

Test Bank for Financial Accounting 7th Edition by Horngren

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Test Bank

Financial Accounting, Cdn. Ed., 7CE (Harrison/Horngren)
Chapter 2 Recording Business Transactions

2.1 Recognize a business transaction and describe the various types of accounts in which it can be recorded

1) Interest payable, income tax payable and salary payable are all examples of:

- A) accrued liabilities
- B) prepaid expenses
- C) expenses of future periods
- D) retained earnings

Answer: A

Diff: 1 Type: MC

L.O.: 2-1

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

2) A record of all the changes in a particular asset during a period of time is found in a(n):

- A) transaction
- B) trial balance
- C) prior period's balance sheet
- D) account

Answer: D

Diff: 1 Type: MC

L.O.: 2-1

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

3) An accounts receivable represents the promise of the business to pay a debt.

Answer: FALSE

Explanation: Accounts receivable represent the amounts owing from customers who have purchased goods or services but not yet paid for them.

Diff: 2 Type: TF

L.O.: 2-1

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

4) Prepaid rent is an expense because the payment provides a future benefit of the company.

Answer: FALSE

Explanation: Prepaid expenses are expenses a company has paid for in advance of actually using the product or service it has purchased.

Diff: 2 Type: TF

L.O.: 2-1

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

5) Assets include cash, land, and accounts payable.

Answer: FALSE

Explanation: Accounts payable is a liability.

Diff: 2 Type: TF

L.O.: 2-1

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer:

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

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

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

d. Dividends are amounts paid to the owners from the earnings of the firm. Examples are common share dividends and preferred dividends.

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

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

Diff: 1 Type: ES

L.O.: 2-1

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

7) Define and provide an example of each of the following.

Account	Definition	Example
Asset		
Revenue		
Liability		

Answer:

Account	Definition	Example (Only one example is needed.) Answers include:
Asset	Economic resources that provide a future benefit for a business.	Cash, Accounts Receivable, Inventory, Prepaid Expenses, Investments, Buildings
Revenue	The increase in shareholders' equity from delivery of goods or services to customers	Sales Revenue, Legal Service Revenue, Rental Revenue, Interest Revenue
Liability	Debts owed by the business.	Accounts Payable, Notes Payable, Accrued Liabilities

Diff: 2 Type: ES

L.O.: 2-1

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Diff: 2 Type: ES

L.O.: 2-1

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

2.2 Determine the impact of business transactions on the accounting equation

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

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

Answer: B

Diff: 2 Type: MC

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 2 Type: MC

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: A

Diff: 2 Type: MC

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

4) Purchasing supplies and paying cash for them would:

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

Answer: C

Diff: 2 Type: MC

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

5) Paying a utility bill when received would:

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

Answer: A

Diff: 2 Type: MC

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 2 Type: MC

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: A

Diff: 2 Type: MC

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

8) The purchase of land for cash would:

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

Answer: D

Diff: 3 Type: MC

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: C

Diff: 3 Type: MC

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

10) Performing services on account would:

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

Answer: D

Diff: 3 Type: MC

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 3 Type: MC

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

12) Dividends paid to the shareholders when declared will:

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

Answer: D

Diff: 3 Type: MC

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

13) What type of account is Prepaid Rent?

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

Answer: D

Diff: 2 Type: MC

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: A

Diff: 1 Type: MC

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 1 Type: MC

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 2 Type: MC

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 2 Type: MC

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: TRUE

Diff: 2 Type: TF

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: FALSE

Explanation: The accounting equation is $\text{assets} = \text{liabilities} + \text{shareholders' equity}$

Diff: 1 Type: TF

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: TRUE

Diff: 2 Type: TF

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: TRUE

Diff: 1 Type: TF

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: FALSE

Explanation: An accrued liability is a liability for an expense that has not been billed for or paid.

Diff: 1 Type: TF

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: FALSE

Explanation: Retained earnings shows the cumulative net income earned by the company over its lifetime, minus its cumulative net losses and dividends.

Diff: 1 Type: TF

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: FALSE

Explanation: On account would increase a liability for a company to pay in the future.

Diff: 2 Type: TF

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

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

Answer:

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

Diff: 2 Type: ES

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Diff: 1 Type: ES

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

27) Slick Corporation has summarized financial statements as shown below. Fill in the blank areas to complete the financial statements. Begin in 2018 and move forward from there.

Slick Corporation
For the Year Ended June 30

	2020	2019	2018
Revenues	\$	\$2,100,000	\$2,500,000
Expenses	<u>1,470,000</u>	<u>1,430,000</u>	
Net Income	130,000		550,000
Retained Earnings beginning			0
Dividends declared		336,000	
Retained earnings end	350,000		50,000
Common Shares end		250,000	250,000
Liabilities end	200,000	180,000	
Assets end	830,000		430,000
Answer:	Slick Corporation		

For the Year Ended June 30

	2020	2019	2018
Revenues	\$1,600,000	\$2,100,000	\$2,500,000
Expenses	<u>1,470,000</u>	<u>1,430,000</u>	<u>1,950,000</u>
Net Income	130,000	670,000	550,000
Retained Earnings beginning	384,000	50,000	0
Dividends declared	164,000	336,000	500,000
Retained earnings end	350,000	384,000	50,000
Common Shares end	280,000	250,000	250,000
Liabilities end	200,000	180,000	130,000
Assets end	830,000	814,000	430,000

Diff: 2 Type: ES

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: Betty's Bacon Inc.
Balance Sheet

Cash	\$6,000	Bank loan	\$44,000
Accounts Receivable	17,500	Accounts Payable	37,500
Inventory	42,500	Salary Payable	12,000
Prepaid Insurance	5,000	Tax Payable	<u>50,000</u>
Land	62,500	Total liabilities	143,500
Furniture and Fixtures	<u>125,000</u>		
		Retained Earnings	40,000
		Common Shares	<u>75,000</u>
Total assets	<u>\$258,500</u>	Total liabilities and equity	<u>\$258,500</u>

Diff: 1 Type: ES

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

29) Prepare a Statement of Retained Earnings for the year ended June 30, 2020.

Chedacorn was incorporated on July 1, 2018 by 10 shareholders who each invested \$100,000 in cash in exchange for common shares. Chedacorn's year end is June 30th. In its first year of business Chedacorn had a net income of \$243,750. For its years ended June 30, 2019 and 2020, its second and third years of operation, Chedacorn reported net income of \$472,500 and \$560,000 respectively. In its first year Chedacorn did not pay any dividends, but in fiscal 2018 it paid \$62,500 in dividends and in 2019 it paid \$100,000 in dividends.

Answer: Chedacorn Corporation
Statement of Retained Earnings
For the Year Ended June 30, 2020

Retained Earnings, July 1, 2019	\$ 653,750
Net income for the year	560,000
Less dividends	(100,000)
Retained Earnings, June 30, 2020	<u>\$ 1,113,750</u>

Note: To solve the exercise, retained earnings on July 1, 2019 must be calculated. This amount is \$243,750 + \$472,500 - \$62,500.

Diff: 1 Type: ES

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Diff: 2 Type: ES

L.O.: 2-2

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

2.3 Analyze business transactions using T-accounts

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

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

Answer: B

Diff: 1 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: A

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

3) Credits to revenue accounts ultimately result in:

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

Answer: B

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: B

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: C

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: C

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: C

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: C

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: A

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: C

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: A

Diff: 3 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: A

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: A

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: B

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 3 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 3 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: C

Diff: 3 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

18) Paying by cheque to settle a debt would include a:

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

Answer: C

Diff: 3 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

19) Performing a service on account would include a:

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

Answer: D

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 3 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: C

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: A

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

23) Which of the following statements regarding accounts is incorrect?

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

Answer: B

Diff: 3 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

24) Which of the following statements regarding accounts is correct?

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

Answer: D

Diff: 3 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: A

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: B

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: A

Diff: 3 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: B

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: A

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: B

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: C

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: C

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

36) The payment of expenses should be recorded with a credit to:

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

Answer: A

Diff: 2 Type: MC

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: FALSE

Explanation: The left side of a T-account increases assets and decreases liabilities and shareholders' equity.

Diff: 1 Type: TF

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: FALSE

Explanation: The right side of a T-account is the credit side.

Diff: 1 Type: TF

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: FALSE

Explanation: Shareholders' equity is increased by a credit.

Diff: 2 Type: TF

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

40) A credit always decreases an asset account.

Answer: TRUE

Diff: 2 Type: TF

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: FALSE

Explanation: Expenses result in decreases to shareholders' equity. Expenses are recorded using debits.

Diff: 2 Type: TF

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: TRUE

Diff: 2 Type: TF

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: TRUE

Diff: 2 Type: TF

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: TRUE

Diff: 2 Type: TF

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: FALSE

Explanation: A transaction has two sides: a debit side and a credit side.

Diff: 2 Type: TF

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: TRUE

Diff: 2 Type: TF

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

47) The Dividends account normally has a debit balance.

Answer: TRUE

Diff: 2 Type: TF

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

48) Every transaction affects at least two accounts.

Answer: TRUE

Diff: 1 Type: TF

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer:

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

Diff: 2 Type: ES

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

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

Answer:

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

Diff: 3 Type: ES

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer:

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

Diff: 1 Type: ES

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer:

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

Diff: 2 Type: ES

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Diff: 2 Type: ES

L.O.: 2-3

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

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

Answer: D

Diff: 2 Type: MC

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 1 Type: MC

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: C

Diff: 2 Type: MC

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

4) In accounting, the process of posting is:

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

Answer: B

Diff: 2 Type: MC

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: C

Diff: 1 Type: MC

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: C

Diff: 1 Type: MC

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: A

Diff: 1 Type: MC

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: B

Diff: 2 Type: MC

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: A

Diff: 1 Type: MC

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: A

Diff: 1 Type: MC

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 1 Type: MC

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

12) The entry to record an owner investment of \$1,500 into the business including a \$500 piece of equipment would be:

- A) Dividends 1,500
 Equipment 500
 Cash 1,000
- B) Cash 1,500
 Dividends 1,500
- C) Cash 1,500
 Service Revenue 1,000
 Equipment 500
- D) Cash 1,000
 Equipment 500
 Common Shares 1,500

Answer: D

Diff: 1 Type: MC

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: C

Diff: 1 Type: MC

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: B

Diff: 1 Type: MC

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: TRUE

Diff: 2 Type: TF

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: TRUE

Diff: 1 Type: TF

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: TRUE

Diff: 1 Type: TF

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: FALSE

Explanation: Debits are recorded first followed by credits.

Diff: 2 Type: TF

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: FALSE

Explanation: Transactions are recorded in a journal.

Diff: 1 Type: TF

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: FALSE

Explanation: Transferring information from the journal to the ledger is called posting.

Diff: 1 Type: TF

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: FALSE

Explanation: The ledger contains all of a company's accounts, along with their balances.

Diff: 1 Type: TF

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

- 22) Prepare journal entries in good form for the following transactions for the Calorie Corp.
- Owner invested cash of \$12,000 and office equipment valued at \$7,500 into the business, receiving common shares in exchange.
 - Purchased supplies for cash, \$1,000.
 - Paid \$750 for one month's rent on the store.
 - Billed a client \$1,500 for services rendered.
 - Owner received a dividend of \$300.

Answer:

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

Diff: 2 Type: ES

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

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

Answer:

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

Diff: 1 Type: ES

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer:

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

Diff: 3 Type: ES

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

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

Answer:

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

Diff: 3 Type: ES

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer:

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

Diff: 1 Type: ES

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer:

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

Diff: 1 Type: ES

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

28) Where is information for each account stored?

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

Diff: 1 Type: ES

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

29) Describe the journalizing process including its steps.

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

Diff: 1 Type: ES

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

30) The journal entry to record the payment of cash dividends to shareholders would include a:

- A) Debit to Dividends
- B) Credit to Dividends
- C) Debit to Cash
- D) Debit to Retained Earnings

Answer: A

Diff: 1 Type: MC

L.O.: 2-4

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

2.5 Prepare and use a trial balance

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

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

Answer: B

Diff: 1 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 2 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: B

Diff: 2 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: C

Diff: 2 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: B

Diff: 2 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: B

Diff: 2 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: A

Diff: 2 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 2 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

9) A trial balance is:

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

Answer: D

Diff: 2 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

10) A trial balance is a useful device because it provides a check on accuracy by showing whether:

- A) total assets equal total liabilities
- B) total debits equal total credits
- C) total revenues equal total expenses
- D) total of all the income statement accounts equals the total of all the balance sheet accounts

Answer: B

Diff: 2 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 3 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: B

Diff: 3 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: C

Diff: 2 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: B

Diff: 2 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 1 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

16) A chart of accounts is:

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

Answer: D

Diff: 1 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

- A) the equality of the debits and credits
- B) all journal entries were properly posted to the ledger
- C) all transactions were properly recorded during the accounting period
- D) that the financial statement cannot be prepared using the account balances

Answer: A

Diff: 1 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

18) A chart of accounts is:

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

Answer: A

Diff: 1 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 2 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 2 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer: D

Diff: 2 Type: MC

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

22) The trial balance lists all the balance sheet accounts first, then all the accounts that affect shareholders' equity.

Answer: TRUE

Diff: 2 Type: TF

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: FALSE

Explanation: A trial balance lists all of a business's ledger accounts and their balances.

Diff: 2 Type: TF

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: TRUE

Diff: 1 Type: TF

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: FALSE

Explanation: Accounting errors can still occur in recording transactions.

Diff: 2 Type: TF

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: TRUE

Diff: 2 Type: TF

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: TRUE

Diff: 1 Type: TF

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

28) Accounts payable normally has a debit balance.

Answer: FALSE

Explanation: Increases in liabilities are recorded as a credit.

Diff: 1 Type: TF

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

29) Accounts receivable normally has a credit balance.

Answer: FALSE

Explanation: Increases in assets are recorded as a debit.

Diff: 1 Type: TF

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

30) The revenue account typically has a credit balance.

Answer: TRUE

Diff: 1 Type: TF

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: TRUE

Diff: 1 Type: TF

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

32) All revenue accounts normally have a credit balance.

Answer: TRUE

Diff: 1 Type: TF

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: TRUE

Diff: 1 Type: TF

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: TRUE

Diff: 1 Type: TF

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: TRUE

Diff: 1 Type: TF

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

Answer: TRUE

Diff: 2 Type: TF

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

37) Given the following transactions for Clip Corporation, prepare a trial balance as of March 31, 2020.

- a. Owner invested \$15,250 cash and \$6,500 worth of equipment into the business received common shares in return.
- b. Purchased supplies on account, \$450.
- c. Rented office space paying one month's rent, \$850.
- d. Performed services for a customer on account, \$1,400.
- e. Purchased a truck by paying \$1,000 down and signing a note for the remainder of \$8,500.
- f. Performed services for a customer and immediately collected \$800 cash.
- g. Paid employees salaries of \$1,200.
- h. Owner received a dividend of \$500.

Answer: Clip Corporation
 Trial Balance
 March 31, 2020

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

Diff: 3 Type: ES

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

38) Given a random list of accounts with their normal balances, prepare a trial balance for Sable Ltd. as of December 31, 2020. List the accounts in the appropriate order.

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

Answer: Sable Ltd.

Trial Balance
December 31, 2020

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

Diff: 2 Type: ES

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

39) An inexperienced accountant prepared the following trial balance on December 31, 2020, for the Chalet Corporation. Prepare a corrected trial balance based on the incorrect trial balance and the additional data.

Chalet Corporation		
Trial Balance		
December 31, 2020		
	<u>Debit</u>	<u>Credit</u>
Cash	\$28,700	
Accounts Receivable		\$33,600
Prepaid Insurance	7,400	
Supplies	1,600	
Land	45,000	
Equipment	78,300	
Accounts Payable		25,000
Note Payable	65,000	
Common Shares		30,000
Retained Earnings		34,000
Dividends	19,300	
Service Revenue		82,000
Salary Expense	38,000	
Utilities Expense		18,500
Insurance Expense	<u>10,500</u>	
Total	<u>\$293,800</u>	<u>\$223,100</u>

Additional data:

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

Answer: Chalet Corporation
 Trial Balance
 December 31, 2020

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

Diff: 3 Type: ES

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

40) Fox Ltd. had the following trial balance on October 31, 2020.

Fox Ltd. Trial Balance October 31, 2020		
	<u>Debit</u>	<u>Credit</u>
Cash	\$56,500	
Accounts receivable	20,000	
Notes receivable	5,000	
Land	80,000	
Accounts payable		\$10,200
Note payable		15,000
Common shares		105,500
Service revenue		34,000
Salary expense	12,000	
Advertising expense	<u>5,000</u>	
	<u>\$178,500</u>	<u>\$164,700</u>

The following errors caused the trial balance not to balance:

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

Prepare a corrected trial balance as of October 31, 2020. All accounts have a normal balance.

Answer:

Fox Ltd. Trial Balance October 31, 2020		
	<u>Debit</u>	<u>Credit</u>
Cash	\$56,500	
Accounts receivable	26,000	
Notes receivable	3,000	
Land	80,000	
Accounts payable		\$12,900
Note payable		13,000
Common shares		116,600
Service revenue		40,000
Salary expense	12,000	
Advertising expense	<u>5,000</u>	
	<u>\$182,500</u>	<u>\$182,500</u>

Diff: 3 Type: ES

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

41) From the following list of transactions, prepare a trial balance dated March 31, 2020, for Niko Inc., which began operations on March 1, 2020.

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

Answer:

Niko Inc.

Trial Balance

March 31, 2020

	<u>Debit</u>	<u>Credit</u>
Cash	\$12,500	
Cleaning supplies	500	
Cleaning equipment	6,000	
Accounts payable		\$6,000
Common shares		12,000
Dry cleaning revenue		5,000
Rent expense	2,000	
Salary expense	1,500	
Utilities expense	<u>500</u>	
	<u>\$23,000</u>	<u>\$23,000</u>

Diff: 2 Type: ES

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

42) A junior bookkeeper, Bob Delisle, prepared the following trial balance on April 30, 2020, for Big Party Inc. Prepare a corrected trial balance based on the incorrect trial balance and the additional data.

Big Party Inc.
Trial Balance
April 30, 2020

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

Additional data:

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

Answer: Big Party Inc.
Trial Balance
April 30, 2020

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

Diff: 1 Type: ES

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

43) Prepare a trial balance for Salty Inc. dated June 30, 2020, based on the following transactions that occurred during the month of June.

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

Answer: Salty Inc.
Trial Balance
June 30, 2020

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

Diff: 3 Type: ES

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

- 44) Prepare a trial balance for Zeng Inc. dated April 30, 2020, based on the following transactions that occurred during the month of June.
- Owner invested \$55,000 cash into the business and received common shares in return.
 - Rented an office and paid one month's rent, \$700.
 - Purchased \$600 of supplies on account.
 - Performed services on account, \$7,500.
 - Paid \$4,200 cash for office furniture.
 - Owner received a dividend of \$500.
 - Collected \$3,000 on account.

Answer: Zeng Inc.
Trial Balance
April 30, 2020

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

Diff: 3 Type: ES

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

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

Diff: 2 Type: ES

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

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

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

Diff: 2 Type: ES

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

47) Describe what is listed on a trial balance.

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

Diff: 1 Type: ES

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer:

Red Panda Corporation

<u>Cash</u>		<u>Office Supplies</u>	<u>Equipment</u>	<u>Building</u>
(a) \$550,000	(d) \$100,000	(b) \$300	(a) \$5,500	(d) \$900,000
(e) \$4,500	(f) \$2,200			
\$452,300				
<u>Accounts Receivables</u>				
(c) \$3,500				
<u>Accounts Payable</u>		<u>Notes Payable</u>		<u>Common Shares</u>
(b) \$300		(d) \$800,000		(a) \$555,500
<u>Revenue</u>		<u>Salaries Expense</u>		
(c) \$3,500		(f) \$2,200		
(e) \$4,500				

Diff: 3 Type: ES

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements

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

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

Answer:

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

Diff: 2 Type: ES

L.O.: 2-5

CPA COMPETENCIES: Chapter 2

1.3.1 Prepares financial statements