to increase.

Answer: TRUE

Diff: 1

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Recall

Blooms: Knowledge

12) A payment of a dividend will decrease assets and decrease equity.

Answer: TRUE

Diff: 1

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Recall

Blooms: Knowledge

13) A company that orders parts for its manufacturing process will need to journalize this transaction.

Answer: FALSE

Diff: 1

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Recall

Blooms: Knowledge

14) Once you post the transaction to the general ledger, you must go back to the general journal and fill in:

A) the date.

B) the amount debited or credited.

C) the posting reference column with the account number of the posting.

D) the account name that was involved in the transaction.

E) the dollar value.

Answer: C

Diff: 1

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Concept

Blooms: Comprehension

15) Instead of T-accounts, businesses more than likely use a:

A) chart of accounts.

B) balance sheet.

C) general ledger.

D) general journal.

E) income statement.

Answer: C

Diff: 1

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Concept

Blooms: Comprehension

16) The posting reference column of the general journal provides a cross-reference between the:

- A) ledger and accounts.
- B) journal and ledger.
- C) ledger and financial statements.
- D) journal and financial statements.
- E) ledger and customers.

Answer: B

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Concept

Blooms: Comprehension

17) A deposit received from a customer for a purchase will cause:

- A) assets to increase and liabilities to decrease.
- B) assets to increase and liabilities to increase.
- C) liabilities to increase and equity to increase.
- D) liabilities to decrease and equity to decrease.
- E) assets to increase and equity to increase.

Answer: B

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Recall

Blooms: Knowledge

18) A collection of an outstanding accounts receivable will cause:

- A) assets to increase and equity to decrease.
- B) assets to increase and equity to increase.
- C) no change in assets.
- D) assets to decrease and equity to decrease.
- E) assets to decrease and equity to increase.

Answer: C

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Recall

Blooms: Knowledge

19) Every entry in the general journal should include all of the following EXCEPT:

- A) the title of each account affected.
- B) the amounts of debits and credits.
- C) a brief description of the transaction.
- D) the balance of the accounts affected.
- E) debits and credits.

Answer: D

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Concept

Blooms: Comprehension



20) The general ledger is arranged in the \_\_\_\_\_ order of the chart of accounts.

Answer: numerical

Diff: 1

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Recall

Blooms: Knowledge

21) The \_\_\_\_\_ indicates where the information originated and to where the information was transferred.

Answer: posting reference

Diff: 1

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Recall

Blooms: Knowledge

22) The \_\_\_\_\_ keeps a running balance of an individual account.

Answer: general ledger

Diff: 1

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Recall

Blooms: Knowledge

23) Jill invested \$25,000 in her business, Fashion Unlimited. The journal entry would include a \_\_\_\_\_.

Answer: debit to cash for \$25,000 and a credit to common shares for \$25,000

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Application

Blooms: Application

24) Office equipment was purchased for \$2,400 on account to Business Furniture Company. The journal entry would include a \_\_\_\_\_.

Answer: debit to office equipment \$2,400 and a credit to accounts payable \$2,400

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Application

Blooms: Application

25) Salary expenses of \$675 were paid in cash. The journal entry would include a \_\_\_\_\_.

Answer: debit to salary expense \$675 and a credit to cash \$675

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Application

Blooms: Application

26) ABC Corporation collected \$600 from one of its customers for payment on their account. The journal entry would include a \_\_\_\_\_.

Answer: debit to cash \$600 and a credit to accounts receivable \$600

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Application

Blooms: Application

27) ABC Corporation purchases a building for \$350,000 cash. The journal entry would include a \_\_\_\_\_.

Answer: debit to building \$350,000 and a credit to cash \$350,000

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Application

Blooms: Application

28) Toys, Inc. paid one of its creditors \$678 on their balance due. The journal entry would require a \_\_\_\_\_.

Answer: debit to accounts payable \$678 and credit to cash \$678

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Application

Blooms: Application

29) Tonga Corporation purchased \$350 of office supplies on account and treated the supplies as a prepaid expense. The journal entry would require a \_\_\_\_\_.

Answer: debit to office supplies \$350 and a credit to accounts payable \$350

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Application

Blooms: Application

30) Casey Corporation purchased a \$600 two-year insurance policy for cash. The journal entry would require a \_\_\_\_\_.

Answer: debit to prepaid insurance \$600 and a credit to cash \$600

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Application

Blooms: Application

31) Brandon Company sold season tickets for \$700 on account. The journal entry would be to \_\_\_\_\_.

Answer: debit accounts receivable \$700 and credit season ticket sales revenue \$700

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Application

Blooms: Application

32) One of the customers of Amanda Company paid \$223 on her bill. The journal entry that Amanda Company would record is \_\_\_\_\_.

Answer: debit cash \$223 and credit accounts receivable \$223

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Application

Blooms: Application

33) The account "Cash" had the following changes: increase of \$250, decrease of \$75, increase of \$113, and a decrease of \$35. The final balance is a \_\_\_\_\_.

Answer: debit balance of \$253

Calculation:

$$+\$250 - \$75 + \$113 - \$35 = \$253$$

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Application

Blooms: Application

34) Given the following general ledger template, identify the parts of the ledger.

| Account Cash |   |   |   | Account Number 111 |   |   |
|--------------|---|---|---|--------------------|---|---|
| A            | B | C | D | E                  | F | G |
|              |   |   |   |                    |   |   |
|              |   |   |   |                    |   |   |

Answer: A-date; B- item; C-posting reference; D-debit amount of transaction; E-credit amount of transaction; F-debit balance of the account; G-credit balance of the account

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Application

Blooms: Application

35) The account "Notes Payable" had the following changes: increase of \$500, increase of \$200, decrease of \$550, and increase of \$250. The final balance is a \_\_\_\_\_.

Answer: credit balance of \$400

Calculation:

$$\text{Credit } \$500 + \text{Credit } \$200 - \text{Debit } \$550 + \text{Credit } \$250 = \text{Credit } \$400$$

Diff: 3

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Critical Thinking

Blooms: Analysis

36) Journalize the following transactions. You may leave out the explanations and disregard the posting reference.

- A. Paul invested \$33,000 into his company, Paul's Sports, on January 9.
- B. The company purchased \$6,300 of furniture on account on February 14.
- C. The company paid three month's rent of \$4,500 and recorded it as a prepaid expense on February 22.
- D. The company bought \$5,300 of office desks and \$9,000 of computer equipment for \$14,300 cash on March 9.
- E. The company incurred \$1,400 of wages to be paid next week. This entry is to be dated March 19.

Answer:

| DATE | ACCOUNT/<br>DESCRIPTION | PR | DEBIT  | CREDIT |
|------|-------------------------|----|--------|--------|
| 1/9  | Cash                    |    | 33,000 |        |
|      | Common Shares           |    |        | 33,000 |
|      |                         |    |        |        |
| 2/14 | Furniture               |    | 6,300  |        |
|      | Accounts Payable        |    |        | 6,300  |
|      |                         |    |        |        |
| 2/22 | Prepaid Rent            |    | 4,500  |        |
|      | Cash                    |    |        | 4,500  |
|      |                         |    |        |        |
| 3/9  | Office Desks            |    | 5,300  |        |
|      | Computer Equipment      |    | 9,000  |        |
|      | Cash                    |    |        | 14,300 |
|      |                         |    |        |        |
| 3/19 | Wages Expense           |    | 1,400  |        |
|      | Wages Payable           |    |        | 1,400  |
|      |                         |    |        |        |

Diff: 3

LO: 1-4, 2-3

Skill: Critical Thinking

Blooms: Analysis

37) Using the accounts below, determine the accounts to be debited and credited for each of the transactions.

Accounts

Cash

Dividends

Supplies

Revenue

Machinery

Salaries Payable

Accounts Payable

Salaries Expense

Retained Earnings

Accounts Receivable

Wages Expense

Transactions

1. Paid wages for cash.
2. Purchased equipment for cash.
3. Earned revenue on account.
4. Purchased supplies on account.
5. Paid for supplies purchased in 4.
6. Received payment from customer in 3.
7. Paid employee salaries.
8. Purchased machinery on credit.
9. Paid dividends to shareholders.

Answer:

| Debit                  | Credit              |
|------------------------|---------------------|
| 1. Wages Expense       | Cash                |
| 2. Equipment           | Cash                |
| 3. Accounts Receivable | Revenue             |
| 4. Supplies            | Accounts Payable    |
| 5. Accounts Payable    | Cash                |
| 6. Cash                | Accounts Receivable |
| 7. Salaries Expense    | Cash                |
| 8. Machinery           | Accounts Payable    |
| 9. Dividends           | Cash                |

Diff: 3

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Concept

Blooms: Comprehension

38) Journalize the following transactions for the month of July. You may leave out the explanations and disregard the posting reference. In the element column indicate if the transaction will affect assets, liabilities, or equity.

- A. Tyler Wright invested \$9,500 cash in a small painting business on July 1.
- B. Wright purchased painting equipment on account for \$3,000 on July 3.
- C. Wright hired an employee to start work on July 15. Agreed on a salary of \$3,600 per month.
- D. Billed D. White \$1,975 for painting work done on July 17.
- E. On July 25 received \$1,000 cash from D. White for work billed on July 17 .
- F. On July 29 paid for equipment purchased on July 3.
- G. Paid employee \$1,800 for one-half of a month's work on July 31.

Answer:

| DATE | ACCOUNT/<br>DESCRIPTION | Element   | DEBIT | Credit |
|------|-------------------------|-----------|-------|--------|
| 7/1  | Cash                    | Asset     | 9,500 |        |
|      | Common Shares           | Equity    |       | 9,500  |
|      |                         |           |       |        |
| 7/3  | Painting Equipment      | Asset     | 3,000 |        |
|      | Accounts Payable        | Liability |       | 3,000  |
|      |                         |           |       |        |
| 7/15 | No Transaction          |           |       |        |
|      | No Transaction          |           |       |        |
|      |                         |           |       |        |
| 7/17 | Accounts Receivable     | Asset     | 1,975 |        |
|      | Sales                   | Equity    |       | 1,975  |
|      |                         |           |       |        |
| 7/25 | Cash                    | Asset     | 1,000 |        |
|      | Accounts Receivable     | Asset     |       | 1,000  |
|      |                         |           |       |        |
| 7/29 | Accounts Payable        | Liability | 3,000 |        |
|      | Cash                    | Asset     |       | 3,000  |
|      |                         |           |       |        |
| 7/31 | Salaries Expense        | Equity    | 1,800 |        |
|      | Cash                    | Asset     |       | 1,800  |
|      |                         |           |       |        |

Diff: 3

LO: 1-4, 2-3

Skill: Critical Thinking

Blooms: Analysis

39) Prepare general journal entries for the following business transactions.  
Identify each transaction by date. Explanations and posting reference are not required.

Dec 1. Received \$35,000 cash for issuing common shares.

2. Purchased machinery for \$50,000, paying \$15,000 in cash and giving a note payable for the remainder.

10. Paid \$3,000 for a one-year insurance policy.

11. Billed customers for \$21,500 of services provided on account.

15. Paid monthly rent of \$2,500.

16. Performed \$17,000 of services and immediately received \$7,000 cash.

22. Hired an administrative assistant. Weekly wages are \$750 per week.

25. Collected \$8,000 from customers on account.

31. Paid the administrative assistant the first week's salary.

Answer:

|        |   |                     |        |        |
|--------|---|---------------------|--------|--------|
| Dec. 1 | Cash  |                     | 35,000 |        |
|        |   | Common Shares       |        | 35,000 |
|        |   |                     |        |        |
| 2      | Machinery   |                     | 50,000 |        |
|        |   | Cash                |        | 15,000 |
|        |   | Note Payable        |        | 35,000 |
|        |   |                     |        |        |
| 10     | Prepaid Insurance                                   |                     | 3,000  |        |
|        |   | Cash                |        | 3,000  |
|        |   |                     |        |        |
| 11     | Accounts Receivable                                 |                     | 21,500 |        |
|        |   | Service Revenue     |        | 21,500 |
|        |   |                     |        |        |
| 15     | Rent Expense  |                     | 2,500  |        |
|        |   | Cash                |        | 2,500  |
|        |   |                     |        |        |
| 16     | Cash  |                     | 7,000  |        |
|        | Accounts Receivable                                 |                     | 10,000 |        |
|        |   | Service Revenue     |        | 17,000 |
|        |   |                     |        |        |
| 22     | No entry required for administrative assistant hire |                     |        |        |
|        |   |                     |        |        |
| 25     | Cash  |                     | 8,000  |        |
|        |   | Accounts Receivable |        | 8,000  |
|        |   |                     |        |        |
| 31     | Wage Expense  |                     | 750    |        |
|        |   | Cash                |        | 750    |

Diff: 3

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Application

Blooms: Knowledge



40) Given the following accounts, identify which account(s), by letter, would be debited or credited for the following transactions.

- A. Cash
- B. Accounts Receivable
- C. Supplies
- D. Computer Equipment
- E. Accounts Payable
- F. Fees Revenue
- G. Marketing Expense
- H. Salaries Expense
- I. Internet Expense
- J. Office Equipment
- K. Common Shares
- L. Rent Expense

1. Purchased supplies on account.
2. Purchased computer equipment for cash.
3. Earned revenue from doing tax returns on account.
4. Paid this month's rent.
5. Paid a bill due on account.
6. Collected payment from a customer.
7. Invested additional cash into the business.
8. Paid the marketing bill.
9. Earned revenue from doing tax returns for cash.
10. Paid salaries in cash.
11. Purchased office equipment on account.

Answer:

1. Debit C; Credit E
2. Debit D; Credit A
3. Debit B; Credit F
4. Debit L; Credit A
5. Debit E; Credit A
6. Debit A; Credit B
7. Debit A; Credit K
8. Debit G; Credit A
9. Debit A; Credit F
10. Debit H; Credit A
11. Debit J; Credit E

Diff: 3

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Critical Thinking

Blooms: Analysis

41) Journalize the following transactions. You may omit the explanations and disregard the posting reference.

- A. Rick invested \$21,500 into his company, Rick's Fishing, on January 11.
- B. The company purchased \$2,900 of furniture for cash on February 3.
- C. The company paid three month's rent of \$2250 and recorded it as a prepaid expense on February 9.
- D. The company bought \$2,300 of office fixtures and \$6,200 of stock bins for \$7,000 cash and the balance on account dated March 9.
- E. The company receives payment of \$575 from a customer on her bill. This transaction was on March 12.

Answer:

| DATE | ACCOUNT/<br>DESCRIPTION | PR | DEBIT  | CREDIT |
|------|-------------------------|----|--------|--------|
| 1/11 | Cash                    |    | 21,500 |        |
|      | Common Shares           |    |        | 21,500 |
|      |                         |    |        |        |
| 2/3  | Furniture               |    | 2,900  |        |
|      | Cash                    |    |        | 2,900  |
|      |                         |    |        |        |
| 2/9  | Prepaid Rent            |    | 2,250  |        |
|      | Cash                    |    |        | 2,250  |
|      |                         |    |        |        |
| 3/9  | Office Fixtures         |    | 2,300  |        |
|      | Stock Bins              |    | 6,200  |        |
|      | Cash                    |    |        | 7,000  |
|      | Accounts Payable        |    |        | 1,500  |
|      |                         |    |        |        |
| 3/12 | Cash                    |    | 575    |        |
|      | Accounts Receivable     |    |        | 575    |

Diff: 3

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Critical Thinking

Blooms: Analysis

42) Journalize the following business transactions in general journal form. Identify each transaction by date. Explanations are not required.

- Dec 2. Purchased \$400 of photography supplies on credit.  
 3. Purchased photography equipment for \$6,000, paying \$2,500 in cash and signing a 30-day, \$3,500 note payable.  
 4. Sales billed to clients amounted to \$4,000.  
 5. Paid \$700 in cash for the current months rent.  
 6. Paid \$200 cash on account for supplies purchased on December 2.  
 7. Received a bill for \$500 for advertising for the current month.  
 8. Paid \$2,200 cash for photographer's assistant salary.  
 9. Received a cheque for \$3,000 from a client in partial payment on account for December 4th billing.

Answer:

| DATE   | ACCOUNT/<br>DESCRIPTION | PR | DEBIT | CREDIT |
|--------|-------------------------|----|-------|--------|
| Dec. 2 | Photography Supplies    |    | 400   |        |
|        | Accounts Payable        |    |       | 400    |
|        |                         |    |       |        |
| Dec. 3 | Photography Equipment   |    | 6,000 |        |
|        | Cash                    |    |       | 2,500  |
|        | Notes Payable           |    |       | 3,500  |
|        |                         |    |       |        |
| Dec. 4 | Accounts Receivable     |    | 4,000 |        |
|        | Sales/ Revenue          |    |       | 4,000  |
|        |                         |    |       |        |
| Dec. 5 | Rent Expense            |    | 700   |        |
|        | Cash                    |    |       | 700    |
|        |                         |    |       |        |
| Dec. 6 | Accounts Payable        |    | 200   |        |
|        | Cash                    |    |       | 200    |
|        |                         |    |       |        |
| Dec. 7 | Advertising Expense     |    | 500   |        |
|        | Accounts Payable        |    |       | 500    |
|        |                         |    |       |        |
| Dec. 8 | Salaries Expense        |    | 2,200 |        |
|        | Cash                    |    |       | 2,200  |
|        |                         |    |       |        |
| Dec. 9 | Cash                    |    | 3,000 |        |
|        | Accounts Receivable     |    |       | 3,000  |

Diff: 3

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Critical Thinking

Blooms: Analysis

43) Fire Alarm Services completed the following transactions in the month of March.

- Mar. 1. Purchased fire monitoring equipment for \$18,000 for cash.  
 2. Purchased response vehicle costing \$25,000 for \$4,500 cash and the remainder on account.  
 3. Purchased supplies on account for \$800.  
 14. Paid \$3,000 for a one-year insurance policy.  
 15. Received \$2,000 cash for services performed.  
 16. Received \$4,000 for services previously performed on account.  
 20. Paid wages to employees for \$2,500.  
 28. Paid \$500 in dividends to shareholders.

#### Requirements

Journalize each transaction and identify each transaction by date. Explanations are not required.

Answer:

|        |               |                     |        |        |
|--------|---------------|---------------------|--------|--------|
| Mar. 1 | Equipment     |                     | 18,000 |        |
|        |               | Cash                |        | 18,000 |
|        |               |                     |        |        |
| 2      | Equipment     |                     | 25,000 |        |
|        |               | Cash                |        | 4,500  |
|        |               | Accounts Payable    |        | 20,500 |
|        |               |                     |        |        |
| 3      | Supplies      |                     | 800    |        |
|        |               | Accounts Payable    |        | 800    |
|        |               |                     |        |        |
|        | Prepaid       |                     |        |        |
| 14     | Insurance     |                     | 3,000  |        |
|        |               | Cash                |        | 3,000  |
|        |               |                     |        |        |
| 15     | Cash          |                     | 2,000  |        |
|        |               | Service Revenue     |        | 2,000  |
|        |               |                     |        |        |
| 16     | Cash          |                     | 4,000  |        |
|        |               | Accounts Receivable |        | 4,000  |
|        |               |                     |        |        |
| 20     | Wages Expense |                     | 2,500  |        |
|        |               | Cash                |        | 2,500  |
|        |               |                     |        |        |
| 28     | Dividends     |                     | 500    |        |
|        |               | Cash                |        | 500    |

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Application

Blooms: Application

44) Bellator Corporation's reported profits are below expectations for the quarter. The controller of Bellator Corporation instructs the lead accountant, Mary Pierce, CPA, CMA to record all customer deposits into revenue. He says that cash is reasonably assured and Bellator collects 95% of its receivables.

a) Are there any ethical issues involved with converting the deposits into revenues? What should Mary do?

b) What impact will the reclassification of deposits into revenues have on the assets, liabilities, and equities of a company?

Answer:

a) The practice of managing earnings is not acceptable. Mary is a CPA, CMA and she is held to the highest ethical standard by her national accounting body. If she engages in fraudulent activities she could lose both her reputation and her designation. The best course of action for Mary is to resign.

b) The impact will be to decrease liabilities and increase revenues, net profits, and equity. Even though the company will be able to show higher profitability, it will be doing it by managing earnings.

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Application

Blooms: Knowledge

## 2.4 Use a trial balance to prepare financial statements

1) A trial balance is a list of the accounts and their balances taken from the general journal.

Answer: FALSE

Diff: 1

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Recall

Blooms: Knowledge

2) A trial balance contains the name of the company, the words "trial balance," and the date of the statement.

Answer: TRUE

Diff: 1

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Recall

Blooms: Knowledge

3) The required accounting period for a trial balance is one year.

Answer: FALSE

Diff: 1

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Recall

Blooms: Knowledge

4) Once the trial balance is correct, the next step is to prepare the financial statements, beginning with the income statement.

Answer: TRUE

Diff: 1

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Recall

Blooms: Knowledge

5) If debits equal credits on the trial balance, it means that the trial balance is correct.

Answer: FALSE

Diff: 1

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Recall

Blooms: Knowledge

6) An entry could have been posted twice and the trial balance might still balance.

Answer: TRUE

Diff: 1

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Recall

Blooms: Knowledge

7) The trial balance will remain in balance even if a \$1,300 debit to Supplies was posted as a \$3,100 debit.

Answer: FALSE

Diff: 1

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Recall

Blooms: Knowledge

8) The trial balance will remain in balance even if a \$7,500 debit to Dividends was posted as a debit to the Common Shares account.

Answer: TRUE

Diff: 1

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Recall

Blooms: Knowledge

9) The trial balance will remain in balance even if a \$2,000 credit to Cash was posted twice as two credits to Cash.

Answer: FALSE

Diff: 1

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Recall

Blooms: Knowledge

10) The trial balance will remain in balance even if a journal entry debiting Cash and crediting Service Revenue for \$2,500 was not posted.

Answer: TRUE

Diff: 1

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Recall

Blooms: Knowledge

11) A trial balance will determine if:

A) an entry was recorded twice.

B) an entry was posted twice.

C) debits equal credits.

D) the right accounts were debited or credited.

E) all entries are correct.

Answer: C

Diff: 1

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Concept

Blooms: Comprehension

12) The trial balance:

A) lists only the accounts which are used to prepare the balance sheet.

B) shows only credit balances.

C) shows only debit balances.

D) shows the current date.

E) lists only the accounts which are used to prepare the income statement.

Answer: D

Diff: 2

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Concept

Blooms: Comprehension

13) The columns on a trial balance represent \_\_\_\_\_.

Answer: debits and credits

Diff: 1

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Recall

Blooms: Knowledge

14) A cash payment was made to pay for delivery expenses, but was mistakenly charged to advertising expenses. What effect will this have on the balance of the trial balance?

Answer: The trial balance will still balance. The account balances will be incorrect.

Diff: 2

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Application

Blooms: Application

15) On the trial balance, which should have their balances listed in the debit column?

Answer: Assets, dividends, and expenses

Diff: 2

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Concept

Blooms: Comprehension

16) On the trial balance, which should have their balances listed in the credit column?

Answer: Liabilities, retained earnings, and revenues

Diff: 2

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Concept

Blooms: Comprehension

17) Only the \_\_\_\_\_ and \_\_\_\_\_ accounts from the trial balance will be used to prepare the income statement.

Answer: revenue; expense

Diff: 2

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Concept

Blooms: Comprehension

18) Which financial statement would be best at proving the accounts balance?

Answer: Trial balance

Diff: 2

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Concept

Blooms: Comprehension



19) Emily Ma started an Energy Saving Service in June 2015. The account balances on June 30, 2015 are provided below. All accounts have normal balances. One hundred (100) common shares were issued in June 2015.

Prepare a trial balance using the correct financial presentation.

|                             |        |
|-----------------------------|--------|
| Office Supplies             | 300    |
| Utilities Expense           | 1,000  |
| Equipment Rental Expense    | 1,500  |
| Office Equipment            | 2,000  |
| Automobile Expense          | 4,000  |
| Travel Expense              | 4,000  |
| Accounts Receivable         | 4,500  |
| Wages Expense               | 5,000  |
| Accounts Payable            | 6,100  |
| Common Shares               | 10,000 |
| Cash                        | 12,000 |
| Notes Payable               | 24,000 |
| Building                    | 25,000 |
| Energy Assessment Equipment | 25,000 |
| Dividends                   | 30,000 |
| Service Revenue             | 74,200 |

Answer: Emily's Energy Saving Service  
Trial Balance  
June 30, 2015

|                             | Debit     | Credit    |
|-----------------------------|-----------|-----------|
| Cash                        | \$12,000  |           |
| Accounts Receivable         | 4,500     |           |
| Office Supplies             | 300       |           |
| Office Equipment            | 2,000     |           |
| Energy Assessment Equipment | 25,000    |           |
| Building                    | 25,000    |           |
| Accounts Payable            |           | \$6,100   |
| Notes Payable               |           | 24,000    |
| Common Shares               |           | 10,000    |
| Dividends                   | 30,000    |           |
| Service Revenue             |           | 74,200    |
| Equipment Rental Expense    | 1,500     |           |
| Travel Expense              | 4,000     |           |
| Utilities Expense           | 1,000     |           |
| Wages Expense               | 5,000     |           |
| Automobile Expense          | 4,000     |           |
| Totals                      | \$114,300 | \$114,300 |

Diff: 3

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Application

Blooms: Application

20) Prepare a trial balance from the following information for Learn a New Language, Inc. for December 31, 2013.

|                     |         |
|---------------------|---------|
| Accounts Payable    | \$5,012 |
| Common Shares       | \$9,692 |
| Cash                | \$3,928 |
| Notes Payable       | \$1,439 |
| Wages Expense       | \$777   |
| Marketing Expense   | \$493   |
| Equipment           | \$8,345 |
| Accounts Receivable | \$1,142 |
| Inventory           | \$8,074 |
| Sales               | \$6,616 |

Answer:                      Learn a New Language Inc.  
    Trial Balance  
    December 31, 2013

|                     |          |          |
|---------------------|----------|----------|
| Cash                | \$3,928  |          |
| Accounts Receivable | 1,142    |          |
| Inventory           | 8,074    |          |
| Equipment           | 8,345    |          |
| Accounts Payable    |          | \$5,012  |
| Notes Payable       |          | 1,439    |
| Common Shares       |          | 9,692    |
| Sales               |          | 6,616    |
| Marketing Expense   | 493      |          |
| Wages Expense       | 777      |          |
|                     |          |          |
| TOTALS              | \$22,759 | \$22,759 |

Diff: 3

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Application

Blooms: Application

21) Prepare a trial balance from the following information for Computer Systems, Inc. for December 31, 2015.

|                     |         |
|---------------------|---------|
| Accounts Payable    | \$4,298 |
| Common Shares       | \$4,073 |
| Sales               | \$8,302 |
| Cash                | \$1,902 |
| Notes Payable       | \$888   |
| Wages Expense       | \$777   |
| Supplies Expense    | \$1,028 |
| Equipment           | \$5,183 |
| Accounts Receivable | \$1,733 |
| Inventory           | \$6,938 |

Answer:                      Computer Systems, Inc.  
    Trial Balance  
    December 31, 2015

|                     |          |          |
|---------------------|----------|----------|
| Cash                | \$1,902  |          |
| Accounts Receivable | 1,733    |          |
| Inventory           | 6,938    |          |
| Equipment           | 5,183    |          |
| Accounts Payable    |          | \$4,298  |
| Notes Payable       |          | 888      |
| Common Shares       |          | 4,073    |
| Sales               |          | 8,302    |
| Supplies Expense    | 1,028    |          |
| Wages Expense       | 777      |          |
|                     |          |          |
| TOTALS              | \$17,561 | \$17,561 |

Diff: 3

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Application

Blooms: Synthesis

22) Prepare a trial balance from the following information for Alpha Systems, Inc. for December 31, 2012.

|                     |         |
|---------------------|---------|
| Accounts Payable    | \$3,245 |
| Common Shares       | \$5,521 |
| Sales               | \$8,348 |
| Cash                | \$2,602 |
| Notes Payable       | \$1,465 |
| Travel Expense      | \$2,006 |
| Rent Expense        | \$1,305 |
| Computers           | \$4,064 |
| Accounts Receivable | \$1,284 |
| Inventory           | \$7,318 |

Answer:                      Alpha Systems, Inc.  
                                     Trial Balance  
                                     December 31, 2012

|                     |          |          |
|---------------------|----------|----------|
| Cash                | \$2,602  |          |
| Accounts Receivable | 1,284    |          |
| Computers           | 4,064    |          |
| Inventory           | 7,318    |          |
| Accounts Payable    |          | \$3,245  |
| Notes Payable       |          | 1,465    |
| Common Shares       |          | 5,521    |
| Sales               |          | 8,348    |
| Rent Expense        | 1,305    |          |
| Travel Expense      | 2,006    |          |
|                     |          |          |
| TOTALS              | \$18,579 | \$18,579 |

Diff: 3

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Application

Blooms: Synthesis

23) Emily Ma started Energy Saving Service in June 2015. The account balances on June 30, 2015 are provided below. All accounts have normal balances. One hundred (100) common shares were issued in June 2015.

Prepare Emily's statement of financial position for June 30, 2015.

|                             |        |
|-----------------------------|--------|
| Office Supplies             | 300    |
| Utilities Expense           | 1,000  |
| Equipment Rental Expense    | 1,500  |
| Office Equipment            | 2,000  |
| Automobile Expense          | 4,000  |
| Travel Expense              | 4,000  |
| Accounts Receivable         | 4,500  |
| Wages Expense               | 5,000  |
| Accounts Payable            | 6,100  |
| Common Shares               | 10,000 |
| Cash                        | 12,000 |
| Notes Payable               | 24,000 |
| Building                    | 25,000 |
| Energy Assessment Equipment | 25,000 |
| Dividends                   | 30,000 |
| Service Revenue             | 74,200 |

Answer: Emily's Energy Saving Service  
Statement of Financial Position  
As of June 30, 2015

|  |          |
|--|----------|
| ASSETS                                     |          |
| Cash                                       | \$12,000 |
| Accounts Receivable                        | 4,500    |
| Office Supplies                            | 300      |
| Office Equipment                           | 2,000    |
| Energy Assessment Equipment                | 25,000   |
| Building                                   | 25,000   |
| Total Assets                               | \$68,800 |
|  |          |
| LIABILITIES                                |          |
| Accounts Payable                           | \$6,100  |
| Notes Payable                              | 24,000   |
| Total Liabilities                          | 30,100   |
|  |          |
| SHAREHOLDERS' EQUITY                       |          |
| Common Shares                              | 10,000   |
| Retained Earnings                          | 28,700   |
| Total Shareholders' Equity                 | 38,700   |
| Total Liabilities and Shareholders' Equity | \$68,800 |

Diff: 3

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Application

Blooms: Application

24) Emily Ma started Energy Saving Service in June 2015. The account balances on June 30, 2015 are provided below. All accounts have normal balances. One hundred (100) common shares were issued in June 2015.

Prepare Emily's statement of changes in equity for June 30, 2015.

|                             |        |
|-----------------------------|--------|
| Office Supplies             | 300    |
| Utilities Expense           | 1,000  |
| Equipment Rental Expense    | 1,500  |
| Office Equipment            | 2,000  |
| Automobile Expense          | 4,000  |
| Travel Expense              | 4,000  |
| Accounts Receivable         | 4,500  |
| Wages Expense               | 5,000  |
| Accounts Payable            | 6,100  |
| Common Shares               | 10,000 |
| Cash                        | 12,000 |
| Notes Payable               | 24,000 |
| Building                    | 25,000 |
| Energy Assessment Equipment | 25,000 |
| Dividends                   | 30,000 |
| Service Revenue             | 74,200 |

Answer: Emily's Energy Saving Service  
Statement of Changes in Equity  
Month Ended June 30, 2015

|                       | Number of<br>Common<br>Shares | Common<br>Shares | Retained<br>Earnings | Total    |
|-----------------------|-------------------------------|------------------|----------------------|----------|
| Balance June 1, 2013  |                               | \$0              | \$0                  | \$0      |
| Issued Common Shares  | 100                           | 10,000           | --                   | 10,000   |
| Net Income            |                               |                  | 58,700               | 58,700   |
| Dividends             |                               |                  | (30,000)             | (30,000) |
| Balance June 30, 2013 | 100                           | \$10,000         | \$28,700             | \$38,700 |

Diff: 3

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Application

Blooms: Application

25) Phillip started his physiotherapy business in March 2013. The account balances on March 31, 2013 are provided below. All accounts have normal balances. Phillip issued sixty-three (63) common shares in March.

- a) Prepare a trial balance using the correct financial presentation. Remember to include the correct headings.
- b) Prepare an income statement for March 2013.
- c) Prepare a statement of changes in equity for March 2013.
- d) Prepare a statement of financial position for March 2013.

|                       |         |
|-----------------------|---------|
| Accounts Payable      | \$6,100 |
| Accounts Receivable   | 1,100   |
| Building              | 51,000  |
| Cash                  | 2,400   |
| Common Shares         | 63,000  |
| Dividends             | 10,500  |
| Exercise Equipment    | 18,900  |
| Notes Payable         | 24,100  |
| Office Equipment      | 2,000   |
| Office Supplies       | 300     |
| Rent Expense          | 1,500   |
| Physiotherapy Revenue | 32,500  |
| Utilities Expense     | 1,000   |
| Wages Expense         | 5,000   |
| Weight Equipment      | 22,000  |



Answer: a)

Phillip's Physiotherapy Clinic's  
Trial Balance  
March 31, 2013

|                       | Debit     | Credit    |
|-----------------------|-----------|-----------|
| Cash                  | \$12,400  |           |
| Accounts Receivable   | 1,100     |           |
| Office Supplies       | 300       |           |
| Office Equipment      | 2,000     |           |
| Exercise Equipment    | 18,900    |           |
| Weight Equipment      | 22,000    |           |
| Building              | 51,000    |           |
| Accounts Payable      |           | \$6,100   |
| Notes Payable         |           | 24,100    |
| Common Shares         |           | 63,000    |
| Dividends             | 10,500    |           |
| Physiotherapy Revenue |           | 32,500    |
| Rent Expense          | 1,500     |           |
| Utilities Expense     | 1,000     |           |
| Wages Expense         | 5,000     |           |
| Totals                | \$125,700 | \$125,700 |

b)

Phillip's Physiotherapy Clinic's  
Statement of Financial Position  
Month Ended March 31, 2013

|                |                       |         |          |
|----------------|-----------------------|---------|----------|
| Revenue        |                       |         |          |
|                | Physiotherapy Revenue |         | \$32,500 |
| Expenses       |                       |         |          |
|                | Rent Expense          | \$1,500 |          |
|                | Utilities Expense     | 1,000   |          |
|                | Wages Expense         | 5,000   |          |
| Total Expenses |                       |         | 7,500    |
| Net Income     |                       |         | \$25,000 |

c)

Phillip's Physiotherapy Clinic's  
Statement of Changes in Equity  
Month Ended March 31, 2013

|                         | Number of<br>Common<br>Shares | \$Common<br>Shares | Retained<br>Earnings | Total    |
|-------------------------|-------------------------------|--------------------|----------------------|----------|
| Balance March 1st, 2013 |                               | \$0                | \$0                  | \$0      |
| Issued Common Shares    | 63                            | \$63,000           | --                   | 63,000   |
| Net Income              |                               |                    | \$25,000             | 25,000   |
| Dividends               | —                             | —                  | (10,500)             | (10,500) |
| Balance March 31st, 201 | 63                            | \$63,000           | \$14,500             | \$77,500 |

d)

Phillip's Physiotherapy Clinic's  
Statement of Financial Position  
As of March 31, 2013

|  |           |
|--|-----------|
| ASSETS                                     |           |
| Cash                                       | \$12,400  |
| Accounts Receivable                        | 1,100     |
| Office Supplies                            | 300       |
| Office Equipment                           | 2,000     |
| Exercise Equipment                         | 18,900    |
| Weight Equipment                           | 22,000    |
| Building                                   | 51,000    |
| Total Assets                               | \$107,700 |
|  |           |
| LIABILITIES                                |           |
| Accounts Payable                           | \$6,100   |
| Notes Payable                              | 24,100    |
| Total Liabilities                          | 30,200    |
|  |           |
| SHAREHOLDERS' EQUITY                       |           |
| Common Shares                              | 63,000    |
| Retained Earnings                          | 14,500    |
| Total Shareholders' Equity                 | 77,500    |
| Total Liabilities and Shareholders' Equity | \$107,700 |

Diff: 3

LO: 2-3 & 2-4

Skill: Application

Blooms: Application

26) Emily Ma started Energy Saving Service in June 2013. The account balances on June 30, 2013 are provided below. All accounts have normal balances. One hundred (100) common shares were issued in June 2013.

Prepare Emily's income statement.

|                             |        |
|-----------------------------|--------|
| Office Supplies             | 300    |
| Utilities Expense           | 1,000  |
| Equipment Rental Expense    | 1,500  |
| Office Equipment            | 2,000  |
| Automobile Expense          | 4,000  |
| Travel Expense              | 4,000  |
| Accounts Receivable         | 4,500  |
| Wages Expense               | 5,000  |
| Accounts Payable            | 6,100  |
| Common Shares               | 10,000 |
| Cash                        | 12,000 |
| Notes Payable               | 24,000 |
| Building                    | 25,000 |
| Energy Assessment Equipment | 25,000 |
| Dividends                   | 30,000 |
| Service Revenue             | 74,200 |

Answer: Emily's Energy Saving Service  
Income Statement  
Month Ended June 30, 2013

|                |                          |         |          |
|----------------|--------------------------|---------|----------|
| Revenue        |                          |         |          |
|                | Service Revenue          |         | \$74,200 |
| Expenses       |                          |         |          |
|                | Equipment Rental Expense | \$1,500 |          |
|                | Travel Expense           | 4,000   |          |
|                | Utilities Expense        | 1,000   |          |
|                | Wages Expense            | 5,000   |          |
|                | Automobile Expense       | 4,000   |          |
| Total Expenses |                          |         | 15,500   |
| Net Income     |                          |         | \$58,700 |

Diff: 3

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Application

Blooms: Application

27) Magic Music DJ Service is a DJ Service in Ottawa providing music for weddings and private parties. The account balances at December 31, 2013 are below.

Prepare a trial balance in proper accounting format.

|                     |          |
|---------------------|----------|
| Accounts Payable    | \$18,800 |
| Accounts Receivable | 26,000   |
| Automobiles         | 28,500   |
| Cash                | 18,500   |
| Computer Hardware   | 29,000   |
| Common Shares       | 64,700   |
| Dividends           | 40,000   |
| DJ Equipment        | 35,400   |
| Fees Earned         | 105,000  |
| Music Supplies      | 800      |
| Music Library       | 4,200    |
| Notes Payable       | 50,000   |
| Notes Receivable    | 19,100   |
| Rent Expense        | 11,000   |
| Salaries Expense    | 26,00    |

Answer: MAGIC MOMENTS D.J. SERVICES

Trial Balance  
December 31, 2013

|                     | Debit     | Credit    |
|---------------------|-----------|-----------|
| Cash                | \$18,500  |           |
| Accounts Receivable | 26,000    |           |
| Notes Receivable    | 19,100    |           |
| Music Supplies      | 800       |           |
| Computer Hardware   | 29,000    |           |
| Office Furniture    | 35,400    |           |
| Music Library       | 4,200     |           |
| Automobiles         | 28,500    |           |
| Accounts Payable    |           | \$18,800  |
| Notes Payable       |           | 50,000    |
| Common Shares       |           | 64,700    |
| Dividends           | 40,000    |           |
| Fees Earned         |           | 105,000   |
| Rent Expense        | 11,000    |           |
| Salaries Expense    | 26,000    |           |
| Totals              | \$238,500 | \$238,500 |

Diff: 2

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Application

Blooms: Application

28) Elite MMA is a start-up Mixed Martial Arts organization that televises mixed martial events on pay per view. Elite MMA generated its first trial balance and it is out of balance. The trial balance is provided below:

Elite MMA  
Trial Balance  
March 2014

| Accounts             | Debit    | Credit   |
|----------------------|----------|----------|
| Cash                 | \$12,825 |          |
| Accounts Receivable  | 4,085    |          |
| Supplies             | 886      |          |
| MMA Equipment        | 7,331    |          |
| Accounts Payable     |          | \$2,565  |
| Common Shares        |          | 24,056   |
| Dividends            |          | 3,685    |
| Pay Per View Revenue | 6,780    |          |
| Advertising expense  | 3,735    |          |
| Salaries expense     | 446      |          |
|                      |          |          |
| Totals               | \$36,088 | \$30,306 |

The following additional information was provided about the errors in the transactions:

1. A purchase of \$416 of supplies on account was recorded as a credit to cash. The debit entry was correct.
2. A \$102 credit to accounts receivable was posted as \$1,020.
3. A journal entry to record the payment of \$255 for an advertising expense was correctly prepared but the credit to cash was posted as a debit.
4. A journal entry to record the payment of \$255 for an advertising expense was correctly prepared but the credit to cash was posted as a debit. The debit to advertising expense was properly posted.

Prepare a corrected trial balance.

Answer:

| <b>Elite MMA</b>      |               |               |
|-----------------------|---------------|---------------|
| <b>Trial Balance</b>  |               |               |
| <b>March 31, 2014</b> |               |               |
|                       | <b>Debit</b>  | <b>Credit</b> |
| Cash                  | 12,731        |               |
| Accounts receivable   | 5,763         |               |
| Supplies              | 886           |               |
| MMA Equipment         | 7,331         |               |
| Accounts payable      |               | 2,981         |
| Common Shares         |               | 24,056        |
| Dividends             | 3,685         |               |
| Pay Per View Revenue  |               | 7,540         |
| Advertising expense   | 3,735         |               |
| Salaries expense      | 446           |               |
| <b>Totals</b>         | <b>34,577</b> | <b>34,577</b> |

Diff: 2

29) The general ledger accounts for Corey's Candle Company for the month of January 2013 are shown below. All accounts have normal balances.

Prepare a trial balance with the general ledger accounts in the proper financial statement order.

|                           |         |
|---------------------------|---------|
| Accounts Payable          | \$6,100 |
| Accounts Receivable       | 1,050   |
| Building                  | 51,400  |
| Retained Earnings         | 63,100  |
| Cash                      | 22,500  |
| Wax Melting Equipment     | 18,900  |
| Candle Moulding Equipment | 23,000  |
| Notes Payable             | 49,000  |
| Office Supplies           | 350     |
| Office Equipment          | 1,000   |

Answer: Corey's Candle Company  
Trial Balance  
January 31, 2013

|                           | Debit     | Credit    |
|---------------------------|-----------|-----------|
| Cash                      | \$22,500  |           |
| Accounts Receivable       | 1,050     |           |
| Office Supplies           | 350       |           |
| Office Equipment          | 1,000     |           |
| Wax Melting Equipment     | 18,900    |           |
| Candle Moulding Equipment | 23,000    |           |
| Building                  | 51,400    |           |
| Accounts Payable          |           | \$6,100   |
| Notes Payable             |           | 49,000    |
| Retained Earnings         |           | 3,100     |
| Totals                    | \$118,200 | \$118,200 |

Diff: 3

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Application

Blooms: Application

30) There are eight steps in the accounting cycle. List and describe the eight steps.

Answer:

1. Analyze and journalize transaction.
2. Post transaction to the general ledger.
3. Prepare an unadjusted trial balance.
4. Journalize and post the adjusting entries.
5. Prepare an adjusted trial balance.
6. Prepare the financial statements.
7. Journalize and post the closing entries.
8. Prepare a post-closing trial balance.

Diff: 2

LO: 2-3 Demonstrate the use of the general journal and the general ledger to record business transactions

Skill: Concept

Blooms: Comprehension

31) Taylor's trial balance contains the following balances:

|                     |       |                  |       |         |       |
|---------------------|-------|------------------|-------|---------|-------|
| Cash                | \$367 | Accounts payable | \$267 | Revenue | \$632 |
| Accounts receivable | \$429 | Expenses         | \$103 |         |       |

What is the total for the trial balance?

Answer: \$899

|                     | Debit | Credit |
|---------------------|-------|--------|
| Cash                | \$367 |        |
| Accounts Receivable | 429   |        |
| Accounts Payable    |       | \$267  |
| Revenue             |       | 632    |
| Expenses            | 103   |        |
|                     | \$899 | \$899  |

Diff: 3

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Concept

Blooms: Comprehension



32) The Fireworks Company has the following T-accounts. Their transactions for July 2013 are included below.

- For each transaction, journalize the transaction, including an explanation for the entry.
- Determine the ending account balance for each account.
- Prepare a trial balance as at July 2013.

| Cash              |            | Accounts Receivable |            |
|-------------------|------------|---------------------|------------|
| 4,000             |            | 500                 |            |
| (1) 1,000         | (2) 3,500  | (5) 27,500          | (7) 22,500 |
| (7) 22,500        | (3) 1,950  |                     |            |
|                   | (4) 2,225  |                     |            |
|                   | (6) 8,000  |                     |            |
| Supplies          |            | Equipment           |            |
| (3) 1,950         |            | (2) 13,500          |            |
| Retained Earnings |            | Revenue             |            |
|                   | 4,000      |                     | (1) 1,000  |
|                   |            |                     | (5) 27,500 |
| Accounts Payable  |            | Salaries Expense    |            |
|                   | 500        |                     |            |
| (6) 8,000         | (2) 10,000 | (4) 2,225           |            |

Answer:

a)

1.   Cash                               1,000  
      Revenue                       1,000  
      Cash Sales for Fireworks sold during July 2013.
2.  
      Equipment                    13,500  
      Cash                           3,500  
      Accounts Payable           10,000  
      Purchased equipment for cash and accounts payable.
3.   Supplies                       1,950  
      Cash                           1,950  
      Purchased supplies for cash.
4.   Salaries Expense            2,225  
      Cash                           2,225  
      Paid salaries to employees.
5.   Accounts Receivable       27,500  
      Revenue                       27,500  
      Issued invoices for firework displays conducted in July.
6.   Accounts Payable            8,000  
      Cash                           8,000  
      Made partial payment on accounts payable.
7.   Cash                           22,500  
      Accounts Receivable       22,500  
      Collections from customers.

b)

| Cash              |        | Accounts Receivable |        |
|-------------------|--------|---------------------|--------|
| Opening bal.      | 4,000  | Opening bal.        | 500    |
| (1)               | 1,000  | (5)                 | 27,500 |
| (7)               | 22,500 | (7)                 | 22,500 |
|                   |        |                     | 5,500  |
|                   | 11,825 |                     |        |
| Supplies          |        | Equipment           |        |
| (3)               | 1,950  | (2)                 | 13,500 |
|                   |        |                     |        |
| Retained Earnings |        | Revenue             |        |
| Opening bal.      | 4,000  | (1)                 | 1,000  |
|                   |        | (5)                 | 27,500 |
|                   |        |                     | 28,500 |
| Accounts Payable  |        | Salaries Expense    |        |
| Opening bal.      | 500    |                     |        |
| (6)               | 8,000  | (4)                 | 2,225  |
| (2)               | 10,000 |                     |        |
|                   | 2,500  |                     |        |

c)

The Fireworks Company  
Trial Balance  
July 31, 2013

|                     | Debit    | Credit   |
|---------------------|----------|----------|
| Cash                | \$11,825 |          |
| Accounts Receivable | 5,500    |          |
| Supplies            | 1,950    |          |
| Equipment           | 13,500   |          |
| Accounts Payable    |          | \$2,500  |
| Retained Earnings   |          | 4,000    |
| Revenue             |          | 28,500   |
| Salaries Expenses   | 2,225    |          |
| Total               | \$35,000 | \$35,000 |

Diff: 3

LO: 2-4 Use a trial balance to prepare financial statements

Skill: Application

Blooms: Application

## 2.5 Cumulative Questions

1) Complete the chart below.

For each of the general ledger accounts, identify:

- a) the type of account (Asset, Liability, Shareholders Equity, Revenue, or Expense)
- b) the effect of an increase (debit or credit)
- c) the normal account balance

| Account             | (a) Type of Account | (b) Debit or Credit | (c) Normal Balance |
|---------------------|---------------------|---------------------|--------------------|
| Cash                |                     |                     |                    |
| Accounts Receivable |                     |                     |                    |
| Accounts Payable    |                     |                     |                    |
| Notes Payable       |                     |                     |                    |
| Notes Receivable    |                     |                     |                    |
| Common Shares       |                     |                     |                    |
| Sales               |                     |                     |                    |
| Travel Expense      |                     |                     |                    |
| Supplies            |                     |                     |                    |

Answer:

| Account             | Type of Account      | Debit or Credit | Normal Balance |
|---------------------|----------------------|-----------------|----------------|
| Cash                | Asset                | Debit           | Debit          |
| Accounts Receivable | Asset                | Debit           | Debit          |
| Accounts Payable    | Liability            | Credit          | Credit         |
| Notes Payable       | Liability            | Credit          | Credit         |
| Notes Receivable    | Asset                | Debit           | Debit          |
| Common Shares       | Shareholders' Equity | Credit          | Credit         |
| Sales               | Revenue              | Credit          | Credit         |
| Travel Expense      | Expense              | Debit           | Debit          |
| Supplies            | Asset                | Debit           | Debit          |

Diff: 3

LO: 1-4, 2-1

Skill: Application

Blooms: Application

- 2) For each of the following general ledger accounts identify:
- (a) the type of account (Asset, Liability, Shareholders Equity, Revenue, Expense)
  - (b) the debit and credit effects
  - (c) the normal account balance

Accounts

1. Notes Payable
2. Accounts Receivable
3. Common Shares
4. Dividends
5. Service Revenue
6. Advertising Expense
7. Mortgage Payable
8. Equipment
9. Accounts Payable
10. Supplies

Answer:

1.
  - a. Liability account
  - b. Debit decreases, credit increases
  - c. Normal balance - credit
2.
  - a. Asset account
  - b. Debit increases, credit decreases
  - c. Normal balance - debit
3.
  - a. Shareholders' Equity
  - b. Debit decreases, credit increases
  - c. Normal balance - credit
4.
  - a. Shareholders' Equity
  - b. Debit increases, credit decreases
  - c. Normal balance - debit
5.
  - a. Liability account
  - b. Debit decreases, credit increases
  - c. Normal balance - credit

- 6.
- a. revenue account
  - b. Debit decreases, credit increases
  - c. Normal balance - credit

- 7.
- a. Expense account
  - b. Debit increases, credit decreases
  - c. Normal balance - debit

- 8.
- a. Liability account
  - b. Debit decreases, credit increases
  - c. Normal balance - credit

- 9.
- a. Asset account
  - b. Debit increases, credit decreases
  - c. Normal balance - debit

- 10.
- a. Asset account
  - b. Debit increases, credit decrease
  - c. Normal balance - debt

Diff: 3

LO: 1-4, 2-1

Skill: Application

Blooms: Analysis

3) The June 2013 general journal for Have A Nap Hotel Company is provided below.

General Journal

| Date   | Account Titles and Explanation   |                  | Debit  | Credit |
|--------|--|------------------|--------|--------|
| June 1 | Cash   |                  | 25,000 |        |
|        |  | Shares           |        | 25,000 |
|        | Issue Shares for Have A Nap Hotels.  |                  |        |        |
|        |  |                  |        |        |
| 4      | Furniture and Fixtures   |                  |        |        |
|        |  | Cash             |        | 10,000 |
|        |  | Notes Payable    |        | 30,000 |
|        | Purchased furniture & fixtures paid cash and issued 2-year, 6% note payable. |                  |        |        |
|        |  |                  |        |        |
| 8      | Rent Expense   |                  | 1,000  |        |
|        |  | Cash             |        | 1,000  |
|        | Paid June rent.  |                  |        |        |
|        |  |                  |        |        |
| 15     | Prepaid Insurance  |                  | 1,400  |        |
|        |  | Cash             |        | 1,400  |
|        | Paid one-year liability insurance.   |                  |        |        |
|        |  |                  |        |        |
| 18     | Cash   |                  | 2,500  |        |
|        |  | Revenue          |        | 2,500  |
|        | Received cash for room rentals.  |                  |        |        |
|        |  |                  |        |        |
| 20     | Wages Expense  |                  | 450    |        |
|        |  | Cash             |        | 450    |
|        | Paid salaries for June.  |                  |        |        |
|        |  |                  |        |        |
| 25     | Utility Expense  |                  | 150    |        |
|        |  | Accounts Payable |        | 150    |
|        | Received a bill for June utilities.  |                  |        |        |
|        |  |                  |        |        |
| 30     | Dividends  |                  | 750    |        |
|        |  | Cash             |        | 750    |
|        | Paid dividends to shareholders.  |                  |        |        |

|    |  |         |       |       |
|----|--|---------|-------|-------|
|    |  |         |       |       |
| 30 | Accounts Receivable                    |         | 1,000 |       |
|    |  | Revenue |       | 1,000 |
|    | Billed customer for party room rental. |         |       |       |

a) Identify the accounting equation for each transaction in the chart below.

|                 | Assets | Liabilities | Shareholders' Equity |
|-----------------|--------|-------------|----------------------|
| Example: June 1 | 25,000 |             | 25,000               |
| June 4          |        |             |                      |
| June 8          |        |             |                      |
| June 15         |        |             |                      |
| June 18         |        |             |                      |
| June 20         |        |             |                      |
| June 25         |        |             |                      |
| June 30         |        |             |                      |
| June 30         |        |             |                      |

b) Use T-accounts to post the journal entries to the accounts in the general ledger.

c) Prepare a trial balance for June 2013.

Answer: a)

|                 | Assets           | Liabilities | Shareholders' Equity |
|-----------------|------------------|-------------|----------------------|
| Example: June 1 | +25,000          |             | +25,000              |
| June 4          | +40,000 - 10,000 | +30,000     |                      |
| June 8          | -1,000           |             | -1,000               |
| June 15         | +1,400 - 1,400   |             |                      |
| June 18         | +2,500           |             | +2,500               |
| June 20         | -450             |             | -450                 |
| June 25         |                  | +150        | -150                 |
| June 30         | -750             |             | -750                 |
| June 30         | +1,000           |             | +1,000               |



b) T-accounts

| Cash              |        |           |        | Accounts Receivable    |        |           |        |
|-------------------|--------|-----------|--------|------------------------|--------|-----------|--------|
| 6/1               | 25,000 | 6/4       | 10,000 | 6/30                   | 1,000  |           |        |
| 6/18              | 2,500  | 6/8       | 1,000  |                        |        |           |        |
|                   |        | 6/15      | 1,400  |                        |        |           |        |
|                   |        | 6/20      | 450    |                        |        |           |        |
|                   |        | 6/30      | 750    |                        |        |           |        |
| 6/30 Bal.         | 13,900 |           |        | 6/30 Bal.              | 1,000  |           |        |
| Prepaid Insurance |        |           |        | Furniture and Fixtures |        |           |        |
| 6/15              | 1,400  |           |        | 6/4                    | 40,000 |           |        |
| 6/30 Bal.         | 1,400  |           |        | 6/30 Bal.              | 40,000 |           |        |
| Accounts Payable  |        |           |        | Notes Payable          |        |           |        |
|                   |        | 6/25      | 150    |                        |        | 6/4       | 30,000 |
|                   |        | 6/30 Bal. | 150    |                        |        | 6/30 Bal. | 30,000 |
| Common Shares     |        |           |        | Dividends              |        |           |        |
|                   |        | 6/1       | 25,000 | 6/30                   | 750    |           |        |
|                   |        | 6/30 Bal. | 25,000 | 6/30 Bal.              | 750    |           |        |
| Room Revenue      |        |           |        | Rent Expense           |        |           |        |
|                   |        | 6/18      | 2,500  | 6/8                    | 1,000  |           |        |
|                   |        | 6/30      | 1,000  |                        |        |           |        |
|                   |        | 6/30 Bal. | 3,500  | 6/30 Bal.              | 1,000  |           |        |
| Wages Expense     |        |           |        | Utility Expense        |        |           |        |
| 6/20              | 450    |           |        | 6/25                   | 150    |           |        |
| 6/30 Bal.         | 450    |           |        | 6/30 Bal.              | 150    |           |        |

c) Trial Balance

Have A Nap Hotel Service  
Trial Balance  
June 30, 2013

| Accounts               | Debit    | Credit   |
|------------------------|----------|----------|
| Cash                   | \$13,900 |          |
| Accounts Receivable    | 1,000    |          |
| Prepaid Insurance      | 1,400    |          |
| Furniture and Fixtures | 40,000   |          |
| Accounts Payable       |          | \$150    |
| Notes Payable          |          | 30,000   |
| Common Shares          |          | 25,000   |
| Dividends              | 750      |          |
| Room Revenue           |          | 3,500    |
| Rent Expense           | 1,000    |          |
| Wages Expense          | 450      |          |
| Utility expense        | 150      |          |
| Total                  | \$58,650 | \$58,650 |

Diff: 3

LO: 1-4, 2-3, 2-4

Skill: Application

Blooms: Analysis