

***Horngren's Financial & Managerial Accounting, The Financial Chapters, 4e (Nobles)***  
**Chapter 2 Recording Business Transactions**

**Learning Objective 2-1**

1) A chart of accounts is a detailed record of the changes in a particular asset, liability, or stockholders' equity.

Answer: FALSE

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

2) A chart of accounts is a list of all of a company's accounts with their account numbers.

Answer: TRUE

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

3) Liabilities are economic resources that are expected to benefit the business in the future.

Answer: FALSE

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

4) A payment of an expense in advance is called a prepaid expense.

Answer: TRUE

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

5) An accounts receivable requires the business to pay cash in future.

Answer: FALSE

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

6) A payable involves a future receipt of cash.

Answer: FALSE

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

7) Unearned revenue is a liability account.

Answer: TRUE

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

8) The account title used for recording the payment of rent in advance for an office building is \_\_\_\_\_.

A) prepaid rent

B) rent payable

C) rent revenue

D) rent expense

Answer: A

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

9) \_\_\_\_\_ represents a debt owed for renting a building currently.

A) Prepaid rent

B) Rent payable

C) Rent revenue

D) Rent expense

Answer: B

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

10) Nuptial Inc. paid the rent for the current month in cash. Which of the following account titles will be debited?

A) Prepaid rent

B) Rent payable

C) Rent revenue

D) Rent expense

Answer: D

Diff: 1

LO: 2-1

AACSB: Application

AICPA Functional: Measurement

11) Which of the following is a liability account?

A) Accounts Receivable

B) Cash

C) Building

D) Notes Payable

Answer: D

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

12) Which of the following is an asset account?

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

Answer: D

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

13) A customer's promise to pay in the future for services or goods sold is called a(n) \_\_\_\_\_.

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

Answer: A

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

14) Which of the following is a collection of all the accounts, the changes in those accounts, and their balances?

- A) a source document
- B) a journal
- C) a ledger
- D) a trial balance

Answer: C

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

15) Which of the following is an asset account?

- A) Salaries Expense
- B) Accounts Payable
- C) Service Revenue
- D) Prepaid Expense

Answer: D

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

16) Which of the following is a liability account?

- A) Accounts Payable
- B) Prepaid Expense
- C) Salaries Expense
- D) Service Revenue

Answer: A

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

17) Amounts earned from delivering goods or services to customers are called \_\_\_\_\_.

- A) notes receivable
- B) unearned revenues
- C) equity
- D) revenues

Answer: D

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

18) Which of the following details is provided in a typical chart of accounts?

- A) account balance
- B) account number
- C) dates of transactions
- D) transaction amounts

Answer: B

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

19) A liability created when a business collects cash from customers in advance of providing services or delivering goods is called a(n) \_\_\_\_\_.

- A) notes receivable
- B) unearned revenues
- C) equity
- D) revenues

Answer: B

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

20) Which of the following is a liability account?

- A) Service Revenue
- B) Building
- C) Accounts Receivable
- D) Unearned Revenue

Answer: D

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

21) A listing of all account titles in numerical order is called a(n) \_\_\_\_\_.

- A) ledger
- B) journal
- C) income statement
- D) chart of accounts

Answer: D

Diff: 1

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

22) Which of the following is an asset account?

- A) Cash
- B) Notes Payable
- C) Dividends
- D) Expenses

Answer: A

Diff: 2

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

23) Which type of an account is Common Stock?

- A) equity
- B) asset
- C) liability
- D) revenue

Answer: A

Diff: 2

LO: 2-1

AACSB: Concept

AICPA Functional: Measurement

## Learning Objective 2-2

1) Debit refers to the right side of the T-account and credit refers to the left side.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

2) The system of accounting in which every transaction affects at least two accounts is called the double-entry system.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

3) An asset account is increased by a debit.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

4) The Common Stock account is increased by a debit.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

5) The Dividends account is increased by a debit.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

6) A liability account is increased by a debit.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

7) An account that normally has a debit balance may occasionally have a credit balance.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

8) All asset accounts and equity accounts increase with a debit.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

9) The balances in the accounts of liabilities and revenues are increased with a credit.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

10) The normal balance of an account is the increase side of the account.

Answer: TRUE

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

11) When a business makes a cash payment, the Cash account is debited.

Answer: FALSE

Diff: 2

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

12) When a business collects cash, the Cash account is debited.

Answer: TRUE

Diff: 2

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

13) When a business records an expense incurred, the Expense account is credited.

Answer: FALSE

Diff: 2

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

14) When a business records revenue earned, the Revenue account is credited.

Answer: TRUE

Diff: 2

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

15) A debit always means a decrease and a credit means increase.

Answer: FALSE

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

16) Which of the following accounts increases with a credit?

A) Cash

B) Common Stock

C) Accounts Receivable

D) Prepaid Expenses

Answer: B

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

17) Which of the following accounts decreases with a credit?

A) Cash

B) Common Stock

C) Accounts Payable

D) Notes Payable

Answer: A

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

18) Which of the following accounts increases with a debit?

A) Cash

B) Interest Payable

C) Accounts Payable

D) Common Stock

Answer: A

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

19) Which of the following accounts decreases with a debit?

A) Accounts Receivable

B) Notes Payable

C) Cash

D) Land

Answer: B

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement



20) Which of the following groups of accounts normally have a credit balance?

- A) assets and liabilities
- B) equity and assets
- C) liabilities and stockholders' equity
- D) assets and expenses

Answer: C

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

21) Which of the following groups of accounts normally have a debit balance?

- A) assets and expenses
- B) revenues and expenses
- C) liabilities and stockholders' equity
- D) assets and liabilities

Answer: A

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

22) Which of the following groups of accounts will decrease with a debit?

- A) assets and expenses
- B) revenues and expenses
- C) liabilities and stockholders' equity
- D) assets and liabilities

Answer: C

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

23) Which of the following statements is true of expenses?

- A) Expenses increase stockholders' equity, so an expense account's normal balance is a credit balance.
- B) Expenses decrease stockholders' equity, so an expense account's normal balance is a credit balance.
- C) Expenses increase stockholders' equity, so an expense account's normal balance is a debit balance.
- D) Expenses decrease stockholders' equity, so an expense account's normal balance is a debit balance.

Answer: D

Diff: 2

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

24) The Accounts Receivable account is a(n) \_\_\_\_\_ account and carries a \_\_\_\_\_ normal balance.

- A) liability; debit
- B) asset; debit
- C) liability; credit
- D) asset; credit

Answer: B

Diff: 2

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

25) The Accounts Payable account is a(n) \_\_\_\_\_ account and carries a \_\_\_\_\_ normal balance.

- A) liability; debit
- B) asset; debit
- C) liability; credit
- D) asset; credit

Answer: C

Diff: 2

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

26) For the Cash account, the category of account and its normal balance is \_\_\_\_\_.

- A) assets and a debit balance
- B) liabilities and a credit balance
- C) liabilities and a debit balance
- D) assets and a credit balance

Answer: A

Diff: 2

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

27) Which of the following statements is true of the Common Stock account?

- A) It is an equity account that has a normal credit balance.
- B) It is a liability account that has a normal credit balance.
- C) It is a liability account that has a normal debit balance.
- D) It is an equity account that has a normal debit balance.

Answer: A

Diff: 2

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

28) For Office Supplies, the category of account and its normal balance is \_\_\_\_\_.

- A) liabilities and a debit balance
- B) assets and a debit balance
- C) liabilities and a credit balance
- D) assets and a credit balance

Answer: B

Diff: 2

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

29) The Salaries Payable account is a(n) \_\_\_\_\_.

- A) liability account with a normal debit balance
- B) asset account with a normal debit balance
- C) liability account with a normal credit balance
- D) asset account with a normal credit balance

Answer: C

Diff: 2

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

30) For Expenses, the category of account and its normal balance is \_\_\_\_\_.

- A) stockholders' equity and a credit balance
- B) assets and a debit balance
- C) assets and a credit balance
- D) stockholders' equity and a debit balance

Answer: D

Diff: 2

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

31) For Revenues, the category of account and its normal balance is \_\_\_\_\_.

- A) stockholders' equity and a credit balance
- B) assets and a debit balance
- C) assets and a credit balance
- D) stockholders' equity and a debit balance

Answer: A

Diff: 2

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

32) For Stockholders' Equity, the category of accounting equation and its normal balance is \_\_\_\_\_.

- A) equity and a credit balance
- B) assets and a debit balance
- C) equity and a debit balance
- D) assets and a credit balance

Answer: A

Diff: 2

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

33) Dividends is a(n) \_\_\_\_\_ account that has a normal \_\_\_\_\_ balance.

- A) liability; credit
- B) equity; debit
- C) liability; debit
- D) equity; credit

Answer: B

Diff: 2

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

34) Which of the following statements is true of revenue?

- A) Revenues decrease stockholders' equity; so a revenue account's normal balance is a credit balance.
- B) Revenues decrease stockholders' equity; so a revenue account's normal balance is a debit balance.
- C) Revenues increase stockholders' equity; so a revenue account's normal balance is a debit balance.
- D) Revenues increase stockholders' equity; so a revenue account's normal balance is a credit balance.

Answer: D

Diff: 2

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

35) A shortened form of an account in the ledger is called a \_\_\_\_\_.

- A) trial balance
- B) balance sheet
- C) chart of accounts
- D) T-account

Answer: D

Diff: 1

LO: 2-2

AACSB: Concept

AICPA Functional: Measurement

36) The Accounts Receivable account of Nuptials Inc. is shown below.

Accounts Receivable	
26,000	3,500
5,000	

Calculate the ending balance of the account.

- A) \$33,500, debit
- B) \$31,000, debit
- C) \$3,500, credit
- D) \$27,500, debit

Answer: D

Diff: 1

LO: 2-2

AACSB: Application

AICPA Functional: Measurement

### Learning Objective 2-3

1) Source documents provide the evidence and data for accounting transactions.

Answer: TRUE

Diff: 1

LO: 2-3

AACSB: Concept

AICPA Functional: Measurement

2) Debits in the journal are always posted as debits in the ledger.

Answer: TRUE

Diff: 1

LO: 2-3

AACSB: Concept

AICPA Functional: Measurement

3) The process of transferring data from the ledger to the journal is called posting.

Answer: FALSE

Diff: 1

LO: 2-3

AACSB: Concept

AICPA Functional: Measurement

4) A journal entry under the double-entry system includes both debit and credit amounts.

Answer: TRUE

Diff: 1

LO: 2-3

AACSB: Concept

AICPA Functional: Measurement

5) Accountants first record transactions in a \_\_\_\_\_.

- A) chart of accounts
- B) trial balance
- C) journal
- D) ledger

Answer: C

Diff: 1

LO: 2-3

AACSB: Concept

AICPA Functional: Measurement

6) Journalizing a transaction involves \_\_\_\_\_.

- A) calculating the balance in an account using journal entries
- B) posting the account balances in the chart of accounts
- C) preparing a summary of account balances
- D) recording the data only in the journal

Answer: D

Diff: 1

LO: 2-3

AACSB: Concept

AICPA Functional: Measurement

7) Posting a transaction means \_\_\_\_\_.

- A) calculating the balance in an account
- B) transferring data from the journal to the ledger
- C) preparing a summary of account balances
- D) finding the account number in the chart of accounts

Answer: B

Diff: 1

LO: 2-3

AACSB: Concept

AICPA Functional: Measurement

8) After initially recording a transaction, the data is then transferred to the \_\_\_\_\_.

- A) chart of accounts
- B) ledger
- C) trial balance
- D) journal

Answer: B

Diff: 1

LO: 2-3

AACSB: Concept

AICPA Functional: Measurement

9) The accounting process of transferring a transaction from the journal to the ledger is called \_\_\_\_\_.

- A) journalizing
- B) posting
- C) compounding
- D) sourcing

Answer: B

Diff: 1

LO: 2-3

AACSB: Concept

AICPA Functional: Measurement

10) The first step in the journalizing and posting process is to \_\_\_\_\_.

- A) post the accounts to the ledger
- B) identify each account involved and its type
- C) determine whether each account has increased or decreased
- D) record the transaction in the journal, including a brief explanation

Answer: B

Diff: 1

LO: 2-3

AACSB: Concept

AICPA Functional: Measurement

11) Which of the following is the order of steps to journalize an entry?

- A) identify each account affected → determine increase or decrease in each account → record the transaction
- B) identify each account affected → record the transaction → determine increase or decrease in each account
- C) record the transaction → identify each account affected → determine increase or decrease in each account
- D) determine increase or decrease in each account → identify each account affected → record the transaction

Answer: A

Diff: 1

LO: 2-3

AACSB: Concept

AICPA Functional: Measurement

12) Which of the following is the final step in the journalizing and posting process?

- A) posting the accounts to the ledger
- B) identifying each account affected and its type
- C) determining whether the accounting equation is in balance
- D) determining whether each account has increased or decreased

Answer: C

Diff: 1

LO: 2-3

AACSB: Concept

AICPA Functional: Measurement

13) Which of the following sequences is the normal sequence of flow of accounting data?

- A) ledger → journal → source document
- B) journal → source document → ledger
- C) source document → journal → ledger
- D) source document → ledger → journal

Answer: C

Diff: 1

LO: 2-3

AACSB: Concept

AICPA Functional: Measurement

14) Which of the following is a source document that provides the evidence and data for accounting transactions?

- A) journal
- B) sales invoice
- C) ledger
- D) trial balance

Answer: B

Diff: 1

LO: 2-3

AACSB: Concept

AICPA Functional: Measurement

15) A business purchased \$3,500 of office supplies for cash. Which of the following sets of ledger accounts reflects the posting of this transaction?

A)

<b>Office Supplies</b>	<b>Accounts Payable</b>
3,500	3,500

B)

<b>Office Supplies</b>	<b>Cash</b>
3,500	3,500

C)

<b>Office Supplies</b>	<b>Accounts Payable</b>
3,500	3,500

D)

<b>Office Supplies</b>	<b>Cash</b>
3,500	3,500

Answer: D

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement



16) A business renders services to a client and issues a sales invoice. The amount will be collected from the customer at a later time. Which of the following would be true at the time the invoice is issued?

- A) stockholders' equity will decrease
- B) total liabilities will increase
- C) total assets will decrease
- D) net income will increase

Answer: D

Diff: 2

LO: 2-3

AACSB: Concept

AICPA Functional: Measurement

17) Stewart Candle Company received cash of \$40,000 by issuing 4,000 common shares at \$10 each. Which of the following accounts will be debited?

- A) Accounts Receivable
- B) Cash
- C) Common Stock
- D) Accounts Payable

Answer: B

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

18) Whitney Chemicals Company received cash of \$40,000 by issuing 4,000 common shares at \$10 each. Which of the following accounts will be credited?

- A) Accounts Receivable
- B) Cash
- C) Common Stock
- D) Accounts Payable

Answer: C

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

19) A business purchases equipment for \$8,000 cash. Which of the following accounts will be debited?

- A) Cash
- B) Accounts Payable
- C) Common Stock
- D) Equipment

Answer: D

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

20) A business purchases equipment for \$8,000 cash. Which of the following accounts will be credited?

- A) Cash
- B) Accounts Payable
- C) Common Stock
- D) Equipment

Answer: A

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

21) A business makes a cash payment of \$12,000 to a supplier, for supplies purchased two weeks earlier. Which of the following accounts will be debited?

- A) Cash
- B) Accounts Payable
- C) Bank
- D) Accounts Receivable

Answer: B

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

22) A business makes a cash payment of \$12,000 to a creditor. Which of the following accounts will be credited?

- A) Cash
- B) Accounts payable
- C) Bank
- D) Accounts receivable

Answer: A

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

23) A business renders services to a customer for \$26,000 on account. Which of the following accounts will be debited?

- A) Cash
- B) Accounts Receivable
- C) Service Revenue
- D) Bank

Answer: B

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

24) A business renders services to a customer for \$26,000 on account. Which of the following accounts will be credited?

- A) Cash
- B) Accounts Receivable
- C) Service Revenue
- D) Bank

Answer: C

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

25) A business renders services for \$26,000 and collects cash from the customer. Which of the following accounts will be debited?

- A) Cash
- B) Accounts Receivable
- C) Service Revenue
- D) Bank

Answer: A

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

26) Beetles Inc. recorded the following journal entry on March 2, 2014:

Cash	5,000	
Unearned Revenue		5,000

From the journal entry above, identify the transaction on March 2, 2014.

- A) Beetles purchased goods worth \$5,000 and signed a one-year note for the same.
- B) Beetles sold goods for \$5,000 cash.
- C) Beetles received \$5,000 for services to be performed in a later period.
- D) Beetles paid \$5,000 for services to be received at a later date.

Answer: C

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

27) A business pays \$500 cash for office supplies. Which of the following accounts will be debited?

- A) Cash
- B) Accounts Payable
- C) Office Supplies
- D) Utilities Expense

Answer: C

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

28) A business pays \$500 cash for office supplies. Which of the following accounts will be credited?

- A) Cash
- B) Accounts Payable
- C) Office Supplies
- D) Utilities Expense

Answer: A

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

29) A business buys \$500 of Office Supplies on account. Which of the following accounts is debited?

- A) Cash
- B) Accounts Payable
- C) Office Supplies
- D) Utilities Expense

Answer: C

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

30) A business buys \$500 of Office Supplies on account. Which of the following accounts is credited?

- A) Cash
- B) Accounts payable
- C) Office Supplies
- D) Service revenue

Answer: B

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

31) A business makes a cash payment to a supplier for Office Supplies which were purchased earlier on account. Which of the following accounts will be debited?

- A) Cash
- B) Accounts Payable
- C) Office Supplies
- D) Utilities Expense

Answer: B

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

32) A business makes a cash payment to a supplier on account for Office Supplies which were purchased earlier. Which of the following accounts will be credited?

- A) Cash
- B) Accounts Payable
- C) Office Supplies
- D) Utilities Expense

Answer: A

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

33) A business collects cash from a customer on settlement of accounts receivable. Which of the following accounts will be debited?

- A) Cash
- B) Accounts Receivable
- C) Service Revenue
- D) Accounts Payable

Answer: A

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

34) A business collects cash from a customer on settlement of accounts receivable. Which of the following accounts will be credited?

- A) Cash
- B) Accounts Receivable
- C) Service Revenue
- D) Accounts Payable

Answer: B

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

35) A business borrows cash by signing a note payable. Which of the following accounts will be debited?

- A) Notes Payable
- B) Accounts Payable
- C) Bank
- D) Cash

Answer: D

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

36) A business borrows cash by signing a note payable. Which of the following accounts will be credited?

- A) Notes Payable
- B) Accounts Payable
- C) Bank
- D) Cash

Answer: A

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

37) A business repays the amount borrowed on a note payable by cash. Which of the following accounts will be debited?

- A) Cash
- B) Bank
- C) Notes Payable
- D) Notes Receivable

Answer: C

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

38) A business repays the amount borrowed on a note payable by cash. Which of the following accounts will be credited?

- A) Accounts Payable
- B) Cash
- C) Notes Payable
- D) Notes Receivable

Answer: B

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

39) A business makes a payment in cash for advertising expense. Which of the following accounts will be debited?

- A) Cash
- B) Bank
- C) Accounts Receivable
- D) Advertising Expense

Answer: D

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

40) A business makes a payment in cash for advertising expense. Which of the following accounts will be credited?

- A) Notes Payable
- B) Accounts receivable
- C) Cash
- D) Advertising expense

Answer: C

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

41) A business paid cash dividends to shareholders. Which of the following accounts will be debited?

- A) Cash
- B) Dividends
- C) Accounts Payable
- D) Common Stock

Answer: B

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

42) A business paid cash dividends to shareholders. Which of the following accounts will be credited?

- A) Common Stock
- B) Dividends
- C) Cash
- D) Accounts Payable

Answer: C

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

43) An accounting entry that is characterized by having multiple debits and/or multiple credits is called a \_\_\_\_\_ entry.

- A) balanced
- B) posted
- C) chart of accounts
- D) compound journal

Answer: D

Diff: 2

LO: 2-3

AACSB: Concept

AICPA Functional: Measurement

44) A business makes a payment of \$1,400 on a note payable, consisting of a \$200 interest payment and a \$1,200 principal payment. Which of the following journal entries would be recorded?

A) Cash is credited for \$1,200, Interest Expense is credited for \$200, and Notes Payable is debited for \$1,400.

B) Notes Payable is credited for \$1,200, Cash is credited for \$200, and Interest Expense is debited for \$1,400.

C) Cash is credited for \$1,400, Notes payable is debited for \$1,200, and Interest Expense is debited for \$200.

D) Notes Payable is credited for \$1,400, Cash is debited for \$1,200, and Interest Expense is debited for \$200.

Answer: C

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

45) A business purchases equipment by paying \$8,000 in cash and issuing a note payable of \$12,000. Which of the following occurs?

A) Cash is credited for \$8,000, Equipment is credited for \$20,000, and Notes Payable is debited for \$12,000.

B) Cash is credited for \$8,000, Equipment is debited for \$20,000, and Notes Payable is credited for \$12,000.

C) Cash is debited for \$8,000, Equipment is debited for \$12,000, and Notes Payable is credited for \$20,000.

D) Cash is debited for \$8,000, Equipment is credited for \$12,000, and Notes Payable is debited for \$4,000.

Answer: B

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement



46) Which of the following journal entries would be recorded if a business purchased \$800 of office supplies on account?

A)

Accounts payable	800	
Office Supplies		800

B)

Office Supplies	800	
Accounts payable		800

C)

Office Supplies	800	
Cash		800

D)

Cash	800	
Office Supplies		800

Answer: B

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

47) Which of the following journal entries would be recorded if a business renders service and receives cash of \$900 from the customer?

A)

Service revenue	900	
Cash		900

B)

Service revenue	900	
Accounts payable		900

C)

Cash	900	
Service revenue		900

D)

Service revenue	900	
Accounts receivable		900

Answer: C

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

48) Which of the following journal entries would be recorded if a business makes a cash payment to a supplier of \$750 on account? (The business had purchased office supplies on account in the previous month.)

A)

Cash	750	
Accounts Payable		750

B)

Accounts Payable	750	
Cash		750

C)

Cash	750	
Office Supplies		750

D)

Accounts Payable	750	
Office Supplies		750

Answer: B

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

49) Which of the following journal entries would be recorded if Christy Jones Inc. issued stock to the public and received \$3000?

A)

Cash	3,000	
Common Stock		3,000

B)

Accounts Payable	3,000	
Cash		3,000

C)

Common Stock	3,000	
Cash		3,000

D)

Common Stock	3,000	
Accounts Payable		3,000

Answer: A

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

50) The following transactions for the month of March have been journalized and posted to the proper accounts.

Mar. 1 The business received \$9,000 cash and issued common stock to stockholders.

Mar. 2 Paid the first month's rent of \$800.

Mar. 3 Purchased equipment by paying \$3,000 cash and executing a note payable for \$5,000.

Mar. 4 Purchased office supplies for \$750 cash.

Mar. 5 Billed a client for \$10,000 of design services completed.

Mar. 6 Received \$8,000 on account for the services previously recorded.

What is the balance in Cash?

A) \$13,250

B) \$12,450

C) \$15,450

D) \$14,000

Answer: B

Explanation: B)

Cash			
Mar. 1	9,000	Mar. 2	800
Mar. 6	8,000	Mar. 3	3,000
		Mar. 4	750
Balance	<b>12,450</b>		

Diff: 3

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

51) Sharon Foods Inc. reported the following transactions for September, 2015.

- A) The business received \$25,000 cash and issued common stock. It was credited to Common Stock.
- B) The business purchased office equipment for \$11,500 for which \$2,500 cash was paid and the balance was put on a note payable.
- C) Paid insurance expense of \$1,800 cash.
- D) Paid a utility bill for \$900 cash.
- E) Paid \$2,000 cash for September rent.
- F) The business had sales of \$12,000 in September. Of these sales, 60% were cash sales, and the balance was credit sales.
- G) The business paid \$8,000 cash for office furniture.

What are the total liabilities at the end of September, 2015?

- A) \$8,000
- B) \$1,800
- C) \$9,000
- D) \$11,500

Answer: C

Explanation: C) Liability = Note payable = \$11,500 - \$2,500 = \$9,000

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

52) The following transactions for the month of March have been journalized and posted to the proper accounts.

Mar. 1 The business received \$9,000 cash and issued common stock to stockholders.

Mar. 2 Paid the first month's rent of \$800.

Mar. 3 Purchased equipment by paying \$3,000 cash and executing a note payable for \$5,000.

Mar. 4 Purchased Office Supplies for \$750 cash.

Mar. 5 Billed a client for \$10,000 of design services completed.

Mar. 6 Received \$8,000 on account for the services previously recorded.

What is the balance in Accounts Receivable?

A) \$8,000

B) \$2,000

C) \$5,000

D) \$10,000

Answer: B

Explanation: B)

Accounts Receivable			
Mar. 5	10,000	8,000	Mar. 6
Bal.	<b>2,000</b>		

Diff: 3

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

53) The following transactions for the month of March have been journalized and posted to the proper accounts.

- Mar. 1 The business received \$9,000 cash and issued common stock to stockholders.
- Mar. 2 Paid the first month's rent of \$800.
- Mar. 3 Purchased equipment by paying \$3,000 cash and executing a note payable for \$5,000.
- Mar. 4 Purchased office supplies for \$750 cash.
- Mar. 5 Billed a client for \$10,000 of design services completed.
- Mar. 6 Received \$8,000 on account for the services previously recorded.

What is the ending balance in the Service Revenue account?

- A) \$19,000
- B) \$9,000
- C) \$10,000
- D) \$8,000

Answer: C

Explanation: C)

Service Revenue		
	Mar. 5	10,000
	Bal.	10,000

Diff: 3

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

54) A posting reference column is used \_\_\_\_\_.

- A) while preparing the trial balance using the ledger
- B) when the information is transferred from the journal to the ledger
- C) when the information is transferred from the ledger to the post-closing trial balance
- D) while preparing the balance sheet using the trial balance

Answer: B

Diff: 1

LO: 2-3

AACSB: Concept

AICPA Functional: Measurement

55) A business has the following transactions:

- The business received \$20,000 cash and issued common stock to stockholders.
- The business purchases \$500 of office supplies on account.
- The business purchases \$2,000 of furniture on account.
- The business renders services to various clients totaling \$10,000 on account.
- The business pays out \$2,000 for salaries expense and \$3,000 for Rent Expense.
- The business pays \$500 to supplier for the office supplies purchased earlier.
- The business collects \$3,000 from one of its clients for services rendered earlier in the month.

At the end of the month, all journal entries are posted to the ledger. The Accounts Receivable account will appear as:

A)

Accounts Receivable	
10,000	3,000
	7,000 Bal.

B)

Accounts Receivable	
3,000	10,000
	7,000 Bal.

C)

Accounts Receivable	
10,000	
Bal. 10,000	

D)

Accounts Receivable	
10,000	3,000
Bal. 7,000	

Answer: D

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

56) A business has the following transactions:

- The business received \$25,000 cash and issued common stock to stockholders.
- The business purchased \$700 of office supplies on account and \$2,500 of furniture on account.
- The business rendered services to various clients totaling \$10,000 on account.
- The business paid \$5,000 as salaries expense and \$6,000 as rent expense.
- The business paid \$1,000 to a supplier for the office supplies and furniture purchased earlier.
- The business collected \$3,000 from one of its clients for services rendered earlier in the month.

At the end of the month, all journal entries are posted to the ledger. The Accounts Payable account will appear as:

A)

Accounts Payable	
	700
	2,500
	3,200 Bal.

B)

Accounts Payable	
	700
	2,500
	1,000
	4,200 Bal.

C)

Accounts Payable	
700	
2,500	
	1,000
Bal. 2,200	

D)

Accounts Payable	
1,000	700
	2,500
	2,200 Bal.

Answer: D

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement



57) A business purchased land for \$250,000 cash. Record the transaction in the journal.

Answer:

Land	250,000	
Cash		250,000
<i>Purchased land for cash.</i>		

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

58) A business renders services to its customer for \$50,000 on account. Record the transaction in the journal.

Answer:

Accounts Receivable	50,000	
Service Revenue		50,000
<i>Performed services on account.</i>		

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

59) A business paid salaries of \$6,000 in cash. Record the transaction in the journal.

Answer:

Salaries Expense	6,000	
Cash		6,000
<i>Paid salaries.</i>		

Diff: 2

LO: 2-3

AACSB: Application

AICPA Functional: Measurement

## Learning Objective 2-4

1) The trial balance is also known as the balance sheet.

Answer: FALSE

Diff: 1

LO: 2-4

AACSB: Concept

AICPA Functional: Measurement

2) The trial balance verifies the equality of debits and credits.

Answer: TRUE

Diff: 1

LO: 2-4

AACSB: Concept

AICPA Functional: Measurement

3) A trial balance is the list of only a company's debit accounts along with their account numbers.

Answer: FALSE

Diff: 1

LO: 2-4

AACSB: Concept

AICPA Functional: Measurement

4) A trial balance is a list of all of the accounts of a company with their balances.

Answer: TRUE

Diff: 1

LO: 2-4

AACSB: Concept

AICPA Functional: Measurement

5) In a trial balance, total debits must always equal total credits.

Answer: TRUE

Diff: 1

LO: 2-4

AACSB: Concept

AICPA Functional: Measurement

6) The trial balance is an internal document used only by employees of the company.

Answer: TRUE

Diff: 1

LO: 2-4

AACSB: Concept

AICPA Functional: Measurement

7) A trial balance summarizes a ledger by listing all the accounts with their balances at a point in time.

Answer: TRUE

Diff: 1

LO: 2-4

AACSB: Concept

AICPA Functional: Measurement

8) Data from a trial balance is used to prepare the three basic financial statements.

Answer: TRUE

Diff: 1

LO: 2-4

AACSB: Concept

AICPA Functional: Measurement

9) The trial balance is one of the three basic financial statements that are issued to external stakeholders of the business.

Answer: FALSE

Diff: 1

LO: 2-4

AACSB: Concept

AICPA Functional: Measurement

10) The trial balance summarizes the balances of assets, liabilities, and equity.

Answer: TRUE

Diff: 1

LO: 2-4

AACSB: Concept

AICPA Functional: Measurement

11) Which of the following is a financial statement that presents a business's accounting equation?

A) chart of accounts

B) trial balance

C) income statement

D) balance sheet

Answer: D

Diff: 1

LO: 2-4

AACSB: Concept

AICPA Functional: Measurement

12) Which of the following is used by both internal and external users to the company?

A) chart of accounts

B) trial balance

C) balance sheet

D) costing reports

Answer: C

Diff: 1

LO: 2-4

AACSB: Concept

AICPA Functional: Measurement

13) Which of the following statements is true of a trial balance?

- A) A trial balance has the same format as a balance sheet.
- B) A trial balance presents data in debit and credit format.
- C) A trial balance shows the total amounts of assets and liabilities, but not equity.
- D) A trial balance is prepared after the balance sheet.

Answer: B

Diff: 1

LO: 2-4

AACSB: Concept

AICPA Functional: Measurement

14) A journal entry for a \$75 payment for rent expense was posted as a debit to Salaries Expense and a credit to Cash. Which of the following statements correctly states the effect of the error on the trial balance?

- A) The sum of the credits will equal the sum of the debits.
- B) The sum of the debits will exceed the sum of the credits by \$75.
- C) The sum of the debits will exceed the sum of the credits by \$150.
- D) The sum of the credits will exceed the sum of the debits by \$150.

Answer: A

Diff: 2

LO: 2-4

AACSB: Application

AICPA Functional: Measurement

15) A journal entry for a \$250 payment to purchase office supplies was erroneously recorded as a debit to Office Supplies for \$520 and a credit to Cash for \$250. Which of the following statements correctly states the effect of the error on the trial balance?

- A) The sum of the credits will exceed the sum of the debits by \$270.
- B) The sum of the debits will exceed the sum of the credits by \$250.
- C) The sum of the debits will exceed the sum of the credits by \$270.
- D) The sum of the debits will exceed the sum of the credits by \$520.

Answer: C

Diff: 2

LO: 2-4

AACSB: Application

AICPA Functional: Measurement

16) Which of the following sequences states the order in which a trial balance lists accounts?

- A) Equity → Assets → Liabilities
- B) Liabilities → Assets → Equity
- C) Assets → Equity → Liabilities
- D) Assets → Liabilities → Equity

Answer: D

Diff: 1

LO: 2-4

AACSB: Concept

AICPA Functional: Measurement

- 17) When is a trial balance usually prepared?
- A) after each entry is journalized
  - B) before the financial statements are prepared
  - C) after the financial statements are prepared
  - D) at the beginning of an accounting period

Answer: B

Diff: 1

LO: 2-4

AACSB: Concept

AICPA Functional: Measurement

- 18) Which of the following statements is true of a trial balance?

- A) A trial balance is the first step in the accounting cycle.
- B) A trial balance is also known as a balance sheet.
- C) A trial balance is a list of all accounts with their balances.
- D) A trial balance is also known as the chart of accounts.

Answer: C

Diff: 1

LO: 2-4

AACSB: Concept

AICPA Functional: Measurement

- 19) The last step before preparing financial statements is to \_\_\_\_\_.

- A) post all entries
- B) record all transactions in the journal
- C) prepare the trial balance
- D) review source documents

Answer: C

Diff: 1

LO: 2-4

AACSB: Concept

AICPA Functional: Measurement

20) The following are the current month's balances for Toys Galore Inc., before preparing the trial balance.

Accounts Payable	\$ 8,000
Revenue	10,000
Cash	5,000
Expenses	1,750
Furniture	12,000
Accounts Receivable	14,000
Common Stock	?
Notes Payable	6,500

What amount should be shown for Common Stock on the trial balance?

- A) \$16,500
- B) \$8,250
- C) \$14,500
- D) \$31,000

Answer: B

Explanation: B) In a trial balance, the total of debits must match the total of credits. Therefore, the balance of Common Stock can be determined by totaling the debit and the credit balances and calculating the balancing amount.

	<b>Debit</b>	<b>Credit</b>
Cash	\$5,000	
Accounts receivable	14,000	
Furniture	12,000	
Accounts payable		\$8,000
Notes payable		6,500
Common Stock		?
Revenues		10,000
Expenses	<u>1,750</u>	<u>        </u>
<b>Total</b>	<b><u>\$32,750</u></b>	<b><u>\$24,500</u></b>

$$\text{Common Stock} = \$32,750 - \$24,500 = \$8,250$$

Diff: 2

LO: 2-4

AACSB: Application

AICPA Functional: Measurement

21) The following are the current month's balances for Toys Galore Inc.

Accounts Payable	\$ 8,000
Revenue	10,000
Cash	5,000
Expenses	1,750
Furniture	12,000
Accounts Receivable	14,000
Common Stock	8,250
Notes Payable	6,500

Calculate the total amount of credits for the trial balance.

A) \$24,500

B) \$22,750

C) \$24,750

D) \$32,750

Answer: D

Explanation: D) Accounts Payable\$ 8,000

Revenue 10,000

Common Stock 8,250

Notes Payable 6,500

Total credit amounts **\$32,750**

Diff: 2

LO: 2-4

AACSB: Application

AICPA Functional: Measurement

22) The following are the current month's balances for Toys Galore Inc.

Accounts Payable	\$ 8,000
Revenue	10,000
Cash	5,000
Expenses	1,750
Furniture	12,000
Accounts Receivable	14,000
Common Stock	8,250
Notes Payable	6,500

What is the total amount of debits for the trial balance?

A) \$26,000

B) \$27,750

C) \$31,000

D) \$32,750

Answer: D

Explanation: D) Cash           \$ 5,000

Expenses                       1,750

Furniture                      12,000

Accounts Receivable       14,000

Total assets                 **\$32,750**

Diff: 2

LO: 2-4

AACSB: Application

AICPA Functional: Measurement



23) The following are the current month's balances for Toys Galore Inc.

Accounts Payable	\$ 8,000
Revenue	10,000
Cash	5,000
Expenses	1,750
Furniture	12,000
Accounts Receivable	14,000
Common Stock	8,250
Notes Payable	6,500

What is the net income for Toys Galore Inc. for the current month?

A) \$10,000

B) \$8,250

C) \$11,750

D) \$15,000

Answer: B

Explanation: B) Revenue\$10,000

Expenses (1,750)

Net Income **\$ 8,250**

Diff: 1

LO: 2-4

AACSB: Application

AICPA Functional: Measurement

24) Which of the following accounts has a normal debit balance?

A) Revenue

B) Notes Payable

C) Cash

D) Accounts Payable

Answer: C

Diff: 2

LO: 2-4

AACSB: Application

AICPA Functional: Measurement

25) The following transactions have been journalized and posted to the proper accounts. Prepare a trial balance at the end of the first month using the following details:

- a. The business received \$15,000 cash and issued common stock.
- b. Paid the first month's rent with \$800 cash.
- c. Purchased equipment by paying \$4,000 cash and executing a note payable for \$4,000.
- d. Purchased office supplies for \$200 cash. The supplies are left at the end of the month.
- e. Billed clients for a total of \$7,000 for design services rendered.
- f. Received \$1,000 cash from clients for services rendered above.

Answer:

Account Title	Debit	Credit
Cash	\$11,000	
Accounts Receivable	6,000	
Office Supplies	200	
Equipment	8,000	
Notes Payable		\$4,000
Common Stock		15,000
Service revenue		7,000
Rent expense	800	
<b>Total</b>	<b><u>\$26,000</u></b>	<b><u>\$26,000</u></b>

Explanation:

Note:

Cash balance is calculated as:

Common stock issued	\$15,000
Rent paid	(800)
Equipment paid for by cash	(4,000)
Office supplies purchased	(200)
Service Revenue from clients	<u>1,000</u>
Cash balance	<b><u>\$11,000</u></b>

Diff: 3

LO: 2-4

AACSB: Application

AICPA Functional: Measurement

26) Melody Instruments Inc. sells musical instruments. On December 31, 2015, after its first month of business, Melody Instruments Inc. had the following balances in its accounts, listed alphabetically.

Accounts Receivable	\$ 5,000
Accounts Payable	15,000
Advertising Expense	2,000
Building	16,500
Cash	?
Common Stock	50,000
Dividends	1,200
Equipment	2,000
Land	70,000
Notes Payable	60,000
Office Supplies	3,400
Salaries Expense	4,000
Service Revenue	72,000
Utilities Expense	4,100

Determine the balance in the cash account and prepare the trial balance.

Answer: In the given problem, the Cash balance is the difference between the debit and credit columns of the Trial Balance.

Melody Instruments Trial Balance December 31, 2015		
Account Title	Debit	Credit
Cash	?	
Accounts Receivable	\$ 5,000	
Office Supplies	3,400	
Equipment	2,000	
Building	16,500	
Land	70,000	
Accounts Payable		\$ 15,000
Notes Payable		60,000
Common Stock		50,000
Dividends	1,200	
Service Revenue		72,000
Utilities Expense	4,100	
Salaries Expense	4,000	
Advertising Expense	<u>2,000</u>	
Total	<u>\$108,200</u>	<u>\$197,000</u>

Cash balance = \$197,000 - \$108,200 = \$88,800

Diff: 3

LO: 2-4

AACSB: Application

AICPA Functional: Measurement

27) At the end of a month, a business shows the following balances in its ledger.

Cash	Accounts Receivable	Office Supplies	Land
5,000	1,200	200	20,000
Accounts Payable	Common Stock	Service Revenue	Rent Expense
1,300	1,000	35,500	4,500
Salaries Expense	Utilities Expense		
6,000	900		

Use this data to prepare a trial balance.

Answer: Trial Balance

Account Title	Debit	Credit
Cash	\$ 5,000	
Accounts Receivable	1,200	
Office Supplies	200	
Land	20,000	
Accounts Payable		\$ 1,300
Common Stock		1,000
Service Revenue		35,500
Rent Expense	4,500	
Salaries Expense	6,000	
Utility Expense	900	
<b>Total</b>	<b><u>\$37,800</u></b>	<b><u>\$37,800</u></b>

Diff: 1

LO: 2-4

AACSB: Application

AICPA Functional: Measurement

## Learning Objective 2-5

1) The debt ratio shows the proportion of assets financed with debt.

Answer: TRUE

Diff: 1

LO: 2-5

AACSB: Concept

AICPA Functional: Measurement

2) Grace Paper Company has a debt ratio of 25%, which means that 75% of the assets are financed by creditors of the corporation.

Answer: FALSE

Diff: 1

LO: 2-5

AACSB: Application

AICPA Functional: Measurement

3) The higher the debt ratio, the lower the risk.

Answer: FALSE

Diff: 1

LO: 2-5

AACSB: Concept

AICPA Functional: Measurement

4) Which of the following is the correct formula to calculate the debt ratio?

A) Debt ratio = Total liabilities  $\times$  Total assets

B) Debt ratio = Total liabilities + Total assets

C) Debt ratio = Total liabilities - Total assets

D) Debt ratio = Total liabilities  $\div$  Total assets

Answer: D

Diff: 1

LO: 2-5

AACSB: Concept

AICPA Functional: Measurement

5) The percentage of assets that are financed with liabilities can be calculated using the \_\_\_\_\_.

A) accounting equation

B) debt ratio

C) journal

D) ledger

Answer: B

Diff: 1

LO: 2-5

AACSB: Concept

AICPA Functional: Measurement

6) The ability of a company to repay its liabilities can be determined from its \_\_\_\_\_.

- A) bankers
- B) creditors
- C) debt ratio
- D) journal

Answer: C

Diff: 1

LO: 2-5

AACSB: Concept

AICPA Functional: Measurement

7) Mitchell Florists & Co. reported assets of \$1,000 and equity of \$350. What is its debt ratio?

- A) 65%
- B) 35%
- C) 100%
- D) 70%

Answer: A

Explanation: A) Total liabilities = \$1,000 - \$350 = \$650

Debt ratio = Total liabilities ÷ Total assets

Debt ratio = \$650 ÷ \$1,000 = 0.65 or **65%**

Diff: 1

LO: 2-5

AACSB: Application

AICPA Functional: Measurement

8) Camile Plastics Company had the following total assets, liabilities, and equity as of December 31.

Assets	\$450,000
Liabilities	135,000
Equity	315,000

What is the company's debt ratio as of December 31?

- A) 30%
- B) 70%
- C) 100%
- D) 43%

Answer: A

Explanation: A) Debt ratio = Total liabilities ÷ Total assets

Debt ratio = \$135,000 ÷ \$450,000 = 0.30 or **30%**

Diff: 1

LO: 2-5

AACSB: Application

AICPA Functional: Measurement

9) Which of the following factors is assessed using the debt ratio?

- A) expenses
- B) revenues
- C) risk
- D) income

Answer: C

Diff: 1

LO: 2-5

AACSB: Concept

AICPA Functional: Measurement

10) Calculate the debt ratio using the following trial balance of Melody Instruments, Inc. as of December 31, 2015.

Melody Instruments Trial Balance December 31, 2015		
Account Title	Debit	Credit
Cash	\$88,800	
Accounts Receivable	5,000	
Office Supplies	3,400	
Equipment	2,000	
Building	16,500	
Land	70,000	
Accounts Payable		\$ 15,000
Notes Payable		60,000
Common Stock		50,000
Dividends	1,200	
Service Revenue		72,000
Utilities Expense	4,100	
Salaries Expense	4,000	
Advertising Expense	<u>2,000</u>	
Total	<u>\$197,000</u>	<u>\$197,000</u>

Answer:

Accounts Payable	\$15,000
Notes Payable	<u>60,000</u>
Total Liabilities	<u>\$75,000</u>

Accounts Receivable	\$ 5,000
Building	16,500
Cash	88,800
Equipment	2,000
Land	70,000
Office Supplies	<u>3,400</u>
Total assets	<u>\$185,700</u>

Debt ratio = Total liabilities ÷ Total assets

Debt ratio = \$75,000 ÷ \$185,700 = 0.40 or **40%**

Diff: 3

LO: 2-5

AACSB: Application

AICPA Functional: Measurement