

Chapter 2 Recording Business Transactions

2.1 Describe common types of accounts

There are no questions in this section.

2.2 Record the impact of business transactions on the accounting equation

1) All of the following accounts would be considered assets *except* for:

- A) Cash
- B) Common Shares
- C) Prepaid Expenses
- D) Notes Receivable

Answer: B

Diff: 2 Type: MC

L.O.: L.O. 2-2

2) The payment of an amount owed to a creditor would:

- A) increase assets
- B) increase liabilities
- C) decrease net income
- D) decrease liabilities

Answer: D

Diff: 2 Type: MC

L.O.: L.O. 2-2

3) When a company performs a service and immediately collects the cash from the customer, which of the following would occur?

- A) Net income would increase.
- B) Expenses would decrease.
- C) Assets would decrease.
- D) Shareholders' equity would decrease.

Answer: A

Diff: 2 Type: MC

L.O.: L.O. 2-2

4) Purchasing supplies and paying cash for them would:

- A) increase total assets
- B) decrease total assets
- C) have no effect on total assets
- D) increase total liabilities and shareholders' equity

Answer: C

Diff: 2 Type: MC

L.O.: L.O. 2-2

5) Paying a utility bill when received would:

- A) increase expenses
- B) increase liabilities
- C) increase owners' equity
- D) decrease revenues

Answer: A

Diff: 2 Type: MC

L.O.: L.O. 2-2

6) Borrowing money from the bank by signing a note payable would:

- A) increase shareholders' equity
- B) increase net income
- C) decrease liabilities
- D) have no effect on shareholders' equity

Answer: D

Diff: 2 Type: MC

L.O.: L.O. 2-2

7) Receiving a payment from a customer on account would:

- A) have no effect on shareholders' equity
- B) increase net income
- C) increase shareholders' equity
- D) increase liabilities

Answer: A

Diff: 2 Type: MC

L.O.: L.O. 2-2

8) The purchase of land for cash would:

- A) increase total assets
- B) decrease shareholders' equity
- C) increase the total debits on the trial balance
- D) not affect the total of debits or credits on the trial balance

Answer: D

Diff: 3 Type: MC

L.O.: L.O. 2-2

9) An owner investment of a building, valued at \$100,000 with an \$80,000 outstanding mortgage, transferring this asset into the business would:

- A) increase assets by \$20,000
- B) increase assets by \$80,000
- C) increase shareholders' equity by \$20,000
- D) increase shareholders' equity by \$100,000

Answer: C

Diff: 3 Type: MC

L.O.: L.O. 2-2

10) Performing services on account would:

- A) increase assets and liabilities
- B) increase assets and decrease shareholders' equity
- C) increase revenue and decrease shareholders' equity
- D) increase net income and shareholders' equity

Answer: D

Diff: 3 Type: MC

L.O.: L.O. 2-2

11) The collection of cash from a customer on account would:

- A) increase net income and shareholders' equity
- B) increase assets and decrease liabilities
- C) increase assets and increase net income
- D) have no effect on net income or shareholders' equity

Answer: D

Diff: 3 Type: MC

L.O.: L.O. 2-2

12) Dividends paid to the shareholders when declared will:

- A) increase assets and decrease liabilities
- B) decrease assets and increase liabilities
- C) have no effect on shareholders' equity
- D) decrease assets and decrease shareholders' equity

Answer: D

Diff: 3 Type: MC

L.O.: L.O. 2-2

13) What type of account is Prepaid Rent?

- A) a liability
- B) an expense
- C) shareholders' equity
- D) an asset

Answer: D

Diff: 2 Type: MC

L.O.: L.O. 2-2

14) The costs of operating a business are usually called:

- A) expenses
- B) liabilities
- C) assets
- D) revenues

Answer: A

Diff: 1 Type: MC

L.O.: L.O. 2-2

15) Note payable, accounts payable, and salary payable are all examples of:

- A) assets
- B) revenue
- C) expenses
- D) liabilities

Answer: D

Diff: 1 Type: MC

L.O.: L.O. 2-2

16) Which of the following business events may not be recorded in a company's general ledger?

- A) The company paid each of its employees a Christmas bonus.
- B) The company issued 100 shares of common stock.
- C) The company purchased two acres of land for future plant expansion.
- D) A lawsuit has been filed by one of the company's customers (against the company).

Answer: D

Diff: 2 Type: MC

L.O.: L.O. 2-2

17) The payment of salaries to employees when earned would:

- A) increase assets
- B) increase net income
- C) increase liabilities
- D) decrease shareholders' equity

Answer: D

Diff: 2 Type: MC

L.O.: L.O. 2-2

18) A transaction involving the cash purchase of equipment will decrease one asset account and increase another asset account.

Answer: TRUE

Diff: 2 Type: TF

L.O.: L.O. 2-2

19) A balance sheet is organized in order of the accounting equation, with liabilities first, followed by assets and shareholders' equity.

Answer: FALSE

Diff: 1 Type: TF

L.O.: L.O. 2-2

20) A balance sheet is a required financial statement that reports the financial position of the company as of a given day in time.

Answer: TRUE

Diff: 2 Type: TF

L.O.: L.O. 2-2

21) *Notes Payable* is a typical example of a liability account.

Answer: TRUE

Diff: 1 Type: TF

L.O.: L.O. 2-2

22) The account called Accrued Liabilities is really an expense account and not a liability account.

Answer: FALSE

Diff: 1 Type: TF

L.O.: L.O. 2-2

23) The retained earnings account represents the money invested by shareholders into the business since its inception.

Answer: FALSE

Diff: 1 Type: TF

L.O.: L.O. 2-2

24) The purchase of office equipment on account would increase an asset and decrease a liability account.

Answer: FALSE

Diff: 2 Type: TF

L.O.: L.O. 2-2

25) Analyze the following transactions. Indicate which accounts are affected and whether they will increase or decrease. Transaction (a) is completed as an example.

- a. Owner investment of cash into the business.
- b. Payment of a utility bill.
- c. Purchase of inventory for cash.
- d. Payment of an accounts payable.
- e. Performing a service on account.
- f. Collecting cash from a customer as payment on his account.

| Transaction | Accounts | Increase | Decrease |
|-------------|---------------|----------|----------|
| a. | Cash | x | |
| | Common shares | x | |
| b. | | | |
| c. | | | |
| d. | | | |
| e. | | | |
| f. | | | |

Answer:

| Transaction | Accounts | Increase | Decrease |
|-------------|---------------------|----------|----------|
| a. | Cash | x | |
| | Common shares | x | |
| b. | Utility expense | x | |
| | Cash | | x |
| c. | Inventory | x | |
| | Cash | | x |
| d. | Accounts Payable | | x |
| | Cash | | x |
| e. | Accounts Receivable | x | |
| | Service Revenue | x | |
| f. | Cash | x | |
| | Accounts Receivable | | x |

Diff: 2 Type: ES

L.O.: L.O. 2-2

26) Explain the following terms in your own words and give an example of each for Humpty's Equipment Inc.

- a. asset
- b. liability
- c. shareholders' equity
- d. dividend
- e. revenue
- f. expense

Answer:

a. Assets are resources stemming from past transactions expected to provide economic benefits in the future by contributing to earning revenues. Humpty uses a significant amount of machinery and equipment to manufacture its products.

b. A liability is an obligation to provide goods or services in the future due to a past transaction. Some examples are accounts payables and loans. Humpty borrows money (loan) from several sources including PEI business development Inc.

c. Shareholders' equity is direct or indirect investment in an entity by its owners. Examples are common shares and preferred shares. Humpty issues common shares and they trade on the Toronto Stock Exchange under the symbol SNX.

d. Dividends are amounts paid to the owners from the earnings of the firm. Examples are common share dividends and preferred dividends. As of January 2014, Humpty did not declare dividends.

e. Revenues are economic benefits earned by providing goods or services to customers. Examples are sales and fees earned.

f. Expenses are costs incurred to earn revenue. Examples include cost of goods sold and wages.

Diff: 1 Type: ES

L.O.: L.O. 2-2

27) For each of the following independent scenarios, fill in the blanks with the appropriate dollar amount.

| | Assets | - | Liabilities | = | Shareholders' Equity |
|------------|------------|---|-------------|---|----------------------|
| Scenario A | \$ 270,000 | | \$ | | \$ 75,000 |
| Scenario B | | | 600,000 | | 1,500,000 |
| Scenario C | 450,000 | | 400,000 | | |
| Scenario D | 410,000 | | | | 95,000 |
| Answer: | Assets | - | Liabilities | = | Shareholders' Equity |
| Scenario A | \$ 270,000 | | \$ 195,000 | | \$ 75,000 |
| Scenario B | 2,100,000 | | 600,000 | | 1,500,000 |
| Scenario C | 450,000 | | 400,000 | | 50,000 |
| Scenario D | 410,000 | | 315,000 | | 95,000 |

Diff: 1 Type: ES

L.O.: L.O. 2-2

28) Slick Corporation has summarized financial statements as shown below. Fill in the blank areas to complete the financial statements. Begin in 2012 and move forward from there.

Slick Corporation
For the Year Ended June 30

| | 2014 | 2013 | 2012 |
|-----------------------------|-----------|-------------|-------------|
| Revenues | \$ | \$2,100,000 | \$2,500,000 |
| Expenses | 1,470,000 | 1,430,000 | |
| Net Income | 130,000 | | 550,000 |
| Retained Earnings beginning | | | 0 |
| Dividends declared | | 336,000 | |
| Retained earnings end | 350,000 | | 50,000 |
| Common Shares end | | 250,000 | 250,000 |
| Liabilities end | 200,000 | 180,000 | |
| Assets end | 830,000 | | 430,000 |

Answer:

Slick Corporation
For the Year Ended June 30

| | 2014 | 2013 | 2012 |
|-----------------------------|--------------------|------------------|------------------|
| Revenues | \$1,600,000 | \$2,100,000 | \$2,500,000 |
| Expenses | <u>1,470,000</u> | <u>1,430,000</u> | 1,950,000 |
| Net Income | 130,000 | 670,000 | 550,000 |
| Retained Earnings beginning | 384,000 | 50,000 | 0 |
| Dividends declared | 164,000 | 336,000 | 500,000 |
| Retained earnings end | 350,000 | 384,000 | 50,000 |
| Common Shares end | 280,000 | 250,000 | 250,000 |
| Liabilities end | 200,000 | 180,000 | 130,000 |
| Assets end | 830,000 | 814,000 | 430,000 |

Diff: 2 Type: ES

L.O.: L.O. 2-2

29) The following is a summary of the balance sheet accounts for Betty's Bacon Inc. Organize the accounts into Betty's Bacon's Balance Sheet.

| | | | |
|------------------------|---------|---------------------|--------|
| Accounts Payable | 37,500 | Land | 62,500 |
| Inventory | 42,500 | Salary Payable | 12,000 |
| Prepaid Insurance | 5,000 | Tax Payable | 50,000 |
| Common Shares | 75,000 | Accounts Receivable | 17,500 |
| Furniture and Fixtures | 125,000 | Retained Earnings | 40,000 |
| Bank loan | 44,000 | Cash | 6,000 |

Answer: Betty's Bacon Inc.
Balance Sheet

| | | | |
|------------------------|------------------|------------------------------|------------------|
| Cash | \$6,000 | Bank loan | \$44,000 |
| Accounts Receivable | 17,500 | Accounts Payable | 37,500 |
| Inventory | 42,500 | Salary Payable | 12,000 |
| Prepaid Insurance | 5,000 | Tax Payable | 50,000 |
| Land | 62,500 | | |
| Furniture and Fixtures | <u>125,000</u> | Retained Earnings | 40,000 |
| | | Common Shares | <u>75,000</u> |
| Total assets | <u>\$258,500</u> | Total liabilities and equity | <u>\$258,500</u> |

Diff: 1 Type: ES

L.O.: L.O. 2-2

30) Prepare a Statement of Retained Earnings for the year ended June 30, 2014.

Chedacorn was incorporated on July 1, 2012 by 10 shareholders who each invested \$100,000 in cash in exchange for common shares. Chedacorn's year end is June 30th. In its first year of business Chedacorn had a net income of \$243,750. For its years ended June 30, 2013 and 2014, its second and third years of operation, Chedacorn reported net income of \$472,500 and \$560,000 respectively. In its first year Chedacorn did not pay any dividends, but in fiscal 2013 it paid \$62,500 in dividends and in 2014 it paid \$100,000 in dividends.

Answer: Chedacorn Corporation
Statement of Retained Earnings
For the year ended June 30, 2014

| | |
|----------------------------------|---------------------|
| Retained Earnings, July 1, 2013 | \$ 653,750 |
| Net income for the year | 560,000 |
| Less dividends | <u>(100,000)</u> |
| Retained Earnings, June 30, 2014 | <u>\$ 1,113,750</u> |

Note: To solve the exercise, retained earnings on July 1, 2013 must be calculated. This amount is \$243,750 + \$472,500 - \$62,500.

Diff: 1 Type: ES

L.O.: L.O. 2-2

31) What criteria are used to determine if a transaction has occurred?

Answer: If the event affects the entity's financial position and can be reliably recorded, then a transaction has occurred. If both of these criteria are not met, a transaction has not occurred. Some business events do not lead to transactions, such as the retirement of an executive officer in the company, or changing the company's logo. However, if these events have some financial impact, then a transaction has occurred.

Diff: 2 Type: ES

L.O.: L.O. 2-2

32) List the types of accounts that appear on the income statement. List the types of accounts that appear on the balance sheet.

Answer: The income statement contains accounts classified as revenues and expenses. The balance sheet contains accounts classified as assets, liabilities, and owners' equity.

Diff: 2 Type: ES

L.O.: L.O. 2-2

2.3 Record the impact of business transactions in T-accounts

1) The right side of a T-account is always the:

- A) increase side
- B) credit side
- C) debit side
- D) decrease side

Answer: B

Diff: 1 Type: MC

L.O.: L.O. 2-3

2) The entry to record the purchase of supplies on account would include a:

- A) credit to the Accounts Payable account
- B) debit to the Retained Earnings account
- C) credit to the Cash account
- D) credit to the Supplies account

Answer: A

Diff: 2 Type: MC

L.O.: L.O. 2-3

3) Credits to revenue accounts ultimately result in:

- A) a decrease in owners' equity
- B) an increase in owners' equity
- C) a decrease in assets
- D) an increase in liabilities

Answer: B

Diff: 2 Type: MC

L.O.: L.O. 2-3

4) The purchase of office equipment for cash would include a:

- A) debit to Cash
- B) debit to Office Equipment
- C) credit to Accounts Payable
- D) credit to Office Equipment

Answer: B

Diff: 2 Type: MC

L.O.: L.O. 2-3

5) An owner makes an investment of cash into the business. Such a transaction would include a:

- A) debit to Common shares
- B) credit to Cash
- C) debit to Cash
- D) debit to Accounts Receivable

Answer: C

Diff: 2 Type: MC

L.O.: L.O. 2-3

6) A business purchases a truck by signing a note payable to the seller. Such a transaction would include a:

- A) credit to Truck
- B) debit to Note Payable
- C) credit to Note Payable
- D) debit to an expense account

Answer: C

Diff: 2 Type: MC

L.O.: L.O. 2-3

7) The accounting transaction to record payment of the heating bill would include a:

- A) debit to Cash
- B) credit to Accounts Payable
- C) debit to Utilities Expense
- D) debit to Accounts Receivable

Answer: C

Diff: 2 Type: MC

L.O.: L.O. 2-3

8) The accounting transaction to record payment of the advertising bill would include a:

- A) debit to Cash
- B) credit to Accounts Payable
- C) debit to Advertising Expense
- D) debit to Accounts Receivable

Answer: C

Diff: 2 Type: MC

L.O.: L.O. 2-3

9) The accounting transaction to record payment of the telephone bill would include a:

- A) credit to Cash
- B) credit to Accounts Payable
- C) credit to Utilities Expense
- D) debit to Accounts Receivable

Answer: A

Diff: 2 Type: MC

L.O.: L.O. 2-3

10) The accounting transaction to record the payment of salaries to employees would include a:

- A) credit to Salary Expense
- B) debit to Accounts Payable
- C) debit to Salary Expense
- D) debit to Cash

Answer: C

Diff: 2 Type: MC

L.O.: L.O. 2-3

11) An owners' investment of land and a building into the business would include a:

- A) debit to Land and a credit to Common shares
- B) debit to Land and a credit to Building
- C) debit to Common shares and a credit to Building
- D) debit to Building and a debit to Common shares

Answer: A

Diff: 3 Type: MC

L.O.: L.O. 2-3

12) The purchase of an automobile with a cash down payment and a written promise to pay the balance in the future would include a:

- A) credit to Cash and a credit to Note Payable
- B) debit to Cash and a credit to Automobile
- C) debit to Note Payable and a credit to Cash
- D) debit to Cash and a debit to Note Payable

Answer: A

Diff: 2 Type: MC

L.O.: L.O. 2-3

13) The purchase of a building with a cash down payment and a written promise to pay the balance in the future would include a:

- A) credit to Cash and a credit to Note Payable
- B) debit to Cash and a credit to Buildings
- C) debit to Note Payable and a credit to Cash
- D) debit to Cash and a debit to Note Payable

Answer: A

Diff: 2 Type: MC

L.O.: L.O. 2-3

14) Paying a dividend to the company's shareholders would include a:

- A) debit to Cash and a credit to Dividends
- B) debit to Dividends and a credit to Cash
- C) debit to Retained Earnings and a credit to Dividends
- D) debit to Accounts Payable and a credit to Retained Earnings

Answer: B

Diff: 2 Type: MC

L.O.: L.O. 2-3

15) Receiving a cheque from a customer on account would include a:

- A) debit to Accounts Receivable and a credit to Cash
- B) debit to Cash and a credit to Accounts Payable
- C) debit to Accounts Payable and a credit to Cash
- D) debit to Cash and a credit to Accounts Receivable

Answer: D

Diff: 3 Type: MC

L.O.: L.O. 2-3

16) Receiving cash from a customer on account would include a:

- A) debit to Accounts Receivable and a credit to Cash
- B) debit to Cash and a credit to Accounts Payable
- C) debit to Accounts Payable and a credit to Cash
- D) debit to Cash and a credit to Accounts Receivable

Answer: D

Diff: 3 Type: MC

L.O.: L.O. 2-3

17) Making a cash payment to settle a debt would include a:

- A) debit to Cash and a credit to Accounts Receivable
- B) debit to Accounts Receivable and a credit to Cash
- C) debit to Accounts Payable and a credit to Cash
- D) debit to Accounts Payable and a credit to Accounts Receivable

Answer: C

Diff: 3 Type: MC

L.O.: L.O. 2-3

18) Sending out a cheque to settle a debt would include a:

- A) debit to Cash and a credit to Accounts Receivable
- B) debit to Accounts Receivable and a credit to Cash
- C) debit to Accounts Payable and a credit to Cash
- D) debit to Accounts Payable and a credit to Accounts Receivable

Answer: C

Diff: 3 Type: MC

L.O.: L.O. 2-3

19) Performing a service on account would include a:

- A) debit to Cash
- B) debit to Revenue
- C) credit to Accounts Receivable
- D) debit to Accounts Receivable

Answer: D

Diff: 2 Type: MC

L.O.: L.O. 2-3

20) Purchasing a three-year insurance policy for cash would include a:

- A) debit to Cash and a credit to Accounts Receivable
- B) debit to Insurance Expense and a credit to Dividends
- C) debit to Prepaid Insurance and a credit to Accounts Payable
- D) debit to Prepaid Insurance and a credit to Cash

Answer: D

Diff: 3 Type: MC

L.O.: L.O. 2-3

21) The payment for rent of the office building for one month would include a:

- A) debit to Cash
- B) credit to Accounts Payable
- C) debit to Rent Expense
- D) credit to Revenue

Answer: C

Diff: 2 Type: MC

L.O.: L.O. 2-3

22) The purchase of office furniture on account (that is, on credit) would include a:

- A) credit to Accounts Payable
- B) credit to Office Furniture
- C) debit to Accounts Receivable
- D) credit to Cash

Answer: A

Diff: 2 Type: MC

L.O.: L.O. 2-3

23) Which of the following statements regarding accounts is *false*?

- A) An asset is increased by a debit and decreased by a credit.
- B) Revenue is increased by a debit and an expense is increased by a credit.
- C) A liability is decreased by a debit and increased by a credit.
- D) Revenue is increased by a credit and an expense is increased by a debit.

Answer: B

Diff: 3 Type: MC

L.O.: L.O. 2-3

24) Which of the following statements regarding accounts is *true*?

- A) Assets are decreased by debits.
- B) Expenses are decreased by debits.
- C) Revenues are increased by debits.
- D) Liabilities are decreased by debits.

Answer: D

Diff: 3 Type: MC

L.O.: L.O. 2-3

25) Which of the following accounts normally has a debit balance?

- A) Dividends
- B) Retained Earnings
- C) Share capital
- D) Revenue

Answer: A

Diff: 2 Type: MC

L.O.: L.O. 2-3

26) The account credited when supplies are purchased on account is:

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

Answer: D

Diff: 2 Type: MC

L.O.: L.O. 2-3

27) When the owner of a business invests cash into the business, which of the following accounts is debited?

- A) Dividends
- B) Cash
- C) Common Shares
- D) Accounts Receivable

Answer: B

Diff: 2 Type: MC

L.O.: L.O. 2-3

28) When a business sells inventory in exchange for cash, which of the following accounts is credited?

- A) Revenue
- B) Cash
- C) Owners' Equity
- D) Accounts Payable

Answer: A

Diff: 3 Type: MC

L.O.: L.O. 2-3

29) The account credited when cash is received from a customer on account is:

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

Answer: D

Diff: 2 Type: MC

L.O.: L.O. 2-3

30) A debit increases the balance of which types of accounts?

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

Answer: B

Diff: 2 Type: MC

L.O.: L.O. 2-3

31) A credit decreases the balance of which types of accounts?

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

Answer: A

Diff: 2 Type: MC

L.O.: L.O. 2-3

32) A credit increases the balance of which types of accounts?

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

Answer: D

Diff: 2 Type: MC

L.O.: L.O. 2-3

33) Which type of account is credited when a company pays its employees?

- A) an expense account
- B) an asset account
- C) a liability account
- D) the owners' equity account

Answer: B

Diff: 2 Type: MC

L.O.: L.O. 2-3

34) Which type of account is credited when a company records a debt?

- A) expense
- B) retained earnings
- C) liability
- D) asset

Answer: C

Diff: 2 Type: MC

L.O.: L.O. 2-3

35) When a company purchases inventory on account (that is, on credit), which type of account is credited to record the transaction?

- A) asset
- B) expense
- C) liability
- D) owners' equity

Answer: C

Diff: 2 Type: MC

L.O.: L.O. 2-3

36) The payment of the owner's personal expenses from the business's chequebook should be recorded with a debit to:

- A) Cash
- B) Dividends
- C) Common shares
- D) Accounts Receivable

Answer: B

Diff: 2 Type: MC

L.O.: L.O. 2-3

37) The left side of a T-account is always the side that increases the balance of the account.

Answer: FALSE

Diff: 1 Type: TF

L.O.: L.O. 2-3

38) The right side of a T-account is always the debit side.

Answer: FALSE

Diff: 1 Type: TF

L.O.: L.O. 2-3

39) Assets, owners' equity, and expenses are all increased by debits.

Answer: FALSE

Diff: 2 Type: TF

L.O.: L.O. 2-3

40) A credit always decreases an asset account.

Answer: TRUE

Diff: 2 Type: TF

~~L.O.: L.O. 2-3~~

41) Expenses increase shareholders equity. That is why they are credits.

Answer: FALSE

Diff: 2 Type: TF

L.O.: L.O. 2-3

42) A dividend account is known as a contra equity account.

Answer: TRUE

Diff: 2 Type: TF

L.O.: L.O. 2-3

43) An expense account is known as a contra equity account.

Answer: TRUE

Diff: 2 Type: TF

L.O.: L.O. 2-3

44) The purchase of office supplies for cash would include a debit to the asset *Office Supplies* and a credit to the asset *Cash*.

Answer: TRUE

Diff: 2 Type: TF

L.O.: L.O. 2-3

45) Every accounting transaction involves an increase in at least one account and a decrease in at least one other account.

Answer: FALSE

Diff: 2 Type: TF

L.O.: L.O. 2-3

46) The purchase of a building with a down payment of cash and the signing of a note payable for the remainder would include a debit to both the asset *Building*, and a credit to the asset *Cash* and the liability *Note Payable*.

Answer: TRUE

Diff: 2 Type: TF

L.O.: L.O. 2-3

47) The Dividends account normally has a debit balance.

Answer: TRUE

Diff: 2 Type: TF

L.O.: L.O. 2-3

48) Every transaction affects at least two accounts.

Answer: TRUE

Diff: 1 Type: TF

L.O.: L.O. 2-3

49) State the increase side (debit or credit) for each of the following accounts.

- a. Inventory
- b. Retained earnings
- c. Cash
- d. Accounts Payable
- e. Dividends
- f. Land
- g. Supplies
- h. Common Shares
- i. Service Revenue
- j. Accounts Receivable

Answer:

- | | |
|-----------|-----------|
| a. debit | f. debit |
| b. credit | g. debit |
| c. debit | h. credit |
| d. credit | i. credit |
| e. debit | j. debit |

Diff: 2 Type: ES

L.O.: L.O. 2-3

50) Given the following list of errors, determine the effect on assets, liabilities, and shareholders' equity by completing the chart below. Use (+) to indicate overstated, (-) to indicate understated, and (0) to indicate no effect. Transaction (a) is completed as an example.

- a. The entry to record the purchase of \$800 of equipment on account was never posted.
- b. The entry to record the purchase of \$100 of supplies for cash was posted as a debit to Supplies and a credit to Accounts Payable.
- c. A \$1,000 debit to Cash was posted as \$100.
- d. A \$400 debit to the Accounts Payable account was never posted.
- e. A debit to Accounts Receivable of \$500 was posted as a credit to Accounts Receivable.

| | Total Assets | Total Liabilities | Shareholders' Equity |
|----|--------------|-------------------|----------------------|
| a. | -\$800 | -\$800 | \$0 |
| b. | | | |
| c. | | | |
| d. | | | |
| e. | | | |

Answer:

| | Total Assets | Total Liabilities | Shareholders' Equity |
|----|--------------|-------------------|----------------------|
| a. | -\$800 | -\$800 | \$0 |
| b. | +\$100 | +\$100 | \$0 |
| c. | -\$900 | \$0 | \$0 |
| d. | \$0 | +\$400 | \$0 |
| e. | -\$1,000 | \$0 | \$0 |

Diff: 3 Type: ES

L.O.: L.O. 2-3

51) State the decrease side (debit or credit) for each of the following accounts.

- a. Prepaid Expenses
- b. Contributed Capital
- c. Buildings
- d. Unearned Revenue
- e. Dividends
- f. Notes Receivable
- g. Interest Payable
- h. Sales Revenue
- i. Cost of Sales

Answer:

- | | |
|-----------|-----------|
| a. credit | f. credit |
| b. debit | g. debit |
| c. credit | h. debit |
| d. debit | i. credit |
| e. credit | |

Diff: 1 Type: ES

L.O.: L.O. 2-3

52) Place a checkmark in the appropriate column to show whether the event is recorded as a debit or a credit.

| | Debit | Credit |
|------------------------------------|-------|--------|
| a. Decrease in Cash | _____ | _____ |
| b. Decrease in Accounts Receivable | _____ | _____ |
| c. Increase in Service Revenue | _____ | _____ |
| d. Increase in Rent Expense | _____ | _____ |
| e. Decrease in Salary Payable | _____ | _____ |
| f. Decrease in Accounts Payable | _____ | _____ |
| g. Decrease in Note Payable | _____ | _____ |
| h. Increase in Common Shares | _____ | _____ |
| i. Decrease in Dividends | _____ | _____ |

Answer:

- | | |
|-----------|-----------|
| a. credit | f. debit |
| b. credit | g. debit |
| c. credit | h. credit |
| d. debit | i. credit |
| e. debit | |

Diff: 2 Type: ES

L.O.: L.O. 2-3

53) Define the term *account* and describe the relationship between accounts and the ledger.

Answer: An account is a record of the increases and decreases to a particular asset, liability, or shareholders' equity item. All the accounts grouped together are referred to as the ledger. The groupings of accounts usually follow the order of the accounts as listed on balance sheet, and then the income statement. Sometimes the order is based on the chart of accounts (although this is not mandatory).

Diff: 2 Type: ES

L.O.: L.O. 2-3

2.4 Record business transactions in the journal and post them to the ledger

1) Which of the following items of information would *not* normally be included in a journal entry?

- A) the date the transaction took place
- B) the dollar amount of the debit
- C) the title of the account debited
- D) the location where the transaction took place

Answer: D

Diff: 2 Type: MC

L.O.: L.O. 2-4

2) The accounting process of copying of amounts from the journal to the appropriate ledger accounts is referred to as:

- A) journalizing
- B) footing
- C) balancing
- D) posting

Answer: D

Diff: 1 Type: MC

L.O.: L.O. 2-4

3) Which element of an accounting system provides information about the balance in each account?

- A) source documents
- B) journals
- C) ledgers
- D) cash flow statement

Answer: C

Diff: 2 Type: MC

L.O.: L.O. 2-4

4) In accounting, the process of posting is:

- A) copying data from the ledger to the journal
- B) copying data from the journal to the ledger
- C) copying data from the source documents to the ledger
- D) copying data from the source documents to the journal

Answer: B

Diff: 2 Type: MC

L.O.: L.O. 2-4

5) Posting, a part of the accounting process, refers to:

- A) copying amounts from the accounts in the general ledger to the journal
- B) copying amounts from the financial statements to the general ledger
- C) copying amounts from the journal to the appropriate accounts in the general ledger
- D) copying amounts from the general ledger to the financial statements

Answer: C

Diff: 1 Type: MC

L.O.: L.O. 2-4

6) Accounting transactions are first recorded in a book or record called a:

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

Answer: C

Diff: 1 Type: MC

L.O.: L.O. 2-4

7) A chronological record (or history) of an entity's transactions is called a(n):

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

Answer: A

Diff: 1 Type: MC

L.O.: L.O. 2-4

8) What is the first step in the journalizing process?

- A) Enter the transaction in the journal.
- B) Identify the transaction from source documents and other information.
- C) Determine what accounts will be affected and whether to debit or credit them.
- D) Post the transaction to the ledger.

Answer: B

Diff: 2 Type: MC

L.O.: L.O. 2-4

9) Which of the following items would *not* be included in the journal entry for a transaction?

- A) the names of the source documents used to record the accounting transaction
- B) the titles of the accounts that will be used as debits and credits in the transaction
- C) the date the accounting transaction was entered into the accounting system
- D) the dollar amounts used to record the debits and credits in the transaction

Answer: A

Diff: 1 Type: MC

L.O.: L.O. 2-4

10) The entry to record the purchase of office supplies for \$100 cash would be:

- A) Office Supplies 100
 Cash 100
- B) Accounts Payable 100
 Cash 100
- C) Office Supplies 100
 Accounts Payable 100
- D) Cash 100
 Office Supplies Expense 100

Answer: A

Diff: 1 Type: MC

~~L.O.: L.O. 2-4~~

11) The entry to record an owner investment of \$500 into the business would be:

- | | | |
|-----------------|-----|-----|
| A) Dividends | 500 | |
| Cash | | 500 |
| B) Cash | 500 | |
| Dividends | | 500 |
| C) Cash | 500 | |
| Service Revenue | | 500 |
| D) Cash | 500 | |
| Common Shares | | 500 |

Answer: D

Diff: 1 Type: MC

L.O.: L.O. 2-4

12) The entry to record an owner investment of \$1500 into the business including a \$500 piece of equipment would be:

- | | | |
|-----------------|------|------|
| A) Dividends | 1500 | |
| Equipment | | 500 |
| Cash | | 1000 |
| B) Cash | 1500 | |
| Dividends | | 1500 |
| C) Cash | 1500 | |
| Service Revenue | | 1000 |
| Equipment | | 500 |
| D) Cash | 1000 | |
| Equipment | | 500 |
| Common Shares | | 1500 |

Answer: D

Diff: 1 Type: MC

L.O.: L.O. 2-4

13) The entry to record the payment of \$895 salary to employees would be:

- | | | |
|-------------------|-----|-----|
| A) Cash | 895 | |
| Salary Payable | | 895 |
| B) Dividends | 895 | |
| Cash | | 895 |
| C) Salary Expense | 895 | |
| Cash | | 895 |
| D) Salary Expense | 895 | |
| Retained Earnings | | 895 |

Answer: C

Diff: 1 Type: MC

L.O.: L.O. 2-4

14) The entry to record \$500 received from a customer for services provided to that customer today would be:

- A) Cash 500
 Accounts Receivable 500
- B) Cash 500
 Service Revenue 500
- C) Service Revenue 500
 Accounts Receivable 500
- D) Dividends 500
 Cash 500

Answer: B

Diff: 1 Type: MC

L.O.: L.O. 2-4

15) The ledger provides a good indication of how much cash is available for the business to use.

Answer: TRUE

Diff: 2 Type: TF

L.O.: L.O. 2-4

16) Posting is the process of copying the amounts from the journal to the appropriate accounts in the ledger.

Answer: TRUE

Diff: 1 Type: TF

L.O.: L.O. 2-4

17) A journal is a record of financial transactions and can be thought of as a diary; it shows a chronological listing of a business's accounting activities.

Answer: TRUE

Diff: 1 Type: TF

L.O.: L.O. 2-4

18) Debits are always recorded (journalized) after credits.

Answer: FALSE

Diff: 2 Type: TF

L.O.: L.O. 2-4

19) A ledger is the first place where transactions are recorded in the accounting system.

Answer: FALSE

Diff: 1 Type: TF

L.O.: L.O. 2-4

20) Moving data to the ledger is known as journalizing.

Answer: FALSE

Diff: 1 Type: TF

L.O.: L.O. 2-4

21) In the journal you will find the total balance for each account.

Answer: FALSE

Diff: 1 Type: TF

L.O.: L.O. 2-4

22) Prepare journal entries in good form for the following transactions for the Calorie Corp.

- a. Owner invested cash of \$12,000 and office equipment valued at \$7,500 into the business, receiving common shares in exchange.
- b. Purchased supplies for cash, \$1,000.
- c. Paid \$750 for one months rent on the store.
- d. Billed a client \$1,500 for services rendered.
- e. Owner received a dividend of \$300.

Answer:

| | | |
|------------------------|--------|--------|
| a. Equipment | 7,500 | |
| Cash | 12,000 | |
| Common Shares | | 19,500 |
| b. Supplies | 1,000 | |
| Cash | | 1,000 |
| c. Rent Expense | 750 | |
| Cash | | 750 |
| d. Accounts Receivable | 1,500 | |
| Service Revenue | | 1,500 |
| e. Dividends | 300 | |
| Cash | | 300 |

Diff: 2 Type: ES

L.O.: L.O. 2-4

23) Post the following journal entries to the appropriate T-accounts, and show the resulting balance in each account.

- a. Cash 34,000
 Common Shares 34,000
- b. Supplies 800
 Accounts Payable 800
- c. Building 80,000
 Cash 12,000
 Note Payable 68,000
- d. Accounts Receivable 5,500
 Service Revenue 5,500
- e. Salary Expense 1,500
 Cash 1,500

| | | |
|----------------------|----------------------------|-----------------------|
| <u>Cash</u> | <u>Accounts Receivable</u> | <u>Supplies</u> |
| | | |
| <u>Building</u> | <u>Accounts Payable</u> | <u>Note Payable</u> |
| | | |
| <u>Common Shares</u> | <u>Service Revenue</u> | <u>Salary Expense</u> |
| | | |

Answer:

| | | |
|---|----------------------------|-----------------------|
| <u>Cash</u> | <u>Accounts Receivable</u> | <u>Supplies</u> |
| (a) 34,000 12,000 (c) 1,500 (e) <u>20,500</u> | (d) 5,500 | (b) 800 |
| <u>Building</u> | <u>Accounts Payable</u> | <u>Note Payable</u> |
| (c) 80,000 | 800 (b) | 68,000 (c) |
| <u>Common Shares</u> | <u>Service Revenue</u> | <u>Salary Expense</u> |
| 34,000 (a) | 5,500 (d) | (e) 1,500 |

Diff: 1 Type: ES
L.O.: L.O. 2-4

24) Given the journal entries below, write an explanation of the event that created the transaction.

| | | | |
|----|---------------------|--------|--------|
| a. | Cash | 15,000 | |
| | Common Shares | | 15,000 |
| b. | Automobile | 20,000 | |
| | Note Payable | | 15,000 |
| | Cash | | 5,000 |
| c. | Accounts Receivable | 1,000 | |
| | Service Revenue | | 1,000 |
| d. | Dividends | 500 | |
| | Cash | | 500 |
| e. | Accounts Payable | 1,500 | |
| | Cash | | 1,500 |
| f. | Salary Expense | 1,875 | |
| | Cash | | 1,875 |

Answer:

- Owner invested cash of \$15,000 into the business.
- The business purchased an automobile with a \$5,000 down payment, and signed a note for the balance of \$15,000.
- Performed \$1,000 of services for a customer and billed that customer.
- Owner received a dividend of \$500.
- Paid \$1,500 of the amount owed to a creditor.
- Paid \$1,875 to employees for their services.

Diff: 3 Type: ES

L.O.: L.O. 2-4

25) Following is a list of errors made during the posting process. Indicate the exact dollar impact each error would have on total assets, total liabilities, and shareholders' equity. Complete the chart below by using (+) to indicate overstated, (-) to indicate understated, and (0) to indicate no effect. Transaction (a) is completed as an example.

- A \$200 credit to the Accounts Payable account was posted as \$2,000.
- A \$50 debit to Cash was never posted.
- A \$550 credit to the Revenue account was credited to the Accounts Receivable account.
- A \$45,000 debit to the Land account was debited to an expense account.
- A \$200 payment on an account payable was credited to Accounts Receivable instead of Cash.
- A \$350 debit to the Dividends account was posted as \$530.

| | Total Assets | Total Liabilities | Shareholders' Equity |
|----|--------------|-------------------|----------------------|
| a. | 0 | +\$1,800 | 0 |
| b. | | | |
| c. | | | |
| d. | | | |
| e. | | | |
| f. | | | |

| Answer: | Total Assets | Total Liabilities | Shareholders' Equity |
|---------|--------------|-------------------|----------------------|
| a. | 0 | +\$1,800 | 0 |
| b. | -\$50 | 0 | 0 |
| c. | -\$550 | 0 | -\$550 |
| d. | -\$45,000 | 0 | -\$45,000 |
| e. | 0 | 0 | 0 |
| f. | 0 | 0 | -\$180 |

Diff: 3 Type: ES

L.O.: L.O. 2-4

26) Provide a description of the events at Smart's Corp. represented by each of the following journal entries:

| | | |
|-----------------------------------|-----------|-----------|
| a) Dr. Cash | \$500,000 | |
| Cr. Land | | \$500,000 |
| b) Dr. Accounts Receivable | \$20,000 | |
| Cr. Revenue | | \$20,000 |
| c) Dr. Cash | \$100,000 | |
| Cr. Common Stock | | \$100,000 |
| d) Dr. Capital Assets - Equipment | \$55,000 | |
| Cr. Note Payable | | \$55,000 |
| e) Dr. Rent Expense | \$125,000 | |
| Cr. Cash | | \$125,000 |

Answer:

- A parcel of land was sold for cash.
- Services were provided to a customer on account.
- Shares of a corporation were issued for cash.
- Equipment was purchased in exchange for a note.
- Rent that was paid in cash and expensed as the rental period is over.

Diff: 1 Type: ES

L.O.: L.O. 2-4

27) Prepare journal entries in good form for the following transactions at Snacktime Corp.:

- Jill (owner) invested cash of \$25,000 receiving common shares in exchange.
- Purchased inventory on credit, for \$9,000.
- Paid \$3,000 for rent of the Snack shop.
- Received \$4,700 for services rendered.

Answer:

| | | |
|------------------------|--------|--------|
| a. Cash | 25,000 | |
| Common Shares | | 25,000 |
| b. Inventory Purchases | 9,000 | |
| Accounts Payable | | 9,000 |
| c. Rent Expense | 3,000 | |
| Cash | | 3,000 |
| d. Cash | 4,700 | |
| Revenue | | 4,700 |

Diff: 1 Type: ES

L.O.: L.O. 2-4

28) Where is information for each account stored?

Answer: Information for each account is stored in the ledger. The ledger becomes an accounting history for each account, since it details all of the transactions for each account. It also contains the dates of the transactions and references to the journal from which the transactions have been posted.

Diff: 1 Type: ES

L.O.: L.O. 2-4

29) Describe the journalizing process including its steps.

Answer: The journal is used to keep a chronological record of the organizations transactions. The journalizing process involves first determining each account affected by the transaction including its type. Next determine if each account is increased or decreased then apply the rules of debit or credits to each account. The last step is using this information to record the transaction in the journal ensuring all debits and credits balance. A description of the transaction is also included in the journal entry.

Diff: 1 Type: ES

L.O.: L.O. 2-4

2.5 Prepare a trial balance

1) This summarizes all the account balances for the financial statements and shows whether total debits equals total credits:

- A) ledger
- B) trial balance
- C) journal
- D) accounting equation

Answer: B

Diff: 1 Type: MC

L.O.: L.O. 2-5

2) The normal balance of Accounts Receivable is a _____ because it is a(n) _____ account.

- A) credit, liability
- B) debit, expense
- C) credit, shareholders' equity
- D) debit, asset

Answer: D

Diff: 2 Type: MC

L.O.: L.O. 2-5

3) The normal balance of the Supplies account is a _____ because it is a(n) _____ account.

- A) credit, liability
- B) debit, asset
- C) credit, expense
- D) debit, shareholders' equity

Answer: B

Diff: 2 Type: MC

L.O.: L.O. 2-5

4) The normal balance of the Accounts Payable account is a _____ because it is a(n) _____ account.

- A) debit, asset
- B) credit, shareholders' equity
- C) credit, liability
- D) credit, revenue

Answer: C

Diff: 2 Type: MC

L.O.: L.O. 2-5

5) The normal balance of the Common Shares account is a _____ because it increases _____.

- A) debit, assets
- B) credit, shareholders' equity
- C) credit, liabilities
- D) debit, expenses

Answer: B

Diff: 2 Type: MC

L.O.: L.O. 2-5

6) The normal balance of an expense account is a _____ because expenses decrease _____.

- A) credit, assets
- B) debit, shareholders' equity
- C) credit, liabilities
- D) debit, revenues

Answer: B

Diff: 2 Type: MC

L.O.: L.O. 2-5

7) The normal balance of the Dividends account is a _____ because it decreases _____.

- A) debit, shareholders' equity
- B) debit, liabilities
- C) debit, assets
- D) credit, revenues

Answer: A

Diff: 2 Type: MC

L.O.: L.O. 2-5

8) The normal balance of a revenue account is a _____ because revenues increase _____.

- A) debit, assets
- B) debit, dividends
- C) credit, liabilities
- D) credit, shareholders' equity

Answer: D

Diff: 2 Type: MC

L.O.: L.O. 2-5

9) A trial balance is:

- A) prepared before the posting process is completed
- B) a list of income statement accounts with their balances
- C) a list of balance sheet accounts with their balances
- D) a list of all accounts with their balances

Answer: D

Diff: 2 Type: MC

L.O.: L.O. 2-5

- 10) A trial balance is a useful device because it provides a check on accuracy by showing whether:
- A) total assets equal total liabilities
 - B) total debits equal total credits
 - C) total revenues plus gains equal total expenses plus losses
 - D) total of all the income statement accounts equals the total of all the balance sheet accounts

Answer: B

Diff: 2 Type: MC

L.O.: L.O. 2-5

- 11) If the debit amount of an entry to record the purchase of supplies on account was not posted:

- A) liabilities would be understated
- B) liabilities would be overstated
- C) assets would be overstated
- D) assets would be understated

Answer: D

Diff: 3 Type: MC

L.O.: L.O. 2-5

- 12) If a transposition error has occurred when recording a transaction, then the out-of-balance amount will be evenly divisible by:

- A) 11
- B) 9
- C) 2
- D) 5

Answer: B

Diff: 2 Type: MC

L.O.: L.O. 2-5

- 13) If the credit amount of an entry to record the payment of salaries was not posted:

- A) expenses would be understated
- B) assets would be overstated
- C) shareholders' equity would be understated
- D) expenses would be overstated

Answer: B

Diff: 3 Type: MC

L.O.: L.O. 2-5

- 14) Which of the following statements regarding a trial balance is *false*?

- A) A trial balance may be taken at any time the postings are up to date.
- B) A trial balance is a list of all accounts with their balances.
- C) A trial balance is the same as a balance sheet.
- D) A trial balance provides a check on the equality of debits and credits.

Answer: C

Diff: 2 Type: MC

L.O.: L.O. 2-5

15) A trial balance has all of the following features listed below *except*:

- A) a heading
- B) subtotals for assets, liabilities, and shareholders' equity
- C) totals for both debits and credits
- D) accounts listed in order, assets first, followed by liabilities and then shareholders' equity

Answer: B

Diff: 2 Type: MC

L.O.: L.O. 2-5

16) An organization's list of all its accounts and the related account numbers is called a:

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

Answer: D

Diff: 1 Type: MC

L.O.: L.O. 2-5

17) A chart of accounts is:

- A) prepared as the last step in analyzing transactions
- B) a source document
- C) the same as a trial balance
- D) a list of all of the accounts of the organization and their related account numbers

Answer: D

Diff: 1 Type: MC

L.O.: L.O. 2-5

18) A trial balance that is "in balance" proves:

- A) the equality of the debits and credits
- B) all journal entries were properly posted to the ledger
- C) all transactions were properly recorded during the accounting period
- D) none of the above

Answer: A

Diff: 1 Type: MC

L.O.: L.O. 2-5

19) When using a three-column account format, the column on the far right is used to show:

- A) the debit and credit amounts posted from journal entries
- B) the names of the accounts being debited and credited
- C) the transactions' date and journal reference
- D) the account's balance

Answer: D

Diff: 3 Type: MC

L.O.: L.O. 2-5

20) A chart of accounts is:

- A) a list of all accounts
- B) a list of all balance sheet accounts
- C) a list of all income statement accounts
- D) a list of all accounts with their ending balances

Answer: A

Diff: 1 Type: MC

L.O.: L.O. 2-5

21) The normal balance of a liability account is a _____ and the normal balance of the common shares account is a _____.

- A) debit, credit
- B) debit, debit
- C) credit, debit
- D) credit, credit

Answer: D

Diff: 2 Type: MC

L.O.: L.O. 2-5

22) Which of the following accounts does *not* have a normal credit balance?

- A) Retained Earnings
- B) Common Shares
- C) Accounts Payable
- D) Inventory

Answer: D

Diff: 2 Type: MC

L.O.: L.O. 2-5

23) The normal balance of an expense account is a _____ while the normal balance of a revenue account is a _____.

- A) debit, debit
- B) credit, credit
- C) credit, debit
- D) debit, credit

Answer: D

Diff: 2 Type: MC

L.O.: L.O. 2-5

24) When the trial balance is out of balance due to a transposition error, the difference between total debits and total credits will be evenly divisible by 9.

Answer: TRUE

Diff: 2 Type: TF

L.O.: L.O. 2-5

25) A trial balance is a list of all of a company's accounts with their account numbers.

Answer: FALSE

Diff: 2 Type: TF

L.O.: L.O. 2-5

26) A trial balance is simply a list of all accounts and their balances at a point in time.

Answer: TRUE

Diff: 1 Type: TF

L.O.: L.O. 2-5

27) If a trial balance is in balance, the accountant is assured that no mistakes were made either in recording or posting.

Answer: FALSE

Diff: 2 Type: TF

L.O.: L.O. 2-5

28) The trial balance is used to prepare the income statement.

Answer: TRUE

Diff: 2 Type: TF

L.O.: L.O. 2-5

29) On a trial balance the total of all debits must equal the total of all credits.

Answer: TRUE

Diff: 1 Type: TF

L.O.: L.O. 2-5

30) Accounts payable normally has a debit balance.

Answer: FALSE

Diff: 1 Type: TF

L.O.: L.O. 2-5

31) Accounts receivable normally has a credit balance.

Answer: FALSE

Diff: 1 Type: TF

L.O.: L.O. 2-5

32) The revenue account typically has a credit balance.

Answer: TRUE

Diff: 1 Type: TF

L.O.: L.O. 2-5

33) The trial balance is the starting point for preparing the organization's financial statements.

Answer: TRUE

Diff: 1 Type: TF

L.O.: L.O. 2-5

34) All revenue accounts normally have a credit balance.

Answer: TRUE

Diff: 1 Type: TF

L.O.: L.O. 2-5

35) All shareholders equity accounts typically have a credit balance except for dividends which are a debit.

Answer: TRUE

Diff: 1 Type: TF

L.O.: L.O. 2-5

36) On a trial balance the total of all debits must equal the total of all credits.

Answer: TRUE

Diff: 1 Type: TF

L.O.: L.O. 2-5

37) Total debits must always equal total credits in order for a trial balance to balance.

Answer: TRUE

Diff: 1 Type: TF

L.O.: L.O. 2-5

38) The normal balance for any account is always the side of the account (debit or credit) where increases are recorded.

Answer: TRUE

Diff: 2 Type: TF

L.O.: L.O. 2-5

- 39) Given the following transactions for Clip Corporation, prepare a trial balance as of March 31, 2014.
- Owner invested \$15,250 cash and \$6,500 worth of equipment into the business received common shares in return.
 - Purchased supplies on account, \$450.
 - Rented office space paying one months rent, \$850.
 - Performed services for a customer on account, \$1,400.
 - Purchased a truck by paying \$1,000 down and signing a note for the remainder of \$8,500.
 - Performed services for a customer and immediately collected \$800 cash.
 - Paid employees salaries of \$1,200.
 - Owner received a dividend of \$500.

Answer: Clip Corporation
 Trial Balance
 March 31, 2014

| | <u>Debit</u> | <u>Credit</u> |
|---------------------|-----------------|-----------------|
| Cash | \$12,500 | |
| Accounts Receivable | 1,400 | |
| Supplies | 450 | |
| Equipment | 6,500 | |
| Truck | 9,500 | |
| Accounts Payable | | \$450 |
| Note Payable | | 8,500 |
| Common Shares | | 21,750 |
| Dividends | 500 | |
| Service Revenue | | 2,200 |
| Salary Expense | 1,200 | |
| Rent Expense | <u>850</u> | |
| Total | <u>\$32,900</u> | <u>\$32,900</u> |

Diff: 3 Type: ES

L.O.: L.O. 2-5

40) Given a random list of accounts with their normal balances, prepare a trial balance for Sable Ltd. as of December 31, 2014. List the accounts in the appropriate order.

| | | | |
|-------------------|-----------|---------------------|----------|
| Common Shares | \$150,500 | Accounts Receivable | \$33,600 |
| Note Payable | 20,300 | Service Revenue | 82,000 |
| Supplies | 1,600 | Insurance Expense | 10,200 |
| Land | 45,000 | Equipment | 9,200 |
| Salary Expense | 38,000 | Accounts Payable | 25,000 |
| Dividends | 19,300 | Cash | 129,500 |
| Utilities Expense | 18,500 | Prepaid Insurance | 7,400 |
| Retained Earnings | 34,500 | | |

Answer:

Sable Ltd.
Trial Balance
December 31, 2014

| | <u>Debit</u> | <u>Credit</u> |
|---------------------|------------------|------------------|
| Cash | \$129,500 | |
| Accounts Receivable | 33,600 | |
| Prepaid Insurance | 7,400 | |
| Supplies | 1,600 | |
| Land | 45,000 | |
| Equipment | 9,200 | |
| Accounts Payable | | \$25,000 |
| Note Payable | | 20,300 |
| Common Shares | | 150,500 |
| Retained Earnings | | 34,500 |
| Dividends | 19,300 | |
| Service Revenue | | 82,000 |
| Salary Expense | 38,000 | |
| Utilities Expense | 18,500 | |
| Insurance Expense | <u>10,200</u> | |
| Total | <u>\$312,300</u> | <u>\$312,300</u> |

Diff: 2 Type: ES

L.O.: L.O. 2-5

41) An inexperienced accountant prepared the following trial balance on December 31, 2014, for the Chalet Corporation. Prepare a corrected trial balance based on the incorrect trial balance and the additional data.

| Chalet Corporation | | |
|---------------------|------------------|------------------|
| Trial Balance | | |
| December 31, 2014 | | |
| | <u>Debit</u> | <u>Credit</u> |
| Cash | \$28,700 | |
| Accounts Receivable | | \$33,600 |
| Prepaid Insurance | 7,400 | |
| Supplies | 1,600 | |
| Land | 45,000 | |
| Equipment | 78,300 | |
| Accounts Payable | | 25,000 |
| Note Payable | 65,000 | |
| Common Shares | | 30,000 |
| Retained Earnings | | 34,000 |
| Dividends | 19,300 | |
| Service Revenue | | 82,000 |
| Salary Expense | 38,000 | |
| Utilities Expense | | 18,500 |
| Insurance Expense | <u>10,500</u> | |
| Total | <u>\$293,800</u> | <u>\$223,100</u> |

Additional data:

1. Cash is overstated by \$5,700.
2. Note Payable is understated by \$7,200.
3. All accounts have a normal balance.
4. Service Revenue equals three times Salary Expense.

Answer: Chalet Corporation
Trial Balance
December 31, 2014

| | <u>Debit</u> | <u>Credit</u> |
|---------------------|------------------|------------------|
| Cash | \$23,000 | |
| Accounts Receivable | \$33,600 | |
| Prepaid Insurance | 7,400 | |
| Supplies | 1,600 | |
| Land | 45,000 | |
| Equipment | 78,300 | |
| Accounts Payable | | 25,000 |
| Note Payable | | 72,200 |
| Common Shares | | 30,000 |
| Retained Earnings | | 34,000 |
| Dividends | 19,300 | |
| Service Revenue | | 114,000 |
| Salary Expense | 38,000 | |
| Utilities Expense | 18,500 | |
| Insurance Expense | <u>10,500</u> | |
| Total | <u>\$275,200</u> | <u>\$275,200</u> |

Diff: 3 Type: ES

L.O.: L.O. 2-5

42) Fox Ltd. had the following trial balance on October 31, 2014.

| Fox Ltd. | | |
|---------------------|------------------|------------------|
| Trial Balance | | |
| October 31, 2014 | | |
| | <u>Debit</u> | <u>Credit</u> |
| Cash | \$56,500 | |
| Accounts receivable | 20,000 | |
| Notes receivable | 5,000 | |
| Land | 80,000 | |
| Accounts payable | | \$10,200 |
| Note payable | | 15,000 |
| Common shares | | 105,500 |
| Service revenue | | 34,000 |
| Salary expense | 12,000 | |
| Advertising expense | <u>5,000</u> | |
| | <u>\$178,500</u> | <u>\$164,700</u> |

The following errors caused the trial balance not to balance:

- a. Recorded a \$2,000 debit to Note Payable as a debit to Note Receivable.
- b. Posted a \$3,000 credit to Accounts Payable as \$300.
- c. Recorded a cash revenue transaction by debiting Cash for \$6,000 and crediting Accounts Receivable for \$6,000.
- d. The Common Shares account is understated by \$11,100.

Prepare a corrected trial balance as of October 31, 2014. All accounts have a normal balance.

Answer:

| Fox Ltd. | | |
|---------------------|------------------|------------------|
| Trial Balance | | |
| October 31, 2014 | | |
| | <u>Debit</u> | <u>Credit</u> |
| Cash | \$56,500 | |
| Accounts receivable | 26,000 | |
| Notes receivable | 3,000 | |
| Land | 80,000 | |
| Accounts payable | | \$12,900 |
| Note payable | | 13,000 |
| Common shares | | 116,600 |
| Service revenue | | 40,000 |
| Salary expense | 12,000 | |
| Advertising expense | <u>5,000</u> | |
| | <u>\$182,500</u> | <u>\$182,500</u> |

Diff: 3 Type: ES

L.O.: L.O. 2-5

43) From the following list of transactions, prepare a trial balance dated March 31, 2014, for Niko Inc., which began operations on March 1, 2014.

- a. Sold 600 common shares for \$12,000.
- b. Located a building suitable for a dry cleaning business, paying the first month's rent of \$2,000.
- c. Purchased cleaning supplies for \$500 cash.
- d. Purchased cleaning equipment on account costing \$6,000.
- e. Services of \$5,000 were rendered for cash during the month.
- f. Paid \$1,500 salaries to employees for the month.
- g. Paid utilities bill of \$500 for the month.

Answer:

| Niko Inc. | | |
|----------------------|-----------------|-----------------|
| Trial Balance | | |
| March 31, 2014 | | |
| | <u>Debit</u> | <u>Credit</u> |
| Cash | \$12,500 | |
| Cleaning supplies | 500 | |
| Cleaning equipment | 6,000 | |
| Accounts payable | | \$6,000 |
| Common shares | | 12,000 |
| Dry cleaning revenue | | 5,000 |
| Rent expense | 2,000 | |
| Salary expense | 1,500 | |
| Utilities expense | <u>500</u> | |
| | <u>\$23,000</u> | <u>\$23,000</u> |

Diff: 2 Type: ES

L.O.: L.O. 2-5

44) A junior bookkeeper, Bob Delisle, prepared the following trial balance on April 30, 2014, for Big Party Inc.. Prepare a corrected trial balance based on the incorrect trial balance and the additional data.

Big Party Inc.
Trial Balance
April 30, 2014

| | <u>Debit</u> | <u>Credit</u> |
|---------------------|-----------------|-------------------|
| Cash | \$5,740 | |
| Accounts Receivable | | \$6,720 |
| Prepaid Insurance | 1,480 | |
| Supplies | 320 | |
| Land | 9,000 | |
| Machinery | 15,660 | |
| Accounts Payable | | 5,000 |
| Note Payable | 13,000 | |
| Common Shares | | 6,000 |
| Retained Earnings | | 6,800 |
| Dividends | 3,860 | |
| Service Revenue | | 16,400 |
| Salary Expense | 7,600 | |
| Utilities Expense | | 3,700 |
| Interest Expense | <u>2,100</u> | <u> </u> |
| Total | <u>\$58,760</u> | <u>\$44,620</u> |

Additional data:

1. Cash is overstated by \$1,140.
2. Note Payable is understated by \$1,440.
3. Service Revenue is understated by \$6,400.

Answer: Big Party Inc.
Trial Balance
April 30, 2014

| | <u>Debit</u> | <u>Credit</u> |
|---------------------|-----------------|-----------------|
| Cash | \$4,600 | |
| Accounts Receivable | \$6,720 | |
| Prepaid Insurance | 1,480 | |
| Supplies | 320 | |
| Land | 9,000 | |
| Machinery | 15,660 | |
| Accounts Payable | | 5,000 |
| Note Payable | | 14,440 |
| Common Shares | | 6,000 |
| Retained Earnings | | 6,800 |
| Dividends | 3,860 | |
| Service Revenue | | 22,800 |
| Salary Expense | 7,600 | |
| Utilities Expense | 3,700 | |
| Interest Expense | <u>2,100</u> | |
| Total | <u>\$55,040</u> | <u>\$55,040</u> |

Diff: 1 Type: ES

L.O.: L.O. 2-5

45) Prepare a trial balance for Salty Inc. dated June 30, 2014, based on the following transactions that occurred during the month of June.

- Owner invested \$25,000 cash into the business and received common shares in return.
- Rented an office and paid one month's rent, \$900.
- Purchased \$400 of supplies on account.
- Performed services on account, \$5,500.
- Paid \$2,000 cash for office furniture.
- Owner received a dividend of \$700.
- Collected \$1,200 on account.

Answer: Salty Inc.
Trial Balance
June 30, 2014

| | <u>Debit</u> | <u>Credit</u> |
|---------------------|-----------------|-----------------|
| Cash | \$22,600 | |
| Accounts Receivable | 4,300 | |
| Supplies | 400 | |
| Office Furniture | 2,000 | |
| Accounts Payable | | \$400 |
| Common Shares | | 25,000 |
| Dividends | 700 | |
| Service Revenue | | 5,500 |
| Rent Expense | <u>900</u> | |
| Total | <u>\$30,900</u> | <u>\$30,900</u> |

Diff: 3 Type: ES

L.O.: L.O. 2-5

46) Prepare a trial balance for Zeng Inc. dated April 30, 2014, based on the following transactions that occurred during the month of June.

- a. Owner invested \$55,000 cash into the business and received common shares in return.
- b. Rented an office and paid one month's rent, \$700.
- c. Purchased \$600 of supplies on account.
- d. Performed services on account, \$7,500.
- e. Paid \$4,200 cash for office furniture.
- f. Owner received a dividend of \$500.
- g. Collected \$3,000 on account.

Answer:

Zeng Inc.
April 30, 2014

| | <u>Debit</u> | <u>Credit</u> |
|---------------------|-----------------|-----------------|
| Cash | \$52,600 | |
| Accounts Receivable | 4,500 | |
| Supplies | 600 | |
| Office Furniture | 4,200 | |
| Accounts Payable | | \$600 |
| Common Shares | | 55,000 |
| Dividends | 500 | |
| Service Revenue | | 7,500 |
| Rent Expense | <u>700</u> | |
| Total | <u>\$63,100</u> | <u>\$63,100</u> |

Diff: 3 Type: ES

L.O.: L.O. 2-5

47) Identify the normal balance for asset and liability accounts. What is the reasoning behind the "normal balances" for these accounts?

Answer: Using a T-account format, the normal balance of any account is the side that increases the balance in the account. For asset accounts the normal balance would be the debit side of the T-account. Asset accounts are often referred to as "debit-balance accounts." Crediting a liability account increases its balance, so it has a normal balance of a credit. Liability accounts are called "credit-balance accounts."

The reason why assets are debit-balance accounts and liabilities are credit-balance accounts is caused by the accounting equation. "Assets equal liabilities plus shareholders' equity" means that asset and liability accounts must have opposite normal balances for the equation to balance.

Diff: 2 Type: ES

L.O.: L.O. 2-5

48) Identify the normal balance for the Retained Earnings account and expense accounts. What is the reasoning behind the "normal balances" for these accounts?

Answer: Using a T-account format, the normal balance of any account is the side that increases the balance in the account. For the Retained Earnings account, its normal balance would be the credit side of the T-account. The Retained Earnings account is referred to as a "credit-balance account." Debiting an expense account increases its balance, so it has a normal balance of a debit. Expense accounts are called "debit-balance accounts."

The reason why the Retained Earnings account is a credit-balance account and expense accounts are debit-balance accounts is caused by the accounting equation. "Assets equal liabilities plus shareholders' equity" means that the Retained Earnings account must have a credit balance in order for the equation to balance.

Expense accounts are deducted from revenue accounts to obtain net income (or net loss). Revenue accounts carry a normal credit balance, and therefore expense accounts must carry a normal debit balance for us to obtain net income or loss. Net income increases the Retained Earnings credit balance account. A net loss for the period would decrease the Retained Earnings account.

Diff: 2 Type: ES

L.O.: L.O. 2-5

49) Describe what is listed on a trial balance.

Answer: The trial balance lists all the company's accounts (i.e., assets, liabilities, owners' equity, revenues, and expenses) and their balances as of a specific date. This information is obtained from the ledger.

Diff: 1 Type: ES

L.O.: L.O. 2-5

- 50) Use T-accounts to analyze the following transactions for the Red Panda Corporation:
- Owner invested \$550,000 cash and equipment with a value of \$5,500 into the business received common shares in return.
 - Purchased office supplies on account, \$300.
 - Performed services for a customer on account, \$3,500.
 - Purchased a building by paying \$100,000 down and signing a note for the remainder of \$800,000.
 - Performed services for a customer and immediately collected \$4,500 cash.
 - Paid employees salaries of \$2,200.

Determine the ending cash balance. Note this is their first month of operations.

Answer:

Red Panda Corporation

| Cash | Office Supplies | Equipment | Building |
|-------------------------------|-----------------|-------------|---------------|
| (a) \$550,000 (d) \$100,000 | (b) \$300 | (a) \$5,500 | (d) \$900,000 |
| (e) \$4,500 (f) \$2,200 | | | |
| \$452,300 | | | |

Accounts Receivables

(c) \$3,500 |

Accounts Payable

| (b) \$300

|

Notes Payable

| (d) \$800,000

|

Common Shares

| (a) \$555,500

|

Revenue

| (c) \$3,500

| (e) \$4,500

Salaries Expense

(f) \$2,200 |

|

Diff: 3 Type: ES

L.O.: L.O. 2-3

51) Use T-accounts to show the resulting balance in each account.

| | | |
|------------------------|--------|--------|
| a. Cash | 34,000 | |
| Common Shares | | 34,000 |
| b. Supplies | 800 | |
| Accounts Payable | | 800 |
| c. Building | 80,000 | |
| Cash | | 12,000 |
| Note Payable | | 68,000 |
| d. Accounts Receivable | 5,500 | |
| Service Revenue | | 5,500 |
| e. Salary Expense | 1,500 | |
| Cash | | 1,500 |

Answer:

Diff: 2 Type: ES

L.O.: L.O. 2-3