

## **Chapter 2—The Accounting Information System**

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### **TRUE/FALSE**

1. The time-period assumption assumes that a company prepares its financial statements every month.

ANS: F                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.

2. Because it tends to provide the most reliable measure of activity, all assets are reported on the balance sheet at their fair market values.

ANS: F                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.

3. The term used to refer to an asset's original cost is book value.

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.

4. The going concern assumption infers that a company will continue to operate into the future.

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.

5. A company in the process of liquidation is considered to be under the going concern assumption.

ANS: F                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.

6. The International Accounting Standards Board (IASB) was created in order to develop worldwide accounting standards that are required for all financial statements, regardless of the country where the financial statements were prepared.

ANS: F                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.

7. The initial step in the recording process is sometimes referred to as journalizing.

ANS: T                      PTS: 1                      DIF: Difficulty: Moderate

OBJ: LO: 2-6      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.

8. The issuance of common stock increases a company's assets and stockholders' equity.

ANS: T      PTS: 1      DIF: Difficulty: Moderate  
REF: CS2-1      OBJ: LO: 2-3      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis      NOT: 1 min.

9. The payment of a dividend increases both cash and stockholders' equity of the distributing entity.

ANS: F      PTS: 1      DIF: Difficulty: Moderate  
REF: CS2-1      OBJ: LO: 2-3      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis      NOT: 1 min.

10. According to the historical cost principle, assets are always carried at their current market value.

ANS: F      PTS: 1      DIF: Difficulty: Easy  
OBJ: LO: 2-1      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.

11. An accounting transaction may impact only one financial statement or multiple statements.

ANS: T      PTS: 1      DIF: Difficulty: Moderate  
OBJ: LO: 2-3      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.

12. The accounting equation must balance before and after every accounting transaction.

ANS: T      PTS: 1      DIF: Difficulty: Easy  
OBJ: LO: 2-3      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.

13. A chart of accounts is prepared to determine whether the books have gotten out of balance.

ANS: F      PTS: 1      DIF: Difficulty: Easy  
OBJ: LO: 2-4      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.

14. GAAP has established a universal chart of accounts that is applicable to all businesses in the United States.

ANS: F      PTS: 1      DIF: Difficulty: Easy  
OBJ: LO: 2-4      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.

15. A T-account for Cash cannot contain any credits.

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-2                OBJ: LO: 2-4               NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

16. A debit entry increases assets and revenue accounts.

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-2                OBJ: LO: 2-4               NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

17. The dividends account has a normal debit balance.

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-3                OBJ: LO: 2-4               NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

18. Under the double-entry system of accounting, every transaction is entered in at least two accounts on opposite sides of a T-account.

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-4               NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

19. Under the double-entry system of accounting, a debit is always a negative entry.

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-4               NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

20. Income statement accounts have normal credit balances.

ANS: F                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-4               NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

21. Only events that can be measured with sufficient reliability will be recognized in the accounting system.

ANS: T                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-2               NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
KEY: Bloom's: Knowledge                      NOT: 1 min.

22. The general ledger is an example of a book of original entry.

ANS: F                      PTS: 1                      DIF: Difficulty: Easy

OBJ: LO: 2-5      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
KEY: Bloom's: Knowledge      NOT: 1 min.

23. The general ledger is often used for the initial recording of repetitive transactions.

ANS: F      PTS: 1      DIF: Difficulty: Easy  
OBJ: LO: 2-6      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
KEY: Bloom's: Knowledge      NOT: 1 min.

24. A trial balance is the listing of each active account and its corresponding debit or credit balance at a particular point in time.

ANS: T      PTS: 1      DIF: Difficulty: Easy  
OBJ: LO: 2-7      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
KEY: Bloom's: Knowledge      NOT: 1 min.

25. Even though a trial balance reveals that the debits equal the credits, there still may be errors in the company's books.

ANS: T      PTS: 1      DIF: Difficulty: Easy  
OBJ: LO: 2-7      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
KEY: Bloom's: Knowledge      NOT: 1 min.

26. The purchase of office supplies from a supplier is an example of an external event.

ANS: T      PTS: 1      DIF: Difficulty: Easy  
OBJ: LO: 2-2      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.

27. The conservatism principle is concerned with the possibility of understating assets or income.

ANS: F      PTS: 1      DIF: Difficulty: Easy  
OBJ: LO: 2-1      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.

28. A full disclosure policy stipulates that all information that would make a difference to financial statement users should be revealed.

ANS: T      PTS: 1      DIF: Difficulty: Easy  
OBJ: LO: 2-1      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.

29. If a company performed services for credit, then the debit side of the journal entry would be to Accounts Payable and the credit would be to Service Revenue.

ANS: F      PTS: 1      DIF: Difficulty: Moderate  
REF: CS2-4      OBJ: LO: 2-5      NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Analysis

NOT: 1 min.

30. If a company made a payment on account, then assets and liabilities would both decrease.

ANS: T

PTS: 1

DIF: Difficulty: Moderate

REF: CS2-1

OBJ: LO: 2-3

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Analysis

NOT: 1 min.

## COMPLETION

1. The various rules and conventions that have evolved over time to guide the preparation of financial statements in the U.S. are called \_\_\_\_\_.

ANS:

Generally accepted accounting principles

GAAP

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-1

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP

KEY: Bloom's: Knowledge

NOT: 1 min.

2. The concept that assumes that assets are recorded at the amount to acquire them is called the \_\_\_\_\_ principle.

ANS: historical cost

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-1

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP

KEY: Bloom's: Knowledge

NOT: 1 min.

3. The concept that assumes that an entity is **not** in the process of bankruptcy is called the \_\_\_\_\_ concept.

ANS: going concern

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-1

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP

KEY: Bloom's: Knowledge

NOT: 1 min.

4. The \_\_\_\_\_ is the U.S. federal government agency with the ultimate authority to determine the accounting rules for companies whose stock is sold to the public.

ANS:

Securities Exchange Commission

SEC

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-1

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP

KEY: Bloom's: Knowledge

NOT: 1 min.

5. The \_\_\_\_\_ is the private sector group with authority to set accounting standards in the United States.

ANS:

Financial Accounting Standards Board  
FASB

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Communication                      STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP  
KEY: Bloom's: Knowledge                      NOT: 1 min.

6. \_\_\_\_\_ is the magnitude of an omission or misstatement in accounting information that will influence the decision of someone relying on the information.

ANS: Materiality

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-1  
NAT: BUSPROG: Communication                      STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP  
KEY: Bloom's: Knowledge                      NOT: 1 min.

7. \_\_\_\_\_ is the capacity of information to make a difference in a decision by helping make timely predictions or provide timely feedback.

ANS: Relevance

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-1  
NAT: BUSPROG: Communication                      STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP  
KEY: Bloom's: Knowledge                      NOT: 1 min.

8. When preparing the financial statements, the accountant must estimate the balances of certain accounts. When two possible estimates are available and when these estimates are about equally likely, the accountant's prudent reaction is to select the least optimistic estimate in terms of the recorded amounts of assets or income statement accounts. This is referred to as the principle of \_\_\_\_\_.

ANS: conservatism

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-1  
NAT: BUSPROG: Communication                      STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP  
KEY: Bloom's: Knowledge                      NOT: 1 min.

9. \_\_\_\_\_ is the quality of accounting information that makes it dependable in representing the events that it purports to represent.

ANS: Reliability

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-1  
NAT: BUSPROG: Communication                      STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP  
KEY: Bloom's: Knowledge                      NOT: 1 min.

10. \_\_\_\_\_ is the quality of accounting information that allows a user to analyze two or more companies and look for similarities and differences.

ANS: Comparability

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-1  
NAT: BUSPROG: Communication                      STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP  
KEY: Bloom's: Knowledge                      NOT: 1 min.

11. \_\_\_\_\_ is the quality of accounting information that allows a user to compare two or more accounting periods for a single company.

ANS: Consistency

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-1  
NAT: BUSPROG: Communication                      STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP  
KEY: Bloom's: Knowledge                      NOT: 1 min.

12. In order for an internal or external event to be recognized in an accounting system, the items making up the event must impact the financial statements and they must be sufficiently reliable and \_\_\_\_\_.

ANS: measurable

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-2  
NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

13. \_\_\_\_\_ documents provide the evidence needed in an accounting system to record a transaction.

ANS: Source

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-3  
NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

14. The issuance of common stock increases both \_\_\_\_\_ and stockholders' equity.

ANS: assets

PTS: 1                      DIF: Difficulty: Moderate                      REF: CS2-1  
OBJ: LO: 2-3                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 1 min.

15. Borrowing from the bank in order to acquire computer equipment for \$1,500 has the effect of increasing both assets and \_\_\_\_\_.

ANS: liabilities

PTS: 1                      DIF: Difficulty: Moderate                      REF: CS2-1  
OBJ: LO: 2-3                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 1 min.

16. If a law firm provides services on account for its clients, both \_\_\_\_\_ and retained earnings will increase.

ANS: assets

PTS: 1                      DIF: Difficulty: Moderate                      REF: CS2-1  
OBJ: LO: 2-3              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 1 min.

17. The payment of salaries to employees will result in a debit to an expense account and a credit to the \_\_\_\_\_ account.

ANS: cash

PTS: 1                      DIF: Difficulty: Moderate                      REF: CS2-4  
OBJ: LO: 2-5              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 1 min.

18. The \_\_\_\_\_ principle says that assets of a company are initially recorded at their original cost.

ANS: historical cost

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-1  
NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

19. The \_\_\_\_\_ is a list of all the accounts used by an entity.

ANS: chart of accounts

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-4  
NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

20. The \_\_\_\_\_ is the file or book that contains all of the company's accounts.

ANS: general ledger

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-6  
NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

21. The \_\_\_\_\_ side, or left-side, of a liability account is used to record decreases in the account balance.

ANS: debit

PTS: 1                      DIF: Difficulty: Easy                      REF: CS2-2



OBJ: LO: 2-4      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.

22. For assets, expenses, and dividend accounts, a credit will \_\_\_\_\_ the balance in the account.

ANS: decrease

PTS: 1      DIF: Difficulty: Easy      REF: CS2-2 | CS2-3  
OBJ: LO: 2-4      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.

23. For liabilities, stockholders' equity, and revenue accounts, debits will \_\_\_\_\_ the account balance.

ANS: decrease

PTS: 1      DIF: Difficulty: Easy      REF: CS2-2 | CS2-3  
OBJ: LO: 2-4      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.

24. Credits are always on the \_\_\_\_\_ side of a T-account.

ANS: right

PTS: 1      DIF: Difficulty: Easy      OBJ: LO: 2-4  
NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.

25. A revenue account has a normal \_\_\_\_\_ balance.

ANS: credit

PTS: 1      DIF: Difficulty: Easy      REF: CS2-3  
OBJ: LO: 2-4      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.

26. The \_\_\_\_\_ is a chronological record of all transactions entered into by a business.

ANS: journal

PTS: 1      DIF: Difficulty: Easy      OBJ: LO: 2-5  
NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.

27. The \_\_\_\_\_ is a list of each active account and its debit or credit balance at a specific point in time.

ANS: trial balance

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-7  
 NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
 KEY: Bloom's: Knowledge                      NOT: 1 min.

## MATCHING

*For each transaction provided, choose the appropriate account from the list that would receive a debit entry as a result of the transaction. (Choices may be used more than once.)*

- a. Cash
  - b. Accounts receivable
  - c. Supplies
  - d. Prepaid insurance
  - e. Land
  - f. Equipment
  - g. Accounts payable
  - h. Unearned revenues
  - i. Notes payable
  - j. Common stock
  - k. Retained earnings
  - l. Service revenue
  - m. Salary expense
  - n. Insurance expense
  - o. Utilities expense
  - p. Dividends
1. Issuing common stock
  2. Borrowing cash
  3. Purchasing equipment for cash
  4. Purchasing a 6-month insurance policy
  5. Purchasing supplies on credit
  6. Providing services to customers for cash
  7. Providing services to customers for credit
  8. Receiving cash from a customer in advance of providing any services
  9. Paying for items previously purchased on credit
  10. Paying salaries to employees
  11. Collecting from customers for services sold previously on credit
  12. Paying utilities
  13. Paying dividends

1. ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
 REF: CS2-4                      OBJ: LO: 2-5                      NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
 KEY: Bloom's: Knowledge                      NOT: 1 min.
2. ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
 REF: CS2-4                      OBJ: LO: 2-5                      NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
 KEY: Bloom's: Knowledge                      NOT: 1 min.
3. ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
 REF: CS2-4                      OBJ: LO: 2-5                      NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

- KEY: Bloom's: Knowledge NOT: 1 min.
4. ANS: D PTS: 1 DIF: Difficulty: Easy  
REF: CS2-4 OBJ: LO: 2-5 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge NOT: 1 min.
  5. ANS: C PTS: 1 DIF: Difficulty: Easy  
REF: CS2-4 OBJ: LO: 2-5 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge NOT: 1 min.
  6. ANS: A PTS: 1 DIF: Difficulty: Easy  
REF: CS2-4 OBJ: LO: 2-5 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge NOT: 1 min.
  7. ANS: B PTS: 1 DIF: Difficulty: Easy  
REF: CS2-4 OBJ: LO: 2-5 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge NOT: 1 min.
  8. ANS: A PTS: 1 DIF: Difficulty: Easy  
REF: CS2-4 OBJ: LO: 2-5 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge NOT: 1 min.
  9. ANS: G PTS: 1 DIF: Difficulty: Easy  
REF: CS2-4 OBJ: LO: 2-5 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge NOT: 1 min.
  10. ANS: M PTS: 1 DIF: Difficulty: Easy  
REF: CS2-4 OBJ: LO: 2-5 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge NOT: 1 min.
  11. ANS: A PTS: 1 DIF: Difficulty: Easy  
REF: CS2-4 OBJ: LO: 2-5 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge NOT: 1 min.
  12. ANS: O PTS: 1 DIF: Difficulty: Easy  
REF: CS2-4 OBJ: LO: 2-5 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge NOT: 1 min.
  13. ANS: P PTS: 1 DIF: Difficulty: Easy  
REF: CS2-4 OBJ: LO: 2-5 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge NOT: 1 min.

*Several transactions are listed. Use the choices to identify the effect on the accounting equation for each transaction listed. (Choices may be used more than once.)*

- a. Assets and liabilities increase
- b. Assets and contributed capital increase
- c. Assets and retained earnings increase
- d. Two asset accounts are impacted, but there is no net effect on total assets
- e. Assets and liabilities decrease
- f. Assets and retained earnings decrease
- g. Liabilities increase and retained earnings decrease
- h. Liabilities decrease and retained earnings increase

14. Issuing common stock to investors
15. Borrowing cash from a bank
16. Purchasing a building for cash
17. Purchasing insurance for 1 year
18. Purchasing supplies on credit
19. Providing services for customers for cash
20. Providing services for customers for credit
21. Receiving cash from customers in advance for services to be provided next month
22. Paying for a previous purchase on credit
23. Paying salaries to employees
24. Collecting cash from customers who had previously made credit purchases
25. Paying utilities
26. Paying dividends to investors

14. ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1                  OBJ: LO: 2-3                  NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.
15. ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1                  OBJ: LO: 2-3                  NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.
16. ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1                  OBJ: LO: 2-3                  NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.
17. ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1                  OBJ: LO: 2-3                  NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.
18. ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1                  OBJ: LO: 2-3                  NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.
19. ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1                  OBJ: LO: 2-3                  NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.
20. ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1                  OBJ: LO: 2-3                  NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.
21. ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1                  OBJ: LO: 2-3                  NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.
22. ANS: E                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1                  OBJ: LO: 2-3                  NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.
23. ANS: F                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1                  OBJ: LO: 2-3                  NAT: BUSPROG: Communication

- STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis NOT: 2 min.
24. ANS: D PTS: 1 DIF: Difficulty: Moderate  
REF: CS2-1 OBJ: LO: 2-3 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis NOT: 2 min.
25. ANS: F PTS: 1 DIF: Difficulty: Moderate  
REF: CS2-1 OBJ: LO: 2-3 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis NOT: 2 min.
26. ANS: F PTS: 1 DIF: Difficulty: Moderate  
REF: CS2-1 OBJ: LO: 2-3 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis NOT: 2 min.

*Organizations important to accounting are listed. Select the organization that most closely achieves the role described. (Choices may be used more than once.)*

- Financial Accounting Standards Board (FASB)
  - International Accounting Standards Board (IASB)
  - Securities and Exchange Commission (SEC)
27. Works to reduce differences in accounting standards throughout the world.
28. Issues financial accounting concepts that are used as a guide to accounting standard-setting in the U.S.
29. Has the ultimate authority to set accounting standards, but has allowed the profession to do so.
30. Requires that publicly traded companies file financial information on a timely basis.

27. ANS: B PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-1 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.
28. ANS: A PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-1 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.
29. ANS: C PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-1 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.
30. ANS: C PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-1 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP KEY: Bloom's: Knowledge  
NOT: 1 min.

*Select the choice that describes the type of transaction and whether it should be recorded in the accounting system. (Choices may be used more than once.)*

- External event to be recorded as a transaction
  - Internal event to be recorded as a transaction
  - Event which should not be recognized in the accounting system
31. An order is placed with a supplier for merchandise.
32. Common stock is issued to investors.
33. Cash sales are made.
34. Materials are entered onto the assembly line.

35. Tax returns are prepared by the company's accountant.
36. A bill is received for the current month's utilities.
37. Payments are received from customers to whom merchandise was sold on credit.
38. Amounts collected from cash and credit customers is deposited in the company's bank account.

31. ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-2              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.
32. ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-2              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.
33. ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-2              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.
34. ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-2              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.
35. ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-2              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.
36. ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-2              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.
37. ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-2              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.
38. ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-2              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

*Several accounts from the financial records of Wynn Linders, Inc. are listed. Indicate its normal balance and the debit/credit rules for increasing the account. (Choices may be used more than once.)*

- a. Debit
  - b. Credit
39. Income Tax Expense
  40. Accounts Payable
  41. Retained Earnings
  42. Prepaid Insurance
  43. Service Revenues
  44. Notes Payable
  45. Intangibles
  46. Common Stock
  47. Dividends

48. Unearned Revenues

39. ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-3                      OBJ: LO: 2-4                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.
40. ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-2                      OBJ: LO: 2-4                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.
41. ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-2                      OBJ: LO: 2-4                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.
42. ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-2                      OBJ: LO: 2-4                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.
43. ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-3                      OBJ: LO: 2-4                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.
44. ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-2                      OBJ: LO: 2-4                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.
45. ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-2                      OBJ: LO: 2-4                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.
46. ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-2                      OBJ: LO: 2-4                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.
47. ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-3                      OBJ: LO: 2-4                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.
48. ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-2                      OBJ: LO: 2-4                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

*Match the following principles with their correct definition.*

- |                            |                        |
|----------------------------|------------------------|
| a. Comparability           | g. Historical cost     |
| b. Conservatism            | h. Matching            |
| c. Double-entry accounting | i. Monetary unit       |
| d. Economic entity         | j. Revenue recognition |
| e. Going concern           | k. Time period         |
| f. Full disclosure         |                        |
49. This principle requires that the activities of a company be initially measured at their exchange price at the time the activity occurs.

50. This principle states that accountants should take care to avoid overstating assets or income when they prepare financial statements.
51. This assumption states that in the absence of information to the contrary, it should be assumed that a company will continue to operate indefinitely.
52. This principle states that users should be able to make meaningful comparisons of different companies.
53. This principle divides the life of a company into artificial time periods such as quarters and years.
54. The system used by companies to record the effects of transactions on the accounting equation.
55. This assumption requires that financial information be reported in monetary terms.
56. Any information that would make a difference to financial statement users should be reported.
57. This principle is used to determine when revenue is recorded and reported.
58. This principle requires that an expense be recorded and reported in the same period as the revenue it helped generate.
59. This assumption states that each company will be accounted for separately from its owners.

49. ANS: G                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.
50. ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.
51. ANS: E                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.
52. ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.
53. ANS: K                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-4              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.
54. ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.
55. ANS: I                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.
56. ANS: F                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.
57. ANS: J                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.
58. ANS: H                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication



STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP

KEY: Bloom's: Knowledge

NOT: 1 min.

59. ANS: D PTS: 1 DIF: Difficulty: Moderate

OBJ: LO: 2-1 NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP

KEY: Bloom's: Knowledge

NOT: 1 min.

*Match the following terms with their correct definition.*

a. Account

f. Debit

b. Accounting cycle

g. Event

c. Chart of accounts

h. General ledger

d. Cost vs. benefit

i. Journal

e. Credit

j. Trial balance

60. A list of all the accounts maintained by the business.

61. The sequence of procedures used by companies to transform the effects of business activities into financial statements.

62. A device used to record increases and decreases in each of the basic elements of the financial statements.

63. A collection of all the individual financial statement accounts that a company uses.

64. A chronological record showing the debit and credit effects of transactions on a company.

65. A list of all active accounts and each account's debit or credit balance.

66. Term used to refer to the left side of an account.

67. It does not make good business sense to spend \$100 to save \$75.

68. Something that happens to the business that may or may not require a journal entry.

69. Term used to refer to the right side of an account.

60. ANS: C PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-4 NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Knowledge NOT: 1 min.

61. ANS: B PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-2 NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Knowledge NOT: 1 min.

62. ANS: A PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-4 NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Knowledge NOT: 1 min.

63. ANS: H PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-6 NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Knowledge NOT: 1 min.

64. ANS: I PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-5 NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Knowledge NOT: 1 min.

65. ANS: J PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-7 NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Knowledge NOT: 1 min.

66. ANS: F PTS: 1 DIF: Difficulty: Easy

- OBJ: LO: 2-4      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.
67. ANS: D      PTS: 1      DIF: Difficulty: Easy  
OBJ: LO: 2-1      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.
68. ANS: G      PTS: 1      DIF: Difficulty: Easy  
OBJ: LO: 2-2      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.
69. ANS: E      PTS: 1      DIF: Difficulty: Easy  
OBJ: LO: 2-4      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.

## MULTIPLE CHOICE

1. Which of the following statements is true regarding economic events?
- The signing of a service contract is an example of an external event that is recorded in the accounting records.
  - Every event which affects an entity can be identified from a source document.
  - All internal and external events must be measured with sufficient reliability.
  - External events involve exchanges between an entity and another entity outside the company.
- ANS: D      PTS: 1      DIF: Difficulty: Moderate  
OBJ: LO: 2-2      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge      NOT: 1 min.
2. Which of the following underlying assumptions for the conceptual framework is the reason the dollar is used in the preparation of financial statements?
- Economic Entity
  - Continuity
  - Time-Period
  - Monetary Unit
- ANS: D      PTS: 1      DIF: Difficulty: Easy  
OBJ: LO: 2-1      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP      KEY: Bloom's: Knowledge  
NOT: 1 min.
3. Which of the following is an assumption made in the preparation of the financial statements?
- Financial statements are prepared for a specific entity that is distinct from the entity's owners.
  - The current market value is assumed to be more relevant than the original cost paid.
  - The preparation of financial statements for a specific time period assumes that the balance sheet covers a designated period of time.
  - Financial statements are prepared assuming that inflation has a distinct effect on the monetary unit.
- ANS: A      PTS: 1      DIF: Difficulty: Moderate  
OBJ: LO: 2-1      NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP  
NOT: 2 min.

KEY: Bloom's: Knowledge

4. The time-period assumption is necessary because
- inflation exists and causes confusing swings in financial statement amounts over time.
  - external users of financial statements want accurately-reported net income for a specific period of time.
  - financial statements users expect full disclosure of all economic events throughout the entire time period.
  - it is required by the federal government.

ANS: B                      PTS: 1                      DIF: Difficulty: Easy

OBJ: LO: 2-1              NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP

KEY: Bloom's: Knowledge

NOT: 1 min.

5. Which of the following statements is true concerning assets?
- Assets are measured using a time-period approach.
  - Assets are initially recorded at market value and then adjusted for inflation.
  - Assets are initially recorded using the historical cost principle.
  - Assets are initially recorded at market value, since historical cost tends to be too arbitrary.

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate

OBJ: LO: 2-1              NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP

KEY: Bloom's: Knowledge

NOT: 1 min.

6. Homevestors purchased land for \$400,000 in 2001. In 2013, an independent appraiser assessed the value of the land at 900,000. At what amount should the land be recorded on the company's 2013 financial statements?
- at its cost of \$400,000
  - at its \$900,000 appraised value
  - at \$500,000, the difference between the land's cost and assessed value
  - whichever amount the company considers to be the best indicator of the land's true value

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate

OBJ: LO: 2-1              NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP

KEY: Bloom's: Application

NOT: 1 min.

7. Which of the following organizations is primarily responsible for establishing GAAP in the United States?
- Securities Exchange Commission (SEC)
  - Financial Accounting Standards Board (FASB)
  - International Accounting Standards Board (IASB)
  - Internal Revenue Service (IRS)

ANS: B                      PTS: 1                      DIF: Difficulty: Easy

OBJ: LO: 2-1              NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP

KEY: Bloom's: Knowledge

NOT: 1 min.

8. The Securities Exchange Commission (SEC) is concerned with
- Developing a new conceptual framework in order to reduce differences in financial reports for global companies.

- b. Setting accounting rules for all companies that are incorporated in the United States.
- c. Setting accounting rules for publicly-traded companies in the United States.
- d. Working to reduce differences in accounting reports issued by governmental units.

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.

9. Which organization has the power to set accounting rules for companies whose stock is publicly-traded in the U.S. stock markets, but has delegated its power to another organization?
- a. International Accounting Standards Board (IASB)
  - b. Financial Accounting Standards Board (FASB)
  - c. General Association of Accounting Practitioners (GAAP)
  - d. Securities Exchange Commission (SEC)

ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.

10. In order for accounting information to be useful in making informed decisions, it must be
- a. internal.
  - b. relevant.
  - c. reliable.
  - d. both relevant and reliable.

ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.

11. Which of the following is a constraint to the qualitative characteristics of useful accounting information?
- a. conservatism
  - b. materiality
  - c. relevance
  - d. comparability

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.

12. The principle of conservatism is concerned with
- a. the avoidance of overstating assets or income in the preparation of financial statements.
  - b. the minimization of costs associated with providing financial information.
  - c. the company's ability to carry out its existing commitments.
  - d. the company's procedures for recording activities at their initial exchange price.

ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.

13. The going concern assumption is concerned with
- the company's ability to continue operations long enough to carry out its existing obligations.
  - any information that is capable of influencing the decisions of anyone using the financial statements.
  - measuring ongoing business activities at their exchange price at the time of the initial external transaction.
  - offsetting management's natural optimism by providing a prudent approach to uncertainty in financial statement items.

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 2 min.

14. Which of the following statements is **false** with respect to the qualitative characteristics of useful accounting information?
- Comparability is concerned with different companies using the same accounting methods; whereas, consistency is concerned with a single company using the same accounting methods over time.
  - Trade-offs are often necessary in evaluating relevant versus reliable information.
  - All external and internal events must be fully disclosed in the accounting system.
  - The full disclosure policy should be followed in all situations that would make a difference to financial statement users.

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 2 min.

15. Which of the following is an internal event?
- Caddy salaries are paid by a country club.
  - Dividends are distributed to a company's stockholders.
  - Potatoes used to make French fries in a fast-food restaurant are purchased.
  - Products are transferred from the assembly area to the painting station.

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-2              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Application                      NOT: 1 min.

16. All of the following are external events **except**
- a grocery store recognizes losses from spoilage.
  - a grocery store runs ads in a local newspaper.
  - a grocery store purchases produce from a local farmer.
  - a grocery store sells groceries to customers on credit.

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-2              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Application                      NOT: 2 min.

17. Which of the following is an internal event for a business entity?
- An attorney provides services for clients.
  - An attorney purchases computer equipment.

- c. An attorney uses computer equipment to maintain business records and prepare legal documents.
- d. An attorney receives cash payments from clients who were billed for legal services.

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-2              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Application                      NOT: 2 min.

18. Which of the following statements is true?
- a. Only the effects of internal transactions must be recognized and recorded in the accounting system.
  - b. An internal transaction represents a business activity between an entity and its environment.
  - c. Evidence used to record transactions affecting a business entity comes from source documents.
  - d. Only the effects of external events must be recognized, measured, and recorded in an entity's accounting system.

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-3              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 2 min.

19. Which of the following statements is **false** regarding the use of source documents?
- a. Checks and deposit slips are the main source documents backing up the bank statement.
  - b. Retailers may use cash register tapes to recognize sales transactions.
  - c. Stock certificates provide evidence of being a creditor of the company.
  - d. Time cards may be used as a source of information to record wages.

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-3              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 2 min.

20. The purchase of office equipment on credit has what effect on the accounting equation?
- a. assets and stockholders' equity decrease
  - b. liabilities increase and stockholders' equity decreases
  - c. assets and liabilities increase
  - d. assets and liabilities decrease

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1              OBJ: LO: 2-3              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.

21. The payment of employee salaries has what effect on the accounting equation?
- a. assets and stockholders' equity decrease
  - b. liabilities and stockholders' equity decrease
  - c. assets decrease and liabilities increase
  - d. assets increase and liabilities decrease

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1              OBJ: LO: 2-3              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Analysis

NOT: 2 min.

22. During March, Honeybaked Spam purchased supplies for cash. The supplies will be used in April. What effect does this transaction have on the accounting equation at the time the supplies are purchased?
- Assets increase and stockholders' equity decreases
  - Assets and liabilities increase
  - There is no effect on the accounting equation, as one asset account increases while another asset account decreases.
  - There is no effect on the accounting equation, as the transaction should not be recognized until April.

ANS: C

PTS: 1

DIF: Difficulty: Moderate

REF: CS2-1

OBJ: LO: 2-3

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Analysis

NOT: 2 min.

23. High Point Furniture Company manufactures furniture. The company has applied for a sizeable loan to expand its operations. Based on the company's annual report, the loan officer concludes that High Point is very profitable and appears to have a strong financial position. However, watching the nightly news on television that evening, the banker discovers that High Point is a defendant in a class action lawsuit related to defective products. Serious injuries were allegedly caused by the company's infant high chairs overturning. The television news report is an example of financial information that is
- predictable.
  - conservative.
  - relevant.
  - comparable.

ANS: C

PTS: 1

DIF: Difficulty: Challenging

OBJ: LO: 2-1

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP

KEY: Bloom's: Comprehension

NOT: 2 min.

24. If an investor can use accounting information for two different companies to evaluate the types and amounts of expenses, the information is said to have the quality of
- comparability.
  - consistency.
  - neutrality.
  - materiality.

ANS: A

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-1

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP

KEY: Bloom's: Knowledge

NOT: 1 min.

25. Hunsinger Enterprises purchases many small pieces of office furniture, such as trash cans, that cost less than \$100 each. The company accounts for these items as expenses when acquired rather than reporting them as property, plant, and equipment on its balance sheet. The company's accountant states that no accounting principle has been violated. Justification for expensing these furniture items is based on cost vs. benefit considerations as well as the accounting constraint of
- conservatism.
  - materiality.
  - neutrality.
  - verifiability.

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Comprehension  
NOT: 2 min.

26. A company follows the qualitative characteristic of consistency. This means that
- For expenses, the company uses the same account names as used by its competitors.
  - The company has elected certain accounting principles that can never be changed.
  - The company applies the same accounting principles each period.
  - The company applies the same accounting principles as its competitors.

ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 2 min.

27. Information that is material means that an error in recording the dollar amount of a transaction would
- likely affect the judgment of someone relying on the financial statements.
  - not affect the decisions of financial statement users.
  - not impact a business decision of a creditor.
  - result in the overstatement of assets or income.

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 2 min.

28. An accountant is uncertain about the best estimate of an amount for a business transaction. If there are two possible amounts that could be recorded, the amount least likely to overstate assets and earnings is selected. Which of the following qualities is characterized by this action?
- comparability.
  - conservatism.
  - materiality.
  - neutrality.

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 2 min.

29. The qualitative characteristics of accounting information include
- reliability.
  - cash flow information.
  - all accounting information.
  - assets reported on the Balance Sheet.

ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP              KEY: Bloom's: Knowledge  
NOT: 1 min.

30. A novelties company makes cash sales to customers. What effect does this transaction have on the accounting equation?
- Liabilities and retained earnings increase.
  - Assets and liabilities increase.



- c. Assets and retained earnings increase.
- d. There is no effect on the accounting equation, as one asset account increases while another asset account decreases.

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1                      OBJ: LO: 2-3                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.

31. Two friends decide to launch a new business by investing \$25,000 each in Hot Spot Tanning. They are given shares of stock as evidence of their ownership interest. What effect does this transaction have on the accounting equation?
- a. Assets and liabilities increase.
  - b. Assets and contributed capital increase.
  - c. Liabilities increase and retained earnings decrease.
  - d. Assets and liabilities decrease.

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1                      OBJ: LO: 2-3                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.

32. Machinery is purchased on credit. What effect does this transaction have on the accounting equation?
- a. Assets and liabilities increase.
  - b. Assets and stockholders' equity increase.
  - c. Liabilities increase and stockholders' equity decreases.
  - d. Assets and liabilities decrease.

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1                      OBJ: LO: 2-3                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.

33. A company provided services to customers then sent them invoices for the amounts owed. What effect does this transaction have on the accounting equation?
- a. Assets and liabilities increase.
  - b. Assets and retained earnings increase.
  - c. Liabilities decrease and contributed capital increases.
  - d. Assets and liabilities decrease.

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1                      OBJ: LO: 2-3                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.

34. Hypnosis Institute received payments from customers who had been billed earlier for services provided. What effect does this transaction have on the accounting equation?
- a. Assets and liabilities increase.
  - b. Assets and stockholders' equity increase.
  - c. Assets and liabilities decrease.
  - d. There is no effect on the accounting equation, as one asset account increases while another asset account decreases.

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1                      OBJ: LO: 2-3                      NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Analysis

NOT: 2 min.

35. Payment is made for machinery purchases previously on credit. What effect does this transaction have on the accounting equation?
- Assets and liabilities increase.
  - Assets and contributed capital increase.
  - Liabilities decrease and retained earnings increase.
  - Assets and liabilities decrease.

ANS: D

PTS: 1

DIF: Difficulty: Moderate

REF: CS2-1

OBJ: LO: 2-3

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Analysis

NOT: 2 min.

36. The telephone bill for the current period is received and recorded, but payment will be made later. What effect does this transaction have on the accounting equation?
- Assets and liabilities increase.
  - Assets and contributed capital increase.
  - Liabilities increase and retained earnings decrease.
  - Assets and liabilities decrease.

ANS: C

PTS: 1

DIF: Difficulty: Moderate

REF: CS2-1

OBJ: LO: 2-3

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Analysis

NOT: 2 min.

37. Payment is made for the telephone bill which was recorded previously. What effect does this transaction have on the accounting equation?
- Assets and liabilities increase.
  - Assets and retained earnings increase.
  - Liabilities increase and contributed decreases.
  - Assets and liabilities decrease.

ANS: D

PTS: 1

DIF: Difficulty: Moderate

REF: CS2-1

OBJ: LO: 2-3

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Analysis

NOT: 2 min.

38. Services are provided for customers who pay for their services immediately. What effect does this transaction have on the accounting equation?
- Assets and liabilities increase.
  - Assets and retained earnings increase.
  - Liabilities increase and retained earnings decreases.
  - Assets and liabilities decrease.

ANS: B

PTS: 1

DIF: Difficulty: Moderate

REF: CS2-1

OBJ: LO: 2-3

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Analysis

NOT: 2 min.

39. Dividends are declared and paid to the company's stockholders. What effect does this transaction have on the company's accounting equation?
- Assets and liabilities decrease.
  - Assets and retained earnings decrease.

- c. Liabilities decrease and retained earnings increases.
- d. Liabilities increase and contributed capital decreases.

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1              OBJ: LO: 2-3              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.

40. When a firm borrows money, one effect on the accounting equation is a(n)
- a. decrease in contributed capital.
  - b. increase in assets.
  - c. decrease in liabilities.
  - d. decrease in assets.

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1              OBJ: LO: 2-3              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.

41. Which of the following statements best describes the effects of recognizing revenue earned by a business entity?
- a. Assets increase only when cash sales are collected.
  - b. Stockholders' equity increases only when credit sales are made.
  - c. Assets and stockholders' equity increase when either cash or credit sales are made.
  - d. Assets increase and stockholders' equity decreases when either cash or credit sales are made.

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-3              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.

42. Which of the following best describes one effect of recognizing expenses incurred by a business entity?
- a. Assets will increase.
  - b. Liabilities will decrease.
  - c. Contributed capital will increase.
  - d. Retained earnings will decrease.

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1              OBJ: LO: 2-3              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.

43. Which of the following statements regarding a company's operating activities is true?
- a. Revenues decrease stockholders' equity.
  - b. Expenses increase stockholders' equity.
  - c. Expenses decrease stockholders' equity.
  - d. Dividends decrease assets.

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1              OBJ: LO: 2-3              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.

44. Which of the following transactions does **not** affect total assets?

- a. A bill is received for last month's utilities.
- b. Dividends are paid to stockholders.
- c. Customers are billed for services provided on credit.
- d. New equipment is purchased on credit.

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1              OBJ: LO: 2-3              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.

45. Which of the following transactions affects total liabilities?

- a. Equipment is purchased for cash.
- b. Services are provided for a customer for credit.
- c. Payment is made on a bank loan.
- d. Common stock is issued.

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1              OBJ: LO: 2-3              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.

46. A company purchased equipment for \$150,000 cash. What is the effect on total assets?

- a. increase
- b. decrease
- c. no net effect
- d. Cannot be determined from this limited information.

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-1              OBJ: LO: 2-3              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.

47. A consulting firm provided services last month and billed its client. This month, the company received payment from the customer. What impact does this month's transaction have on the firm's working capital?

- a. increase
- b. decrease
- c. no net effect
- d. Unable to determine with this limited information.

ANS: C                      PTS: 1                      DIF: Difficulty: Challenging  
OBJ: LO: 2-3              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.

48. A company's current ratio is 2.00. If the company makes a payment on account, what is the effect on the current ratio?

- a. increase
- b. decrease
- c. no change
- d. Unable to determine with this limited information.

ANS: A                      PTS: 1                      DIF: Difficulty: Challenging  
OBJ: LO: 2-3              NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Analysis

NOT: 2 min.

49. A company's current ratio is 1.5, what is the effect of obtaining land by issuing shares of stock?
- increase
  - decrease
  - no change
  - Unable to determine with this limited information.

ANS: C

PTS: 1

DIF: Difficulty: Challenging

OBJ: LO: 2-3

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Analysis

NOT: 2 min.

50. A list of all asset, liability, stockholders' equity, revenue, expense, and dividend accounts which are used by the company is called a(n)
- General Ledger.
  - General Journal.
  - Chart of Accounts.
  - Trial Balance.

ANS: C

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-4

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Knowledge

NOT: 1 min.

51. The two-column record used to accumulate monetary increases and decreases for individual assets, liabilities, stockholders' equity, revenue, expense, and dividends items is a(n)
- Chart of accounts
  - T-account
  - Trial Balance
  - Posting

ANS: B

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-4

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Knowledge

NOT: 1 min.

52. The chronological record in which transactions are initially recorded in the order in which they occur is called a(n)
- T-account.
  - Chart of Accounts.
  - Trial Balance.
  - Journal.

ANS: D

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-5

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Knowledge

NOT: 1 min.

53. A list of all active accounts and their balances at a particular date, which is used to prove the equality of debits and credits, is a
- Chart of Accounts.
  - General Ledger.
  - Journal.

d. Trial Balance.

ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-7              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

54. The process of transferring amounts from the book of original entry into specific account records is referred to as
- journalizing.
  - posting.
  - analyzing.
  - classifying.

ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-6              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

55. The correct term for the entry made on the left side of a T-account is
- debit.
  - credit.
  - posting.
  - journalizing.

ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-4              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

56. The term for the process of recording business events in a book of original entry is
- analyzing.
  - journalizing.
  - posting.
  - classifying.

ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-6              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

57. The system of accounting in which there are at least two accounts affected in every transaction so that the accounting equation stays in balance is called
- debit.
  - credit.
  - double-entry.
  - full disclosure.

ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-4              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

58. A credit means
- the event had a favorable impact on the entity's financial statements.

- b. the event had an unfavorable impact on the entity's financial statements.
- c. the event had an effect on the right side of the T-account.
- d. the event had the effect of increasing the account balance.

ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-4              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

59. When the amount for a debit entry in a journal is transferred to a specific account in the general ledger, it must be posted as a
- a. debit to the account in the general ledger.
  - b. credit to the account in the general ledger.
  - c. total amount, without regard to debit or credit, since the general ledger accounts do not have spaces for debit and credit entries.
  - d. decrease to the account in the general ledger.

ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-4              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

60. An entry made to the right side of an account is always a(n)
- a. debit.
  - b. credit.
  - c. increase.
  - d. decrease.

ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-4              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

61. An abbreviated version of an account, which is useful for analyzing the effects of business events, is the
- a. Chart of Accounts.
  - b. T-account.
  - c. Journal.
  - d. Double-entry system.

ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-4              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

62. Debit entries are used to
- a. increase asset accounts.
  - b. increase revenue accounts.
  - c. increase liability accounts.
  - d. increase stockholders' equity.

ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-2              OBJ: LO: 2-4              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

63. Credit entries are used to
- increase asset accounts.
  - increase liability accounts.
  - increase expense accounts.
  - increase dividends.

ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-2                OBJ: LO: 2-4               NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

64. Which of the following accounts is decreased by a debit entry?
- unearned revenue
  - prepaid insurance
  - cash
  - insurance expense

ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-2                OBJ: LO: 2-4               NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

65. Which of the following accounts is decreased by a debit entry?
- cash
  - prepaid insurance
  - accounts payable
  - insurance expense

ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-2                OBJ: LO: 2-4               NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

66. Which of the following accounts is increased by a debit entry?
- common stock
  - equipment
  - notes payable
  - service revenue

ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-2                OBJ: LO: 2-4               NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

67. Which of the following accounts is increased by a credit entry?
- cash
  - dividends
  - capital stock
  - salary expense

ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-3                OBJ: LO: 2-4               NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.



68. All of the following accounts have normal debit balances **except**

- a. accounts receivable.
- b. dividends.
- c. supplies expense.
- d. service revenue.

ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-2 | CS2-3                      OBJ: LO: 2-4                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

69. All of the following accounts have normal credit balances **except**

- a. accounts payable.
- b. unearned revenue.
- c. common stock.
- d. inventory.

ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
REF: CS2-2                      OBJ: LO: 2-4                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 1 min.

70. Which pair of accounts has the same set of rules for debit and credit entries?

- a. common stock and accounts payable
- b. salary expense and retained earnings
- c. cash and notes payable
- d. sales revenue and accounts receivable

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-2                      OBJ: LO: 2-4                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 2 min.

71. Which pair of accounts has the same set of procedures for debit and credit entries?

- a. service revenue and rent expense
- b. dividends and retained earnings
- c. equipment and salary expense
- d. accounts receivable and accounts payable

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-2 | CS2-3                      OBJ: LO: 2-4                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Knowledge                      NOT: 2 min.

### **Happy Heights Country Club**

Selected accounts at July 31 are provided below:

<b>CASH</b>			<b>UNEARNED TUITION REVENUE</b>		
7/1 bal.	12,000			7/3	1,000
7/3	1,000				
7/5	3,600				
7/7	1,800				

ACCOUNTS RECEIVABLE				MEMBERSHIP REVENUE			
7/2	3,600		7/7	1,800		7/2	3,600
						7/5	3,600

72. Refer to Happy Heights Country Club. On which date did the country club sell a club membership on account?

a. July 2nd  
b. July 3rd  
c. July 5th  
d. July 7th

ANS: A                      PTS: 1                      DIF: Difficulty: Challenging  
REF: CS2-2 | CS2-3                      OBJ: LO: 2-4                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Application                      NOT: 2 min.

73. Refer to Happy Heights Country Club. On which date did the country club sell a club membership for cash?

a. July 2nd  
b. July 3rd  
c. July 5th  
d. July 7th

ANS: C                      PTS: 1                      DIF: Difficulty: Challenging  
REF: CS2-2 | CS2-3                      OBJ: LO: 2-4                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Application                      NOT: 2 min.

74. Refer to Happy Heights Country Club. On which date did the country club collect golf lessons revenue in advance?

a. July 2nd  
b. July 3rd  
c. July 5th  
d. July 7th

ANS: B                      PTS: 1                      DIF: Difficulty: Challenging  
REF: CS2-2 | CS2-3                      OBJ: LO: 2-4 | LO: 2-5  
NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Application                      NOT: 2 min.

75. Refer to Happy Heights Country Club. Which of the following describes the transactions which occurred on July 7th?

a. sold club membership on credit  
b. collected revenue in advance  
c. collected accounts receivable  
d. sold club membership for cash

ANS: C                      PTS: 1                      DIF: Difficulty: Challenging  
REF: CS2-2                      OBJ: LO: 2-4 | LO: 2-5                      NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Evaluation                      NOT: 3 min.

76. Refer to Happy Heights Country Club. Assuming that there are no other transactions, how much was owed to the country club by its members at the end of the month?
- a. \$3,600
  - b. \$7,200
  - c. \$1,800
  - d. \$1,000

ANS: C

Accounts Receivable balance is  $\$3,600 - \$1,800 = \$1,800$

PTS: 1 DIF: Difficulty: Challenging OBJ: LO: 2-6 | LO: 2-7

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Application NOT: 2 min.

### HVAC Service

The following transactions occurred during November:

- Nov. 1 Sent bills to clients for services provided in August in the amount of \$12,000.
- Nov. 9 Purchased office equipment of \$4,000 and office supplies of \$150 from Office Depot receiving an invoice for \$4,150. None of the office supplies were used during November.
- Nov. 15 Paid for the office furniture and supplies purchased from Office Depot.
- Nov. 23 Received a \$350 bill from WKRP Radio for advertising. The bill will be paid next month.
- Nov. 30 Paid salaries of \$2,500 to employees.

77. Refer to HVAC Service. The journal entry to record the bills sent to clients will include a debit of \$12,000 to
- a. service revenue.
  - b. cash.
  - c. accounts receivable.
  - d. retained earnings.

ANS: C PTS: 1 DIF: Difficulty: Moderate  
REF: CS2-4 OBJ: LO: 2-5 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis NOT: 2 min.

78. Refer to HVAC Service. The journal entry to record the purchase of office equipment and supplies will include a credit to
- a. furniture & supplies.
  - b. cash.
  - c. accounts payable.
  - d. delivery expense.

ANS: C PTS: 1 DIF: Difficulty: Moderate  
REF: CS2-4 OBJ: LO: 2-5 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis NOT: 2 min.

79. Refer to HVAC Service. The journal entry to record payment for the office equipment and supplies will include a debit to
- salary expense.
  - salaries payable.
  - prepaid expenses.
  - accounts payable.

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-4              OBJ: LO: 2-5              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.

80. Refer to HVAC Service. The journal entry to record the bill received from WKRP Radio will include a debit to
- accounts receivable.
  - cash.
  - advertising expense.
  - accounts payable.

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-4              OBJ: LO: 2-5              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.

81. Refer to HVAC Service. The journal entry to record payment of the salaries will include a credit to
- salary expense.
  - salary payable.
  - prepaid salaries.
  - cash.

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-4              OBJ: LO: 2-5              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Analysis                      NOT: 2 min.

82. Refer to HVAC Service. Based on these transactions, what is the total amount of expense that should be reported on the company's income statement for the month?
- \$350
  - \$2,500
  - \$2,850
  - \$3,000

ANS: C  
 $\$350 \text{ advertising expense} + \$2,500 \text{ salary expense} = \$2,850$

PTS: 1                      DIF: Difficulty: Moderate                      REF: CS2-4  
OBJ: LO: 2-5              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Application                      NOT: 2 min.

**Hesson Properties, Inc.**

The following transactions occurred during June:

June 1                      Purchased two new maintenance carts on account at \$750 each. Payment is due in 30 days

- June 8 Accepted \$500 of advance payments from customers for services to be provided next month
- June 15 Received the utility bill for \$300. Payment is due in 30 days
- June 20 Billed customers \$1,500 services provided. Payment is due in 30 days.
- June 30 Received \$500 from customers who were billed earlier

83. Refer to Hesson Properties. What journal entry is required to record the purchase of the carts?

- |    |                  |       |       |
|----|------------------|-------|-------|
| a. | Equipment        | 1,500 |       |
|    | Accounts Payable |       | 1,500 |
| b. | Equipment        | 1,500 |       |
|    | Cash             |       | 1,500 |
| c. | Cash             | 1,500 |       |
|    | Equipment        |       | 1,500 |
| d. | Accounts Payable | 1,500 |       |
|    | Equipment        |       | 1,500 |

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
 REF: CS2-4                OBJ: LO: 2-5               NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
 KEY: Bloom's: Application                      NOT: 2 min.

84. Refer to Hesson Properties. What journal entry is required to record the cash collected in advance?

- |    |                     |     |     |
|----|---------------------|-----|-----|
| a. | Cash                | 500 |     |
|    | Service Revenue     |     | 500 |
| b. | Accounts Receivable | 500 |     |
|    | Service Revenue     |     | 500 |
| c. | Cash                | 500 |     |
|    | Unearned Revenue    |     | 500 |
| d. | Unearned Revenue    | 500 |     |
|    | Accounts Receivable |     | 500 |

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
 REF: CS2-4                OBJ: LO: 2-5               NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
 KEY: Bloom's: Application                      NOT: 3 min.

85. Refer to Hesson Properties. What journal entry is required to record the utility bill?

- |    |                     |     |     |
|----|---------------------|-----|-----|
| a. | Utilities Expense   | 300 |     |
|    | Cash                |     | 300 |
| b. | Accounts Receivable | 300 |     |
|    | Utilities Expense   |     | 300 |
| c. | Utilities Expense   | 300 |     |
|    | Accounts Payable    |     | 300 |
| d. | Cash                | 300 |     |
|    | Utilities Expense   |     | 300 |

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
 REF: CS2-4                OBJ: LO: 2-5               NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
 KEY: Bloom's: Application                      NOT: 3 min.

86. Refer to Hesson Properties. What journal entry is required to record the services provided to customers?

- |    |                     |       |       |
|----|---------------------|-------|-------|
| a. | Cash                | 1,500 |       |
|    | Accounts Receivable |       | 1,500 |
| b. | Accounts Receivable | 1,500 |       |
|    | Service Revenue     |       | 1,500 |
| c. | Service Revenue     | 1,500 |       |
|    | Cash                |       | 1,500 |
| d. | Service Revenue     | 1,500 |       |
|    | Accounts Payable    |       | 1,500 |

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-4                OBJ: LO: 2-5            NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Application                      NOT: 3 min.

87. Refer to Hesson Properties. What journal entry is required to record the collections on account from customers?

- |    |                     |     |     |
|----|---------------------|-----|-----|
| a. | Cash                | 500 |     |
|    | Accounts Receivable |     | 500 |
| b. | Accounts Receivable | 500 |     |
|    | Service Revenue     |     | 500 |
| c. | Accounts Payable    | 500 |     |
|    | Cash                |     | 500 |
| d. | Service Revenue     | 500 |     |
|    | Cash                |     | 500 |

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-4                OBJ: LO: 2-5            NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Application                      NOT: 2 min.

88. Refer to Hesson Properties. How much is still owed to the company by its customers at the end of the month?

- a. \$0
- b. \$500
- c. \$1,000
- d. \$1,500

ANS: C  
 $\$1,500 - \$500 = \$1,000$

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-5  
NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
KEY: Bloom's: Application                      NOT: 3 min.

89. What type of account is increased with a debit but represents a **decrease** in retained earnings?

- a. liability
- b. asset
- c. revenue
- d. dividends

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
REF: CS2-2                OBJ: LO: 2-4            NAT: BUSPROG: Communication

90. Which of the following statements is true?

- a. If a debit entry is made to an account in the general journal, the same account will receive a credit entry when the amount is posted to the general ledger.
- b. If all transactions are correctly posted to the general ledger, the sum of the accounts with debit balances should be equal to the sum of the accounts with credit balances.
- c. Posting occurs when numbers in the general ledger accounts are transferred to the general journal.
- d. If the sum of the debit balances equals the sum of the credit balances, this proves that there were no mistakes made in the posting process.

ANS: B

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-7

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle

KEY: Bloom's: Application

NOT: 3 min.

91. Which of the following statements is true?

- a. An entry in a general ledger account can be traced to the trial balance by referring to the page listed in the posting reference column of that ledger account.
- b. The posting of an amount recorded in the general ledger can be verified by referring to the account number listed in the posting reference column on that line in the general journal.
- c. Business transactions are recorded first in the general ledger, then that information is transferred to the general journal.
- d. No explanation is needed for each entry in the general ledger.

ANS: B

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-6

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle

KEY: Bloom's: Application

NOT: 3 min.

92. A trial balance is a(n)

- a. optional financial statement used only by creditors.
- b. tool used to prove the equality of debits and credits in the general ledger.
- c. list of accounts and their balances taken from the chart of accounts.
- d. financial statement which can be used in place of a balance sheet.

ANS: B

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-7

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle

KEY: Bloom's: Knowledge

NOT: 1 min.

93. If the sum of the debits is not equal to the sum of the **credits** in a trial balance, then

- a. there is no concern because the two amounts are not meant to be equal.
- b. the chart of accounts does not balance.
- c. it is safe to proceed with the preparation of financial statements.
- d. it is likely that an error was made in journalizing or posting transactions or in computing the account balance.

ANS: D

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-7

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle

KEY: Bloom's: Knowledge

NOT: 2 min.

94. Which of the following will **not** cause a trial balance to be out of balance?
- The balance for the account is incorrectly computed.
  - A debit entry is posted as a credit.
  - A credit entry is posted to the wrong account, but still as a credit.
  - An account is accidentally omitted from the trial balance.

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
 OBJ: LO: 2-7              NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
 KEY: Bloom's: Application                      NOT: 2 min.

## PROBLEM

1. Listed below are selected accounts. In the blank spaces provided for each account, indicate what type of account it is, its normal balance, and the debit/credit rules for increasing and decreasing it. Use the following abbreviations for your answer:

<u>Type of Account</u>	<u>Normal Account Balance</u>	<u>Rules to Increase or Decrease the Account</u>
A = Asset	Dr = Debit	Dr = Debit
L = Liability	Cr = Credit	Cr = Credit
SE = Stockholders' Equity		
R = Revenue		
E = Expense		
D = Dividend		

	<u>Type of Account</u>	<u>Normal Balance</u>	<u>Rule to Increase</u>	<u>Rule to Decrease</u>
Example: Cash	A	Dr	Dr	Cr
a. Accounts Payable	_____	_____	_____	_____
b. Retained Earnings	_____	_____	_____	_____
c. Prepaid Insurance	_____	_____	_____	_____
d. Service Revenues	_____	_____	_____	_____
e. Notes Payable	_____	_____	_____	_____
f. Intangibles	_____	_____	_____	_____
g. Common Stock	_____	_____	_____	_____
h. Salary Expense	_____	_____	_____	_____
i. Accounts Receivable	_____	_____	_____	_____
j. Unearned Revenues	_____	_____	_____	_____

ANS:

	<u>Type of Account</u>	<u>Normal Balance</u>	<u>Rule to Increase</u>	<u>Rule to Decrease</u>
Example: Cash	A	Dr	Dr	Cr
a. Accounts Payable	L	Cr	Cr	Dr
b. Retained Earnings	SE	Cr	Cr	Dr
c. Prepaid Insurance	A	Dr	Dr	Cr
d. Service Revenues	R	Cr	Cr	Dr
e. Notes Payable	L	Cr	Cr	Dr
f. Intangibles	A	Dr	Dr	Cr
g. Common Stock	SE	Cr	Cr	Dr
h. Salary Expense	E	Dr	Dr	Cr
i. Accounts Receivable	A	Dr	Dr	Cr



j.      Unearned Revenues                      L                      Cr                      Cr                      Dr

PTS: 1                      DIF: Difficulty: Easy                      REF: CS2-1 | CS2-2 | CS2-3  
 OBJ: LO: 2-3 | LO: 2-4                      NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
 KEY: Bloom's: Knowledge                      NOT: 20 min.

2. Presented below are accounts from the general ledger:

- |     | <u><b>Account</b></u> |
|-----|-----------------------|
| 1.  | Cash                  |
| 2.  | Accounts Receivable   |
| 3.  | Prepaid Insurance     |
| 4.  | Accounts Payable      |
| 5.  | Common Stock          |
| 6.  | Service Revenues      |
| 7.  | Advertising Expense   |
| 8.  | Salary Expense        |
| 9.  | Interest Expense      |
| 10. | Income Tax Expense    |

Each of the accounts has been assigned an identification number which you will use as answers for the transactions described below. Enter the account numbers in the blank spaces under the headings **Debit** and **Credit** to indicate the accounts debited and credited when each transaction is recorded in a general journal.

	<u><b>Debit</b></u>	<u><b>Credit</b></u>
A) Issues common stock for cash.		
B) Receives a bill for advertisements run on a local radio station; payment is due in 30 days		
C) Pays interest due on a notes payable.		
D) Provides services to a customer and agrees to accept payment in 30 days.		

ANS:

	<u><b>Debit</b></u>	<u><b>Credit</b></u>
A) Issues common stock to for cash.	1	5
B) Receives a bill for advertisements run on a local radio station; payment is due in 30 days	7	4
C) Pays interest due on a notes payable.	9	1
D) Provides services to a customer and agrees to accept payment in 30 days.	2	6

PTS: 1                      DIF: Difficulty: Easy                      REF: CS2-4  
 OBJ: LO: 2-5                      NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
 KEY: Bloom's: Knowledge                      NOT: 10 min.

3. Heart & Hands Clinic began business as a corporation in 2013. Several transactions which occurred early in 2013 are described below. Record each transaction in proper journal form, excluding written explanations.

- A)      Jan. 23, 2013                      Stockholders invested \$70,000 in the business and received shares

of common stock as evidence of ownership.

- B) Feb. 1, 2013 Rent of \$1,600 was paid for the month of February.
- C) Feb. 7, 2013 Equipment with a cost of \$3,000 was purchased on credit; payment is due in 30 days.
- D) Feb. 14, 2013 Fees totaling \$5,400 were billed to patients; \$2,900 was collected immediately and the balance of \$2,500 is due within 30 days.
- E) Feb. 18, 2013 Full payment was made for the equipment purchased on Feb. 7th.
- F) Feb. 22, 2013 \$1,900 was collected from patients with balances due from Feb. 14th.
- G) Feb. 28, 2013 Employee salaries of \$3,300 were paid.

ANS:

	<u>Date</u>	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
A)	Jan. 23, 2013	Cash	70,000	
		Common Stock		70,000
B)	Feb. 1, 2013	Rent Expense	1,600	
		Cash		1,600
C)	Feb. 7, 2013	Equipment	3,000	
		Accounts Payable		3,000
D)	Feb. 14, 2013	Cash	2,900	
		Accounts Receivable	2,500	
		Service Revenue		5,400
E)	Feb. 18, 2013	Accounts Payable	3,000	
		Cash		3,000
F)	Feb. 22, 2013	Cash	1,900	
		Accounts Receivable		1,900
G)	Feb. 28, 2013	Salary Expense	3,300	
		Cash		3,300

PTS: 1 DIF: Difficulty: Easy REF: CS2-4  
 OBJ: LO: 2-5 NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
 KEY: Bloom's: Application NOT: 35 min.

4. Described below are several transactions which might be recorded by a music supply company. Several accounts from the company's chart of accounts are also listed below. Using these account titles, record each transaction in proper journal entry format. A written explanation for each journal entry is not required.

Accounts:

Cash Common Stock

Accounts Receivable	Retained Earnings
Inventory	Sales Revenue
Accounts Payable	Selling Expenses
Unearned Revenue	Administrative Expenses

- A) Bills are mailed for musical instruments sold to customers, \$225,000
- B) Customers pay for musical instruments in advance, \$130,000
- C) Administrative employees are paid their monthly salaries, \$14,000
- D) An invoice is received for \$15,200 of new musical instruments purchased for sale to customers; payment is due in 30 days
- E) Payments are received from customers for amounts billed in a previous transaction, \$135,000
- F) Full payment is made for the musical instruments invoice received in a previous transaction

ANS:

	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
A)	Accounts Receivable	225,000	
	Sales Revenue		225,000
B)	Cash	130,000	
	Unearned Revenue		130,000
C)	Administrative Expenses	14,000	
	Cash		14,000
D)	Inventory	15,200	
	Accounts Payable		15,200
E)	Cash	135,000	
	Accounts Receivable		135,000
F)	Accounts Payable	15,200	
	Cash		15,200

PTS: 1      DIF: Difficulty: Easy      REF: CS2-4  
 OBJ: LO: 2-5      NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
 KEY: Bloom's: Application      NOT: 30 min.

5. Several transactions are listed below, with the accounting equation stated to the right side of each. Use the following identification codes to indicate the effects of each transaction on the accounting equation: I = Increase; D = Decrease; NE = No Effect. Write your answers in the space provided under the accounting equation, being sure to include an identification code for each element of the accounting equation. An example is provided before the first transaction.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
Example: Common stock is issued to investors	I		NE		I

in the company

A)	Services are sold for cash.	_____	_____	_____
B)	Equipment is purchased on credit.	_____	_____	_____
C)	Payment is made for equipment purchased on credit.	_____	_____	_____
D)	Services are sold for credit.	_____	_____	_____
E)	Cash is collected from customers for accounts receivable balances.	_____	_____	_____
F)	Dividends are paid to stockholders.	_____	_____	_____
G)	Land and building are acquired in exchange for shares of common stock.	_____	_____	_____
H)	Utility bill is received and recorded; will pay later.	_____	_____	_____

ANS:

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
Example: Common stock is issued to investors in the company	I		NE		I
A) Services are sold for cash.	I		NE		I
B) Equipment is purchased on credit.	I		I		NE
C) Payment is made for equipment purchased on credit.	D		D		NE
D) Services are sold for credit.	I		NE		I
E) Cash is collected from customers for accounts receivable balances.	NE		NE		NE
F) Dividends are paid to stockholders.	D		NE		D
G) Land and building are acquired in exchange for shares of common stock.	I		NE		I
H) Utility bill is received and recorded; will pay later.	NE		I		D

PTS: 1      DIF: Difficulty: Moderate      REF: CS2-1  
 OBJ: LO: 2-3      NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
 KEY: Bloom's: Analysis      NOT: 25 min.

6. Several transactions are listed below, with an expanded accounting equation stated to the right side of each. Use the following identification codes to indicate the effects of each transaction on the accounting equation: I = Increase; D = Decrease; NE = No Effect. Write your answers in the space provided under the accounting equation, being sure to include an identification code for each element of the accounting equation.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Contributed Capital</u>	+	<u>Retained Earnings</u>
A) Issue common stock	_____		_____		_____		_____
B) Borrow money from the bank	_____		_____		_____		_____
C) Purchase land for cash	_____		_____		_____		_____
D) Purchase a 1-year insurance policy	_____		_____		_____		_____

E)	Purchase supplies on credit	_____	_____	_____	_____
F)	Services are provided for cash.	_____	_____	_____	_____
G)	Receive cash in advance for services to be provided next week.	_____	_____	_____	_____
H)	Pay utilities for current month	_____	_____	_____	_____
I)	Pay employee salaries for current month	_____	_____	_____	_____

ANS:

		<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Contributed Capital</u>	+	<u>Retained Earnings</u>
A)	Issue common stock	I		NE		I		NE
B)	Borrow money from the bank	I		I		NE		NE
C)	Purchase land for cash	NE		NE		NE		NE
D)	Purchase a 1-year insurance policy	NE		NE		NE		NE
E)	Purchase supplies on credit	I		I		NE		NE
F)	Services are provided for cash.	I		NE		NE		I
G)	Receive cash in advance for services to be provided next week.	I		I		NE		NE
H)	Pay utilities	D		NE		NE		D
I)	Pay employee salaries	D		NE		NE		D

PTS: 1      DIF: Difficulty: Moderate      REF: CS2-1  
 OBJ: LO: 2-3      NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
 KEY: Bloom's: Analysis      NOT: 30 min.

7. Several accounts from the financial statements of Hotlanta Promotions, Inc. are listed below. In the two columns provided for answers, indicate the type of account and the normal account balance. Use the following identification codes for your answers:

**Type of Account**

A = Asset

L = Liability

SE = Stockholders' Equity

R = Revenue

E = Expense

**Normal Balance**

Dr = Debit

Cr = Credit

	<u>Type of Account</u>	<u>Normal Balance</u>
A)	Prepaid Rent	_____
B)	Television Equipment	_____
C)	Unearned Revenue	_____
D)	Service Revenue	_____

E)	Common Stock		
F)	Accounts Payable		
G)	Income Tax Expense		
H)	Interest Income		
I)	Salary Expense		
J)	Notes Payable		

ANS:

	<u>Type of Account</u>	<u>Normal Balance</u>
A) Prepaid Rent	A	Dr
B) Television Equipment	A	Dr
C) Unearned Revenue	L	Cr
D) Service Revenue	R	Cr
E) Common Stock	SE	Cr
F) Accounts Payable	L	Cr
G) Income Tax Expense	E	Dr
H) Interest Income	R	Cr
I) Salary Expense	E	Dr
J) Notes Payable	L	Cr

PTS: 1      DIF: Difficulty: Moderate      REF: CS2-2 | CS2-3  
 OBJ: LO: 2-4      NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
 KEY: Bloom's: Knowledge      NOT: 20 min.

### Holiday Marina

The bookkeeper prepared the following journal entries during May. Assume that the descriptions of the entries are correct.

#### Journal (partial):

<u>Date</u>	<u>Accounts and Descriptions</u>	<u>Debit</u>	<u>Credit</u>
May 5	Accounts Receivable	1,600	
	Service Revenue		1,600
	Billed customers for services completed		
May 11	Cash	500	
	Service Revenue		500
	Collected from a customer billed on May 5 for services rendered		
May 15	Office Supplies	700	
	Accounts Payable		700
	Purchased furniture on credit; payment due in 30 days		
May 25	Office Furniture	700	
	Cash		500
	Paid the \$700 furniture bill received on May 15		

8. Refer to Holiday Marina. Identify the transactions that the bookkeeper recorded incorrectly in the journal. Prepare the journal entry that the bookkeeper should have made for each transaction that you identify as being made incorrectly.

ANS:

The May 11, 15, and 25 entries were recorded incorrectly. The correct entries are:

<u>Date</u>	<u>Accounts and Descriptions</u>	<u>Debit</u>	<u>Credit</u>
May 11	Cash	500	
	Accounts Receivable		500
	Collected from a customer for services billed earlier		
May 15	Office Furniture	700	
	Accounts Payable		700
	Purchased furniture on credit; payment due in 30 days		
May 25	Accounts Payable	700	
	Cash		700
	Paid the furniture bill		

PTS: 1                      DIF: Difficulty: Moderate                      REF: CS2-4  
OBJ: LO: 2-5              NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
KEY: Bloom's: Application                      NOT: 20 min.

9. Refer to Holiday Marina. Assume that the incorrect journal entries have been posted to the general ledger. For each incorrect journal entry, explain why the error would or would not be discovered by preparing a trial balance.

ANS:

May 11: Because equal dollar amounts were recorded in the journal entry, preparation of a trial balance would not help discover the error.

May 15: Because equal dollar amounts were recorded in the journal entry, preparation of a trial balance would not help discover the error.

May 25: This error would be discovered by preparing a trial balance because the total debits would be \$200 higher than the total credits.

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-7  
NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
KEY: Bloom's: Comprehension                      NOT: 15 min.

### **Hatcher Tool Service**

The following transactions occurred during June 2013:

June 1	Purchased a service truck for \$25,500, paying \$5,500 now and issuing a note payable for the balance; the note is due in monthly installments of \$500 plus 10% interest on the unpaid principal balance.
June 8	Performed services of \$30,400. Received \$6,400 cash from customers and \$24,000 for customers billed for completed services.
June 22	Issued common stock in exchange for land having a fair value of \$70,000.
June 30	Received an invoice for \$2,400 from the company's advertising agency for

radio and television ads which were run during the month; the invoice is due in 30 days.

10. Refer to Hatcher Tool Service. Indicate the economic effects of each transaction above on the accounting equation. Use the following format for your answers. Show the dollar amounts in the appropriate columns and use a plus (+) sign to indicate an increase and a minus (–) sign to indicate a decrease.

<b>Transaction Date</b>	<b><u>Assets</u></b>	<b>=</b>	<b><u>Liabilities</u></b>	<b>+</b>	<b>Stockholders' <u>Equity</u></b>
ANS:					
<b>Transaction Date</b>	<b><u>Assets</u></b>	<b>=</b>	<b><u>Liabilities</u></b>	<b>+</b>	<b>Stockholders' <u>Equity</u></b>
June 1	+20,000 (25,500 – 5,500)		+20,000		
June 8	+30,400 (6,400 + 24,000)				+30,400
June 22	+70,000				+70,000
June 30			+2,400		–2,400

PTS: 1      DIF: Difficulty: Moderate      REF: CS2-1  
 OBJ: LO: 2-3      NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
 KEY: Bloom's: Application      NOT: 20 min.

11. Refer to Hatcher Tool Service. Record each transaction in proper journal entry format in the journal provided. A written explanation for each journal entry is not required.

<b>JOURNAL</b>				
<b><u>Date</u></b>	<b><u>Accounts</u></b>		<b><u>Debit</u></b>	<b><u>Credit</u></b>
ANS:				
<b>JOURNAL</b>				
<b><u>Date</u></b>	<b><u>Accounts</u></b>		<b><u>Debit</u></b>	<b><u>Credit</u></b>
June 1	Vehicles		25,500	
	Cash			5,500
	Note Payable			20,000
June 8	Cash		6,400	
	Accounts Receivable		24,000	
	Service Revenue			30,400
June 22	Land		70,000	
	Common Stock			70,000
June 30	Advertising Expense		2,400	
	Accounts Payable			2,400



PTS: 1 DIF: Difficulty: Moderate REF: CS2-4  
 OBJ: LO: 2-5 NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
 KEY: Bloom's: Application NOT: 20 min.

12. Refer to Hatcher Tool Service. Set up T-accounts and post each transaction to the T-accounts.

ANS:

<b>Vehicles</b>	<b>Cash</b>	<b>Notes Payable</b>
6/1 25,500	6/8 6,400	6/1 20,000
	6/1 5,500	
<b>Accounts Receivable</b>	<b>Service Revenue</b>	<b>Land</b>
6/8 24,000	6/8 30,400	6/22 70,000
<b>Common Stock</b>	<b>Advertising Expense</b>	<b>Accounts Payable</b>
6/22 70,000	6/30 2,400	6/30 2,400

PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-6  
 NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
 KEY: Bloom's: Application NOT: 15 min.

13. Refer to Hatcher Tool Service. Prepare a trial balance in proper format. Assume that there are no additional accounts or balances other than those created from the June transactions.

ANS:

<b>Hatcher Tool Service</b>		
Trial Balance		
June 30, 2013		
<b><u>Account</u></b>	<b><u>Debit</u></b>	<b><u>Credit</u></b>
Cash	\$ 900	
Accounts Receivable	24,000	
Land	70,000	
Vehicles	25,500	
Accounts Payable		\$ 2,400
Notes Payable		20,000
Common Stock		70,000
Service Revenue		30,400
Advertising Expense	2,400	
	<u>\$122,800</u>	<u>\$122,800</u>

PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-7  
 NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
 KEY: Bloom's: Application NOT: 25 min.

14. The T-accounts presented below are taken from the general ledger of Health Force Corporation on March 31, 2013. Determine the balance of each account and present them in proper trial balance format.

<b>Cash</b> <hr/> 5,000      12,000 9,000      650 44,000    15,200 36,000    650 8,000     16,100 3,000     650 24,000    16,400 10,000    3,200 750	<b>Accounts Payable</b> <hr/> 3,200      4,200	<b>Common Stock</b> <hr/> 30,000 24,000
	<b>Salaries Payable</b> <hr/> 5,000	<b>Service Revenue</b> <hr/> 21,000 9,000 22,000 36,000
<b>Accounts Receivable</b> <hr/> 21,000      8,000 3,000	<b>Unearned Revenue</b> <hr/> 22,000      44,000	<b>Advertising Expense</b> <hr/> 4,200
<b>Prepaid Insurance</b> <hr/> 1,200      100 100 100	<b>Notes Payable</b> <hr/> 16,500	<b>Salaries Expense</b> <hr/> 15,200 16,100 16,400 5,000
<b>Equipment</b> <hr/> 35,300		<b>Rent Expense</b> <hr/> 650 650 650
		<b>Insurance Expense</b> <hr/> 100 100 100
		<b>Dividends</b> <hr/> 7,750

ANS:

**Health Force Corporation**  
Trial Balance  
March 31, 2013

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash	\$ 73,400	
Accounts Receivable	10,000	
Prepaid Insurance	900	
Equipment	35,300	
Accounts Payable		\$ 1,000

Salaries Payable		5,000
Unearned Revenue		22,000
Notes Payable		16,500
Common Stock		54,000
Service Revenue		88,000
Advertising Expense	4,200	
Salaries Expense	52,700	
Rent Expense	1,950	
Insurance Expense	300	
Dividends	7,750	
	<u>\$186,500</u>	<u>\$186,500</u>

PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-7  
 NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
 KEY: Bloom's: Application NOT: 30 min.

15. The list of accounts presented below are from the accounting records of Hoosier Momma Promotions on September 30, 2013. Assume that each account balance is normal, and present them in proper trial balance format.

Cash	\$ 4,200
Short-term Investments	13,000
Accounts Receivable	4,500
Inventory	23,000
Land	90,000
Building	700,000
Furniture	450,000
Equipment	281,700
Accounts Payable	7,200
Salaries Payable	4,100
Unearned Revenue	17,000
Interest Payable	2,000
Notes Payable	70,000
Common Stock	460,000
Retained Earnings	977,000
Sales	158,000
Cost of Goods Sold	78,000
Salaries Expense	24,000
Rent Expense	6,000
Insurance Expense	1,000
Depreciation Expense	11,000
Utility Expense	900
Dividends	8,000

ANS:

**Hoosier Momma Promotions**

Trial Balance

September 30, 2013

<u>Account</u>		<u>Debit</u>	<u>Credit</u>
Cash	\$	4,200	
Short-term investments		13,000	

Accounts Receivable	4,500	
Inventory	23,000	
Land	90,000	
Building	700,000	
Furniture	450,000	
Equipment	281,700	
Accounts Payable		\$ 7,200
Salaries Payable		4,100
Unearned Revenue		17,000
Interest Payable		2,000
Notes Payable		70,000
Common Stock		460,000
Retained Earnings		977,000
Sales		158,000
Cost of Goods Sold	78,000	
Salaries Expense	24,000	
Rent Expense	6,000	
Insurance Expense	1,000	
Depreciation Expense	11,000	
Utility Expense	900	
Dividends		
	<u>8,000</u>	
	<u>\$1,695,300</u>	<u>\$1,695,300</u>

PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-7  
 NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
 KEY: Bloom's: Application NOT: 30 min.

### H&R Clock Company

The following transactions were incurred during July 2013:

- July 1 Raised \$30,000 by issuing a note to the bank for \$15,000 and issuing \$15,000 of common stock.
- July 5 Purchased \$5,100 of office supplies on credit; payment is due in 30 days.
- July 12 Performed \$18,000 of services for customers on credit; collection is due in 30 days.
- July 13 Performed services for customers and collected \$8,800.
- July 20 Paid for the supplies purchased on July 5.
- July 22 Collected \$15,000 of the amounts due from customers.
- July 30 Received and paid the utility bill for the month of July, \$640.
- July 31 Paid employee salaries of \$3,800.

16. Refer to H&R Clock Company. Use the following format to indicate the economic effects of each transaction above on the expanded accounting equation. Show the dollar amounts in the appropriate columns and use a plus (+) sign to indicate an increase and a minus (–) sign to indicate a decrease.

<b>Transaction Date</b>	<b><u>Assets</u></b>	<b>=</b>	<b><u>Liabilities</u></b>	<b>+</b>	<b><u>Contributed Capital</u></b>	<b>+</b>	<b><u>Retained Earnings</u></b>
ANS:							
<b>Transaction Date</b>	<b><u>Assets</u></b>	<b>=</b>	<b><u>Liabilities</u></b>	<b>+</b>	<b><u>Contributed Capital</u></b>	<b>+</b>	<b><u>Retained Earnings</u></b>
July 1	+30,000	=	+15,000	+	+15,000	+	
July 5	+5,100		+5,100				
July 12	+18,000						+18,000
July 13	+8,800						+8,800
July 20	-5,100		-5,100				
July 22	-0- (+15,000 - 15,000)						
July 30	-640						-640
July 31	-3,800						-3,800

PTS: 1                      DIF: Difficulty: Moderate                      REF: CS2-1  
 OBJ: LO: 2-3              NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
 KEY: Bloom's: Application                      NOT: 30 min.

17. Refer to H&R Clock Company. Record each transaction in proper journal entry format in the journal provided. A written explanation for each journal entry is not required.

<b>JOURNAL</b>				
<b><u>Date</u></b>	<b><u>Accounts</u></b>		<b><u>Debit</u></b>	<b><u>Credit</u></b>
ANS:				
<b>JOURNAL</b>				
<b><u>Date</u></b>	<b><u>Accounts</u></b>		<b><u>Debit</u></b>	<b><u>Credit</u></b>
July 1	Cash		30,000	
	Note Payable			15,000
	Common Stock			15,000
July 5	Office Supplies		5,100	
	Accounts Payable			5,100
July 12	Accounts Receivable		18,000	
	Service Revenue			18,000
July 13	Cash		8,800	
	Service Revenue			8,800
July 20	Accounts Payable		5,100	

	Cash		5,100
July 22	Cash	15,000	
	Accounts Receivable		15,000
July 30	Utilities Expense	640	
	Cash		640
July 31	Salaries Expense	3,800	
	Cash		3,800

PTS: 1 DIF: Difficulty: Moderate REF: CS2-4  
 OBJ: LO: 2-5 NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
 KEY: Bloom's: Application NOT: 30 min.

18. Refer to H&R Clock Company. Set up T-accounts and post each transaction to the T-accounts.

ANS:

Cash		Note Payable		Common Stock	
7/1	7/20		7/1		7/1
30,000	5,100		15,000		15,000
7/13	7/30				
8,800	640				
7/22	7/31				
15,000	3,800				
Office Supplies		Accounts Payable		Accounts Receivable	
7/5		7/20	7/5	7/12	7/22
5,100		5,100	5,100	18,000	15,000
Service Revenue		Utilities Expense		Salaries Expense	
	7/12	7/30		7/31	
	18,000	640		3,800	
	7/13				
	8,800				

PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-6  
 NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
 KEY: Bloom's: Application NOT: 20 min.

19. Refer to H&R Clock Company. Prepare a trial balance in proper format. Assume that the company had no additional accounts or balances other than those created from the July transactions.

ANS:

**H&R Clock Company**

Trial Balance

July 31, 2013

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash	\$44,260	
Accounts Receivable	3,000	
Office Supplies	5,100	
Accounts Payable		\$ -0-
Notes Payable		15,000
Common Stock		15,000
Service Revenue		26,800
Utilities Expense	640	
Salaries Expense	3,800	
	<u>\$56,800</u>	<u>\$56,800</u>

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-7  
 NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions  
 KEY: Bloom's: Application                      NOT: 15 min.

**Home Accent Interiors**

The company's bookkeeper prepared the following journal entries and posted them to the general ledger as indicated in the T-accounts presented. Assume that the dollar amounts and descriptions of the entries are correct.

**Journal (partial):**

<u>Date</u>	<u>Accounts and Descriptions</u>	<u>Debit</u>	<u>Credit</u>
May 5	Accounts Receivable	6,400	
	Service Revenue		6,400
	Billed customers for services completed		
May 11	Cash	2,000	
	Service Revenue		2,000
	Received payment from a customer for services rendered in a prior month		
May 15	Supplies	2,800	
	Accounts Payable		2,800
	Purchased furniture on account; payment due in 30 days		
May 25	Office Furniture	2,800	
	Cash		2,800
	Paid for the office furniture purchased earlier		

**General Ledger (partial):**

<u>Accounts Receivable</u>		<u>Service Revenue</u>		<u>Office Furniture</u>	
5/5		5/5	5/11	5/25	
6,400		6,400	2,000	2,800	
<u>Cash</u>		<u>Accounts Payable</u>		<u>Office Supplies</u>	
5/11		5/15		5/15	

2,000		2,800		2,800	
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20. Refer to Home Accent Interiors. Identify the postings to the general ledger that were made incorrectly. Describe how each incorrect posting should have been made. For this problem, assume that the journal entries have been correctly recorded.

ANS:

The bookkeeper incorrectly posted the May 5 and 15 journal entries. For the May 5 journal entry, the \$6,400 credit to Service Revenue should have been posted to the Service Revenue account as a credit, not as a debit. For the May 15 journal entry, the \$800 credit to Accounts Payable should have been posted to the Accounts Payable account as a credit, not as a debit. The bookkeeper failed to credit Cash for \$2,800 for the May 25 journal entry.

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-6  
 NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
 KEY: Bloom's: Application                      NOT: 20 min.

## ESSAY

1. What is meant by "generally accepted accounting principles"?

ANS:

Generally accepted accounting principles (GAAP) are a set of guidelines that are based on a conceptual framework. They represent the various rules, practices, and other procedures used as a basis for accounting principles. GAAP was created in response to the need to make it easier to use financial statements over time and across companies.

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-1  
 NAT: BUSPROG: Communication                      STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP  
 KEY: Bloom's: Knowledge                      NOT: 10 min.

2. Each of the situations in A through C below applies to one of the assumptions or principles included in the conceptual framework of accounting. Identify which assumption or principles applies and explain why that assumption or principle applies.
- A) High Collectibles is a U.S. company that has divisions in several countries around the world. Each country has a currency different than the U.S. dollar. The company must include the financial data of its worldwide divisions in its financial statements.
  - B) Howell Trucking operates as a partnership. The partners are considering a change to the corporate form of business organization.
  - C) Holly Company is a local company. The owners have decided to expand into nearby cities. Expansion will require more capital, but management does not expect it will stay in business for more than one year or so regardless of its expansion plans.

ANS:

- A) The Monetary Unit Assumption. Financial statements must be reported in monetary terms, and the standard monetary unit should be denominated in one currency.
- B) Economic Entity Assumption. A business can take three forms. Regardless of the form, however, the unit itself is distinct from its owners.



- C) Continuity (Going Concern) Assumption. A business is assumed to continue to operate long enough to carry out its obligations, to more accurately reflect the valuation of assets and appropriately allocate costs to accounting periods.

PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-1  
NAT: BUSPROG: Communication STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP  
KEY: Bloom's: Knowledge NOT: 10 min.

3. For a company's reported financial information to be useful, what four qualities must be present? Explain these four qualities.

ANS:

The four qualitative characteristics of useful accounting information are relevance, reliability, comparability, and consistency.

Relevant information has the capacity to make a difference in a decision. It helps users predict future events or provides feedback.

Reliable information is dependable, verifiable, and free from bias.

Comparability allows comparisons to be made between or among companies.

Consistency refers to the application of the same accounting principles over time.

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-1  
NAT: BUSPROG: Communication STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP  
KEY: Bloom's: Knowledge NOT: 10 min.

4. What is the difference between comparability and consistency?

ANS:

Comparability allows comparisons to be made between or among companies. Even though a certain amount of freedom exists in selecting accounting principles, when this information is disclosed in the financial statements, users can still compare the information when they know what principle is used.

Consistency refers to the application of the same accounting principles over time. It involves the relationships between a set of numbers over several periods, but within one company only, unlike comparability that can be between or among companies.

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-1  
NAT: BUSPROG: Communication STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP  
KEY: Bloom's: Evaluation NOT: 10 min.

5. What is conservatism and why is it important in accounting?

ANS:

Conservatism is choosing the path that will be least likely to overstate assets or income. It is used in situations in which there is uncertainty about how to account for a particular item. In accounting, it is used in the balance sheet and income statement in an effort to provide the least optimistic amount. Conservatism is a prudent reaction to uncertainty that offsets management's natural optimism.

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-1

NAT: BUSPROG: Communication  
KEY: Bloom's: Knowledge

STA: AICPA FN-Reporting | ACBSP-APC-02-GAAP  
NOT: 10 min.

6. Several terms which represent components of an accounting system are listed below. For each term, write a brief explanation of how that component is used in the accounting cycle.

- A) Accounts
- B) Chart of Accounts
- C) Double-entry system with debits and credits
- D) Journal
- E) General Ledger
- F) Trial Balance

ANS:

- A) An account is a record used to accumulate monetary amounts of increases and decreases for each basic element reported in an entity's financial statements. A separate record is prepared for each asset, liability, stockholders' equity, revenue, expense, and dividend element.
- B) A chart of accounts is a list of all accounts (financial statement elements) used by a company, including numbers assigned to the accounts by the entity to facilitate bookkeeping activities. The chart of accounts is used to locate accounts in a general ledger.
- C) In a double-entry system with debits and credits, equal debit and credit amounts are recorded for the effects of each transaction on an entity's accounts. Increases and decreases are recorded as debits (left-side entries) or credits (right-side entries) in the accounts. To maintain the equality of the accounting equation,  $\text{assets} = \text{liabilities} + \text{stockholders' equity}$ , the rules of debit and credit require that some accounts increase by debits and decrease by credits and that other accounts increase by credits and decrease by debits.
- D) The journal is an accounting record in which all business transactions are recorded in chronological order as they occur. The transaction date, accounts affected, amounts to be debited and credited to the affected accounts, and a brief description of the transaction are recorded. As the amounts are transferred to the accounts in the general ledger, the account numbers are entered in the posting reference column of the journal.
- E) The general ledger is a book or file which contains a record for each account used by an entity. The individual account records contain the monetary amounts transferred from the general journal entries. The difference between the debit and credit entries is the account balance. Periodically, the account balances are listed in a trial balance and used in the preparation of financial statements.
- F) The trial balance is a schedule or list of all accounts and their balances from the general ledger. Amounts for accounts with debit balances are listed in one column, and amounts for accounts with credit balances are listed in a second column. The sum of the debit and credit balances should be equal in the double-entry system. If the sums of

the debit and credit balances are not equal, procedures for locating the error(s) must be applied. The trial balance provides information that is needed to prepare financial statements.

PTS: 1 DIF: Difficulty: Moderate  
OBJ: LO: 2-4 | LO: 2-5 | LO: 2-6 | LO: 2-7 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
KEY: Bloom's: Knowledge NOT: 20 min.

7. Four journal entries are presented below. Write an explanation for each entry.

A)	Cash	12,200	
	Service Revenue		12,200
B)	Accounts Receivable	17,500	
	Service Revenue		17,500
C)	Cash	16,900	
	Accounts Receivable		16,900
D)	Cash	1,830	
	Unearned Revenue		1,830

ANS:

- A) Cash was received for services provided to customers.
- B) Customers were billed for services provided.
- C) Cash was collected from customers who had been billed previously.
- D) Cash was collected from customers for services to be provided later.

PTS: 1 DIF: Difficulty: Moderate REF: CS2-4  
OBJ: LO: 2-5 NAT: BUSPROG: Communication  
STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
KEY: Bloom's: Comprehension NOT: 15 min.

8. The bookkeeper made the following errors while recording transactions for the period:

- A) A purchase of equipment for \$450 cash was recorded as a debit to Equipment for \$540 and a credit to Cash for \$540.
- B) The sale of services for cash in the amount of \$4,134 was recorded as a debit to Cash for \$4,134 and a credit to Service Revenue for \$4,314.
- C) A purchase of supplies for \$200 cash was recorded correctly in the journal but was omitted from the general ledger.
- D) The sale of services for credit in the amount of \$3,800 was recorded correctly in the journal but was posted twice to the general ledger.
- E) \$5,500 cash paid for salaries was recorded in the journal as a \$5,500 debit to Cash and a \$5,500 credit to Salaries Expense.

Indicate whether or not the debit and credit columns of the trial balance will be equal after recording each of these erroneous entries. Then identify the account(s) that will be misstated as a result of these errors and the direction of the misstatement (i.e., understatement or overstatement).

ANS:

- A) The trial balance will still balance, but both of the accounts will be overstated by \$90.
- B) The trial balance will be out of balance, as Service Revenues will be overstated by \$180.
- C) The trial balance will still balance, but the Supplies account will be understated by \$200 and the Cash account will be overstated by \$200.
- D) The trial balance will still balance, but the Accounts Receivable and Service Revenue accounts will both be overstated by \$3,800.
- E) The trial balance will still balance, but the Cash account will be overstated by \$11,000 and the Salaries Expense account will be understated by \$11,000.

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-3 | LO: 2-4 | LO: 2-7  
 NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
 KEY: Bloom's: Evaluation                      NOT: 15 min.

9. **“You Decide” Essay**

You are the accounting manager for a small machine shop. Your bookkeeper has asked you to review a journal entry that she made:

Date	Account and Explanation	Debit	Credit
May 5	Cash	2,500	
	Service Revenue		2,500
	<i>(For services to be rendered)</i>		

Is this journal entry correct? Why or why not?

ANS:

Given the explanation contained in the journal entry, you conclude that an error was made. Since your company hasn't yet performed the service, the bookkeeper should have recorded a liability such as Unearned service revenue. The revenue cannot be recognized until the service has been performed.

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-5  
 NAT: BUSPROG: Communication  
 STA: AICPA FN-Reporting | ACBSP-APC-05-Accounting Cycle  
 KEY: Bloom's: Evaluation                      NOT: 10 min.

10. **“You Decide” Essay**

## Test Bank for Cornerstones of Financial Accounting 3rd Edition by Rich

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A customer has called complaining that he paid for a service call last week and is still waiting for a serviceman to come out and repair his air conditioning unit. You are now curious as to how much work your service team has been paid for but still remains undone. You notice the bookkeeper has left the company's general journal and general ledger open on the desk so that he can do the monthly posting when he returns from lunch. Using those two items, how can you satisfy your curiosity?

ANS:

First, find the beginning of the period's balance in the Unearned Revenue account in the general ledger. Then look through the general journal for debits and credits to the Unearned Revenue account. Debits represent work that has been completed while credits represent work that has been paid for in advance. Your curiosity can be satisfied using the following equation: Beginning balance + credits to the account - debits to the account.

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-4

NAT: BUSPROG: Communication

STA: AICPA FN-Reporting | ACBSP-APC-06-Recording Transactions

KEY: Bloom's: Evaluation

NOT: 10 min.