

Test Bank for College Accounting 1st Edition by Weygandt

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Test Bank

CHAPTER 2

THE ACCOUNTING EQUATION AND TRANSACTION ANALYSIS

TRUE-FALSE STATEMENTS

1. In order to possess future service potential, an asset must have physical substance.
Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Assets
2. Owners' claims to total business assets take precedence over the claims of creditors because owners invest assets in the business and are liable for losses.
Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Owner's Equity
3. The basic accounting equation states that Assets = Liabilities.
Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Basic Accounting Equation
4. Internal transactions do **not** affect the basic accounting equation because they are economic events that occur entirely within one company.
Ans: F LO1 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Business Transactions
5. The basic accounting equation is in balance when the creditor and ownership claims against the business equal the assets.
Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Basic Accounting Equation
6. Accountants record both internal and external transactions.
Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Business Transactions
7. The purchase of store equipment for cash reduces assets and owner's equity by equal amounts.
Ans: F LO2 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis
8. The purchase of office equipment on credit increases total assets and total liabilities.
Ans: T LO2 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis
9. External transactions involve economic events between the company and some other enterprise or party.
Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Business Transactions
10. The purchase of supplies on credit increases total assets and total liabilities.
Ans: T LO2 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis
11. When a company borrows money from the bank, the transaction increases total assets and total liabilities.

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Ans: T LO2 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis

12. Expenses are the costs incurred in the process generating revenue.

Ans: T LO3 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expenses

13. Both owner investments and revenues increase total assets and owner's equity.

Ans: T LO3 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation

14. Revenues result from the delivery of goods, the performance of services and owner investments.

Ans: F LO3 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Revenues

15. The performance of services for cash increases total assets and total owner's equity.

Ans: T LO3 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation

16. The payment of rent expense reduces owner's equity.

Ans: T LO4 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis Using the Expanded Accounting Equation

17. The collection of an accounts receivable increases total assets.

Ans: F LO4 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis Using the Expanded Accounting Equation

18. The effect of an investment by the owner has the opposite impact on the accounting equation of a withdrawal by the owner.

Ans: T LO4 BT: C Difficulty: Medium TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation; Subtopic: Transaction Analysis Using the Expanded Accounting Equation

19. The withdrawal of cash from the business by the owner decreases assets and owner's equity.

Ans: T LO4 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis Using the Expanded Accounting Equation

20. Owner's drawings are an expense of the business.

Ans: F LO4 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis Using the Expanded Accounting Equation

MULTIPLE CHOICE QUESTIONS

21. The resources a business owns are

- a. assets.
- b. liabilities.
- c. owner's equity.
- d. transactions.

Ans: a LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Assets

22. Rights or claims against resources by creditors are

- a. assets.
- b. liabilities.
- c. owner's equity.
- d. transactions.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Liabilities

23. Rights or claims against resources by owners are

- a. assets.
- b. liabilities.
- c. owner's equity.
- d. transactions.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Owner's Equity

24. Which of the following accounts is **not** an asset?

- a. Accounts Payable
- b. Accounts Receivable
- c. Cash
- d. Supplies

Ans: a LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Assets

25. All of the following accounts are assets **except**

- a. Owner's Capital
- b. Accounts Receivable
- c. Cash
- d. Equipment

Ans: a LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Assets

26. Which of the following accounts is **not** an asset?

- a. Accounts Receivable
- b. Service Revenue
- c. Equipment
- d. Supplies

Ans: b LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Assets

27. Which of the following accounts is **not** a liability?

- a. Sales Tax Payable
- b. Accounts Payable
- c. Accounts Receivable
- d. Utilities Payable

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Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Liabilities

28. Which of the following accounts is a liability?
- a. Accounts Payable
 - b. Owner's Capital
 - c. Accounts Receivable
 - d. Owner's Drawings

Ans: a LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Liabilities

29. All of the following accounts are liabilities except
- a. Notes Payable
 - b. Accounts Payable
 - c. Utilities Payable
 - d. Accounts Receivable

Ans: d LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Liabilities

30. Which one of the following increases owner's equity?
- a. Revenues
 - b. Expenses
 - c. Owner drawings
 - d. Purchase of supplies

Ans: a LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Owner's Equity

31. Which of the following items increases owner's equity?
- a. Revenues and expenses
 - b. Investments by owners and revenues
 - c. Drawings and expense
 - d. Investments by owners and drawings

Ans: b LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Owner's Equity

32. Which one of the following items decreases owner's equity?
- a. Revenues
 - b. Investments by owners
 - c. Drawings
 - d. Purchase of equipment

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Owner's Equity

33. Which of the following decreases owner's equity?
- a. Revenues and expenses
 - b. Investments by owners and revenues
 - c. Drawings and expenses
 - d. Investments by owners and drawings

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Owner's Equity

34. If assets are \$20,000 and liabilities are \$8,000, then owner's equity is
- \$12,000.
 - \$20,000.
 - \$8,000.
 - indeterminable with just the facts given.

Ans: a LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Accounting Equation in Action

Solution: $\$20,000 - \$8,000 = \$12,000$
(Asset tot. - Owner's equity tot. = Liabl. tot.)

35. Blue Ridge Company has assets of \$22,000 and liabilities of \$16,000. Owner's equity is
- \$8,000.
 - \$38,000.
 - \$6,000.
 - \$22,000.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Accounting Equation in Action

Solution: $\$22,000 - \$16,000 = \$6,000$
(Asset tot. - Liabl. tot. = Owner's equity tot.)

36. If OPI Company's assets are \$30,000 and its liabilities are \$18,000, then the company's owner's equity is
- \$12,000.
 - \$30,000.
 - \$18,000.
 - \$48,000.

Ans: a LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Accounting Equation in Action

Solution: $\$30,000 - \$18,000 = \$12,000$
(Asset tot. - Liabl. tot. = Owner's equity tot.)

37. If Beringer Company's liabilities are \$18,000 and its owner's equity is \$12,000, the company's assets total
- \$6,000.
 - \$30,000.
 - \$18,000.
 - \$12,000.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Accounting Equation in Action

Solution: $\$18,000 + \$12,000 = \$30,000$
(Liabl. tot. + Owner's equity tot. = Asset tot.)

38. If assets are \$20,000 and owner's equity is \$11,000, then liabilities are
- \$9,000.
 - \$11,000.
 - \$31,000.
 - indeterminable with just the facts given.

Ans: a LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Accounting Equation in Action

Solution: $\$20,000 - \$11,000 = \$9,000$
(Asset tot. - Owner's equity tot. = Liabl. tot.)

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39. Big Bite Diner received a bill of \$800 from the Blackstone Advertising Agency. The owner, K. Lang, is postponing payment of the bill until a later date. The effect on specific items in the basic accounting equation is
- a decrease in Cash and an increase in Accounts Payable.
 - a decrease in Cash and an increase in Owner's Capital.
 - an increase in Accounts Payable and a decrease in Owner's Capital.
 - a decrease in Accounts Payable and an increase in Owner's Capital.

Ans: c LO1 BT: C Difficulty: Medium TOT: 1.5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Accounting Equation in Action

40. If Doane Company's liabilities are \$28,000 and its owner's equity is \$20,000, then the company's assets total
- \$8,000.
 - \$20,000.
 - \$48,000.
 - indeterminable with just the facts given.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Accounting Equation in Action
Solution: $\$28,000 + \$20,000 = \$48,000$
(Liabl. tot. + Owner's equity tot. = Asset tot.)

41. The common characteristic possessed by all assets is
- long life.
 - great monetary value.
 - tangible nature.
 - future economic benefit.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Assets

42. Owner's equity is best depicted by the following:
- Assets = Liabilities.
 - Liabilities + Assets.
 - Residual equity + Assets.
 - Assets – Liabilities.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Accounting Equation in Action

43. The basic accounting equation may be expressed as
- Assets – Owner's Equity = Liabilities.
 - Assets – Liabilities = Owner's Equity.
 - Assets = Liabilities + Owner's Equity.
 - All of these answer choices are correct.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation; Subtopic: Accounting Equation in Action

44. Liabilities
- are future economic benefits.
 - are existing debts and obligations.
 - possess service potential.
 - are things of value used by the business in its operation.

Ans: b LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Liabilities

45. Liabilities of a company would **not** include
- notes payable.
 - accounts payable.
 - salaries and wages payable.
 - cash.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Liabilities

46. Liabilities of a company are owed to
- debtors.
 - benefactors.
 - creditors.
 - underwriters.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Liabilities

47. Owner's equity can be described as
- creditorship claim on total assets.
 - ownership claim on total assets.
 - benefactor's claim on total assets.
 - debtor claim on total assets.

Ans: b LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Owner's Equity

48. When an owner withdraws cash or other assets from a business for personal use, these withdrawals are termed
- depletions.
 - consumptions.
 - drawings.
 - a credit line.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Owner's Equity

49. Capital is
- an owner's permanent investment in the business.
 - equal to liabilities minus owner's equity.
 - equal to assets minus owner's equity.
 - equal to liabilities plus drawings.

Ans: a LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Owner's Equity

50. The basic accounting equation **cannot** be restated as
- Assets – Liabilities = Owner's Equity.
 - Assets – Owner's Equity = Liabilities.
 - Owner's Equity + Liabilities = Assets.
 - Assets + Liabilities = Owner's Equity.

Ans: d LO1 BT: C Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Accounting Equation in Action

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51. As of June 30, 2020, Little Giantz Company has assets of \$100,000 and owner's equity of \$60,000. What are the liabilities for Little Giantz Company as of June 30, 2020?
- \$40,000
 - \$60,000
 - \$100,000
 - \$160,000

Ans: a LO1 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Analytic AICPA FC: Measurement Analysis and Interpretation Subtopic: Accounting Equation in Action

Solution: $\$100,000 - \$60,000 = \$40,000$
(Asset tot. - Owner's equity tot. = Liabl. tot.)

52. As of December 31, 2020, Cancon Company has assets of \$42,000 and owner's equity of \$22,000. What are the liabilities for Cancon Company as of December 31, 2020?
- \$22,000
 - \$20,000
 - \$42,000
 - \$64,000

Ans: b LO1 BT: AN Difficulty: Easy TOT: 1.0 min. AACSB: Analytic AICPA FC: Measurement Analysis and Interpretation Subtopic: Accounting Equation in Action

Solution: $\$42,000 - \$22,000 = \$20,000$
(Asset tot. - Owner's equity tot. = Liabl. tot.)

53. Mirah Company compiled the following financial information as of December 31, 2020:

Revenues	\$340,000
Owner's Capital (1/1/20)	140,000
Equipment	80,000
Expenses	240,000
Cash	90,000
Owner's Drawings	20,000
Supplies	20,000
Accounts payable	40,000
Accounts receivable	70,000

Mirah's assets on December 31, 2020 are

- \$190,000.
- \$260,000.
- \$360,000.
- \$480,000.

Ans: b LO1 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Analytic AICPA FC: Reporting Subtopic: Assets

Solution: $\$80,000 + \$90,000 + \$20,000 + \$70,000 = \$260,000$
(Equip. + Cash + Supp. + Accts. rec. = Tot. assets)

54. A payment for which is an expense?
- both advertising and supplies
 - advertising but not supplies.
 - supplies but not advertising.
 - neither supplies nor advertising.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Accounting Equation in Action

55. The Crying Fish has a transaction. It cannot involve
- two accounts.
 - three accounts.
 - two, or three, accounts.
 - only one account.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Basic Accounting Equation

56. Bethel Company reported the following financial information as of December 31, 2020:

Revenues	\$320,000
Owner's Capital (1/1/20)	130,000
Equipment	180,000
Expenses	220,000
Cash	90,000
Owner's Drawings	10,000
Supplies	20,000
Accounts payable	60,000
Notes Payable	100,000
Accounts receivable	90,000

Bethel's assets on December 31, 2020 are

- \$180,000.
- \$200,000.
- \$380,000.
- \$480,000.

Ans: c LO1 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Analytic AICPA FC: Reporting Subtopic: Assets

Solution: $\$180,000 + \$90,000 + \$20,000 + \$90,000 = \$380,000$
(Equip. + Cash + Supp. + Accts. rec. = Tot. assets)

57. Michelle Boisclair Company compiled the following financial information as of December 31, 2020:

Revenues	\$440,000
Owner's Capital (1/1/20)	140,000
Equipment	180,000
Expenses	340,000
Cash	100,000
Owner's Drawings	20,000
Supplies	20,000
Accounts payable	60,000
Notes payable	100,000
Accounts receivable	80,000

Michelle Boisclair's liabilities on December 31, 2020 are

- \$160,000.
- \$260,000.
- \$360,000.
- \$480,000.

Ans: a LO1 BT: AP Difficulty: Easy TOT: 1. min. AACSB: Analytic AICPA FC: Reporting Subtopic: Liabilities

Solution: $\$60,000 + \$100,000 = \$160,000$
(Accts. pay.+ Notes pay. = Tot. liabl.)

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58. Odom Company compiled the following financial information as of December 31, 2020:

Revenues	\$840,000
Owner's Capital (1/1/20)	170,000
Equipment	330,000
Expenses	740,000
Cash	40,000
Owner's Drawings	50,000
Supplies	20,000
Sales Tax Payable	10,000
Accounts payable	50,000
Notes payable	200,000
Accounts receivable	90,000

Odom's assets on December 31, 2020 are

- a. \$150,000.
- b. \$370,000.
- c. \$390,000.
- d. \$480,000.

Ans: d LO1 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Analytic AICPA FC: Reporting Subtopic: Assets

Solution: $\$330,000 + \$40,000 + \$20,000 + \$90,000 = \$480,000$
(Equip. + Cash + Supp. + Accts. rec. = Tot. assets)

59. Odom Company compiled the following financial information as of December 31, 2020:

Revenues	\$840,000
Owner's Capital (1/1/20)	170,000
Equipment	330,000
Expenses	740,000
Cash	40,000
Owner's Drawings	50,000
Supplies	20,000
Sales Tax Payable	10,000
Accounts payable	50,000
Notes payable	200,000
Accounts receivable	90,000

Odom's liabilities on December 31, 2020 are

- a. \$60,000.
- b. \$260,000.
- c. \$300,000.
- d. \$450,000.

Ans: b LO1 BT: AP Difficulty: Easy TOT: 1.5 min. AACSB: Analytic AICPA FC: Reporting Subtopic: Liabilities

Solution: $\$10,000 + \$50,000 + \$200,000 = \$260,000$
(Sales tax pay. + Accts. pay.+ Notes pay. = Tot. liabl.)

60. Grey Company received a bill of \$2,800 from the Sloan Advertising Agency. The owner is postponing payment of the bill until a later date. The effect on the basic accounting equation is
- a decrease in Cash and an increase in Accounts Payable.
 - a decrease in Cash and an increase in Owner's Capital.
 - an increase in Accounts Payable and a decrease in Owner's Capital.
 - a decrease in Accounts Payable and an increase in Owner's Capital.

Ans: c LO1 BT: C Difficulty: Medium TOT: 1.5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Accounting Equation in Action

61. Mellon Company purchases \$1,500 of equipment from Standard Office Equipment Inc. for cash. The effect on the components of the basic accounting equation of Mellon Company is
- an increase in assets and liabilities.
 - a decrease in assets and liabilities.
 - no change in total assets.
 - an increase in assets and a decrease in liabilities.

Ans: c LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Example Transactions

62. Meile Company purchases \$500 of supplies from Best Supply Company on credit. The effect on the basic accounting equation of Meile Company is
- an increase in assets and an increase in liabilities.
 - a decrease in assets and a decrease in liabilities.
 - no change in total assets.
 - an increase in assets and a decrease in liabilities.

Ans: a LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Example

63. Which of the following events is **not** a business transaction?
- Investment of cash by the owner
 - Interviewed prospective employees
 - Incurred utility expenses for the month
 - Earned revenue for services provided

Ans: b LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Business Transactions

64. Accountants refer to an economic event as a
- purchase.
 - sale.
 - transaction.
 - change in ownership.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Business Transactions

65. Which of the following is an internal transaction?
- Purchase of supplies
 - Use of supplies to help perform services
 - Response to emails
 - Payment of an account payable

Ans: b LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Business Transactions

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66. Which of the following statements is **not** true?
- The basic accounting equation must remain in balance.
 - At least two account balances will change as the result of each transaction.
 - When only one side of the equation is involved, there needs to be an increase and a decrease on that side of the equation.
 - Each transaction must have a either a single or dual effect on the accounting equation.

Ans: d LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis

67. The purchase of equipment for cash
- decreases total assets.
 - increases total liabilities.
 - increases total assets.
 - has no effect on total assets.

Ans: d LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis

68. If total liabilities decreased by \$40,000 and owner's equity increased by \$30,000 during a period of time, then total assets must change by what amount and direction during that same period?
- \$50,000 decrease
 - \$10,000 decrease
 - \$10,000 increase
 - \$50,000 increase

Ans: b LO2 BT: AP Difficulty: Medium TOT: 1.0 min. AACSB: Analytic AICPA FN: Measurement Subtopic: Transaction Analysis

Solution: $\$30,000 - \$40,000 = \$10,000$ decrease
(Incr. in owner's equity + decr. in liabl. = decr. in assets)

69. If total liabilities decreased by \$40,000 and owner's equity decreased by \$30,000 during a period of time, then total assets must change by what amount and direction during that same period?
- \$70,000 decrease
 - \$10,000 decrease
 - \$10,000 increase
 - \$70,000 increase

Ans: a LO2 BT: AP Difficulty: Medium TOT: 1.0 min. AACSB: Analytic AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis

Solution: $(\$40,000) + (\$30,000) = (\$70,000)$ decrease
(Decr. in liabl. + Decr. in owner's equity = Decr. in assets)

70. If total liabilities decreased by \$60,000 and owner's equity increased by \$30,000 during a period of time, then total assets must change by what amount and direction during that same period?
- \$90,000 decrease
 - \$30,000 decrease
 - \$30,000 increase
 - \$90,000 increase

Ans: b LO2 BT: AP Difficulty: Medium TOT: 1.0 min. AACSB: Analytic AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis

Solution: $(\$60,000) + \$30,000 = (\$30,000)$ decrease
(Decr. in liabl. + Incr. in owner's equity = Decr. in assets)

71. If total liabilities decreased by \$30,000 and owner's equity decreased by \$15,000 during a period of time, then total assets must change by what amount and direction during that same period?
- \$45,000 decrease
 - \$15,000 decrease
 - \$15,000 increase
 - \$45,000 increase

Ans: a LO2 BT: AP Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis

Solution: $(\$30,000) + (\$15,000) = (\$45,000)$ decrease
(Decr. in liabl. + Decr. in owner's equity = Decr. in assets)

72. If total liabilities increased by \$9,000 during a period of time and owner's equity decreased by \$25,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total assets is a(n)
- \$34,000 decrease.
 - \$16,000 decrease.
 - \$16,000 increase.
 - \$34,000 increase.

Ans: b LO2 BT: AP Difficulty: Medium TOT: 1.0 min. AACSB: Analytic AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis

Solution: $\$9,000 - \$25,000 = (\$16,000)$ decrease
(Incr. in liabl + Decr. in owner's equity = Decr. in assets)

73. The accounting equation for Cineo Enterprises is as follows:

$$\begin{array}{rcl} \text{Assets} & \text{Liabilities} & \text{Owner's Equity} \\ \$120,000 & = & \$60,000 + \$60,000 \end{array}$$

If Cineo purchases office equipment on account for \$15,000, the accounting equation will change to

$$\begin{array}{rcl} \text{Assets} & \text{Liabilities} & \text{Owner's Equity} \\ \text{a. } \$120,000 & = & \$60,000 + \$60,000 \\ \text{b. } \$135,000 & = & \$60,000 + \$75,000 \\ \text{c. } \$135,000 & = & \$67,500 + \$67,500 \\ \text{d. } \$135,000 & = & \$75,000 + \$60,000 \end{array}$$

Ans: d LO2 BT: C Difficulty: Medium TOT: 1.0 min. AACSB: Analytic AICPA FC: Measurement Analysis and Interpretation Subtopic: Example Transactions

Solution: $(\$120,000 + \$15,000) = (\$60,000 + \$15,000) + \$60,000$
[(Beg. asset tot. + Purch.) = (Beg. liabl. tot. + Purch.) + Beg. owner's equity tot.]

74. If total liabilities increased by \$6,000, then
- assets must have decreased by \$6,000.
 - owner's equity must have increased by \$6,000.
 - assets must have increased by \$6,000, or owner's equity must have decreased by \$6,000.
 - assets and owner's equity each increased by \$3,000.

Ans: c LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis

75. Collection of a \$1,500 Accounts Receivable
- increases an asset \$1,500; decreases an asset \$1,500.
 - increases an asset \$1,500; decreases a liability \$1,500.
 - decreases a liability \$1,500; increases owner's equity \$1,500.
 - decreases an asset \$1,500; decreases a liability \$1,500.

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Ans: a LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Example Transactions

76. If an individual asset is increased, then
- there may be an equal decrease in a specific liability.
 - there may be an equal decrease in owner's equity.
 - there may be an equal decrease in another asset.
 - All of these answer choices are possible.

Ans: c LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis

77. Owner's equity is increased by
- drawings.
 - revenues.
 - expenses.
 - liabilities.

Ans: b LO3 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation

78. Revenues would **not** result from
- sale of merchandise.
 - initial investment of cash by owner.
 - performance of services.
 - rental of property.

Ans: b LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Revenues

79. Sources of increases to owner's equity are
- additional investments by owners.
 - purchases of merchandise.
 - withdrawals by the owner.
 - expenses.

Ans: a LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation

80. Owner's equity is decreased by all of the following **except**
- owner's investments.
 - owner's withdrawals.
 - expenses.
 - owner's drawings.

Ans: a LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation

81. Owner's equity is decreased by
- assets.
 - revenues.
 - expenses.
 - liabilities.

Ans: c LO3 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation

82. Revenues are
- the cost of assets consumed during the period.
 - gross increases in owner's equity resulting from business activities.
 - the cost of services used during the period.
 - actual or expected cash outflows.

The Accounting Equation and Transaction Analysis **2 - 15**

Ans: b LO3 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Revenues

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83. Generally revenues do not result directly from
- performing services.
 - renting property.
 - lending money.
 - buying supplies.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Revenues

84. Ben's Discorama has an increase in an expense. This means the following must also occur:
- decrease in owner's equity.
 - decrease in assets.
 - increase in liabilities.
 - increase in assets.

Ans: a LO3 BT: C Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expenses

85. How many items does the the expanded accounting equation have?
- 6.
 - 5.
 - 4.
 - 3.

Ans: a LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation

86. If services are rendered for credit, then
- assets will decrease.
 - liabilities will increase.
 - owner's equity will increase.
 - liabilities will decrease.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation

87. If expenses are paid in cash, then
- assets will increase.
 - liabilities will decrease.
 - owner's equity will increase.
 - assets will decrease.

Ans: d LO3 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation

88. If an owner makes a withdrawal of cash, then
- there has been a violation of accounting principles.
 - owner's equity will increase.
 - owner's equity will decrease.
 - there will be a new liability showing the owner owes money to the business.

Ans: c LO3 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation

89. If Haircut 101 performs styling services for cash, then
- a. assets will decrease.
 - b. liabilities will increase.
 - c. owner's equity will increase.
 - d. liabilities will decrease.

Ans: c LO3 BT: K Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation

90. If Haircut 101 pays its utility bill on the day it is received, then
- a. assets will decrease.
 - b. liabilities will increase.
 - c. owner's equity will increase.
 - d. expenses will decrease.

Ans: a LO3 BT: K Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation

91. If Miller's Plumbing provides services and sends the customer a bill, then Miller's
- a. assets will increase.
 - b. liabilities will increase.
 - c. owner's equity will decrease.
 - d. liabilities will decrease.

Ans: a LO3 BT: K Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation

92. If Miller's Plumbing pays its employees, then the company's
- a. assets will increase.
 - b. liabilities will increase.
 - c. owner's equity will decrease.
 - d. expenses will decrease.

Ans: c LO3 BT: K Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation

93. If Miller's Plumbing receives a bill for repair of one of its trucks, then
- a. assets will decrease.
 - b. assets will increase.
 - c. owner's equity will decrease.
 - d. liabilities will decrease.

Ans: c LO3 BT: K Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation

94. Benvenuto's paid salaries payable. The salaries payable was originally recorded last month. The payment of the salaries payable
- a. increases expenses.
 - b. decreases expenses.
 - c. has no effect on expenses.
 - d. decreases owner's equity.

Ans: c LO3, 4 BT: K Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation and Transaction Analysis Using the Expanded Accounting Equation

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95. Wyatt's Musclerama collected cash on account from customers. The accounts receivable were originally recorded last month. The collection of the accounts
- a. increases revenues.
 - b. decreases revenues.
 - c. has no effect on revenues.
 - d. increases owner's equity.

Ans: c LO3, 4 BT: K Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation and Transaction Analysis Using the Expanded Accounting Equation

96. Sorrento Ski Company received a utility bill in December and recorded a liability at that time. When the bill is paid in January, the payment
- a. increases expenses and decreases liabilities.
 - b. decreases expense and assets.
 - c. has no effect on expenses.
 - d. decreases owner's equity and assets.

Ans: c LO3, 4 BT: K Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation and Transaction Analysis Using the Expanded Accounting Equation

97. Boone Drug Store collected cash on account from customers. The collection of the accounts
- a. increases revenues and owner's equity.
 - b. increases assets and decreases revenues.
 - c. has no effect on revenues.
 - d. increases assets and owner's equity.

Ans: c LO3, 4 BT: K Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation and Transaction Analysis Using the Expanded Accounting Equation

98. Fish Mooney, owner of Gotham Gelato, withdrew cash for personal use. The drawing
- a. has the same effect as an investment.
 - b. is an expense.
 - c. is a revenue.
 - d. does not affect net income.

Ans: d LO3, 4 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation and Transaction Analysis Using the Expanded Accounting Equation

99. Bet Mahoney, the owner of Bistro Rocca Restaurant, withdrew cash from the business for personal use. The withdrawal
- a. increases assets and owner's equity.
 - b. increases expenses.
 - c. increases revenue.
 - d. decreases owner's equity.

Ans: d LO3, 4 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation and Transaction Analysis Using the Expanded Accounting Equation

100. Jessica Chute, the owner of Watauga Home Health Services, withdrew cash from the business for personal use. The drawing
- a. decreases assets.
 - b. increases expenses.
 - c. increases revenue.
 - d. decreases net income.

Ans: a LO3, 4 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation and Transaction Analysis Using the Expanded Accounting Equation

101. The owner of Pope Enterprises paid the current month's salaries expense and withdrew cash from the business for personal use. These two transactions
- both decrease owner's equity.
 - have no effect on total assets.
 - both decrease liabilities.
 - do not affect net income.

Ans: a LO3, 4 BT: K Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Expanded Accounting Equation and Transaction Analysis Using the Expanded Accounting Equation

102. If a utility bill is received for electricity used during the month, then
- a liability will increase.
 - an asset will increase.
 - owner's equity will decrease.
 - owner's equity will increase.

Ans: c LO4 BT: C Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis Using the Expanded Accounting Equation

103. If rent is paid for the month, then
- a liability will decrease.
 - an asset will increase.
 - owner's equity will increase.
 - owner's equity will decrease.

Ans: d LO4 BT: C Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis Using the Expanded Accounting Equation

104. Eli's Electronic Repair Shop started the year with total assets of \$300,000 and total liabilities of \$200,000. During the year, the business recorded \$400,000 in electronic repair revenues, \$300,000 in expenses, and Eli withdrew \$50,000. Eli's Owner's Capital balance at the end of the year was
- \$200,000.
 - \$100,000.
 - \$150,000.
 - \$350,000.

Ans: c LO4 BT: AP Difficulty: Hard TOT: 1.5 min. AACSB: Analytic AICPA FC: Reporting Subtopic: Transaction Analysis Using the Expanded Accounting Equation

Solution: $\$300,000 - \$200,000 = \$100,000$; $\$100,000 + (\$400,000 - \$300,000) - \$50,000 = \$150,000$
[(Beg. assets - Beg. liabl. = Beg. owner's cap.); (Beg. owner's cap. + (Repair rev. - Exp.) - Draws. = End. owner's cap.)]

105. Eli's Electronic Repair Shop started the year with total assets of \$300,000 and total liabilities of \$200,000. During the year, the business recorded \$400,000 in electronic repair revenues, \$300,000 in expenses, and Eli withdrew \$50,000. Eli's Owner's Capital balance changed by what amount from the beginning of the year to the end of the year?
- \$100,000
 - \$ 50,000
 - \$200,000
 - \$250,000

Ans: b LO4 BT: AP Difficulty: Hard TOT: 1.5 min. AACSB: Analytic AICPA FC: Reporting Subtopic: Transaction Analysis Using the Expanded Accounting Equation

Solution: $(\$400,000 - \$300,000) - \$50,000 = \$50,000$
[(Repair rev. - Exp.) - Draws. = Chg. in owner's cap.]

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106. Alicia Keyes Company began the year with owner's equity of \$280,000. During the year, the company recorded revenues of \$375,000, expenses of \$265,000, and had owner drawings of \$30,000. What was Alicia Keyes' owner's equity at the end of the year?
- \$280,000
 - \$360,000
 - \$390,000
 - \$420,000

Ans: b LO4 BT: AP Difficulty: Hard TOT: 1.5 min. AACSB: Analytic AICPA FC: Reporting Subtopic: Transaction Analysis Using the Expanded Accounting Equation

Solution: $\$280,000 + (\$375,000 - \$265,000) - \$30,000 = \$360,000$
 [Beg. owner's equity + (Rev. - Exp.) - Draws. = End. owner's equity]

107. Foxes Service Shop started the year with total assets of \$320,000 and total liabilities of \$240,000. During the year, the business recorded \$630,000 in revenues, \$450,000 in expenses, and owner drawings of \$60,000. Owner's equity at the end of the year was
- \$80,000.
 - \$200,000.
 - \$310,000.
 - \$370,000.

Ans: b LO4 BT: AP Difficulty: Hard TOT: 1.5 min. AACSB: Analytic AICPA FC: Reporting Subtopic: Transaction Analysis Using the Expanded Accounting Equation

Solution: $(\$320,000 - \$240,000) + (\$630,000 - \$450,000) - \$60,000 = \$200,000$
 [(Beg. assets - Beg. liabl. = Beg. owner's equity); (Beg. owner's equity + (Rev. - Exp.) - Draws. = End. owner's equity)]

108. Mirah Company compiled the following financial information as of December 31, 2020:

Revenues	\$340,000
Owner's Capital (1/1/20)	140,000
Equipment	80,000
Expenses	240,000
Cash	90,000
Owner's Drawings	20,000
Supplies	20,000
Accounts payable	40,000
Accounts receivable	70,000

Mirah's owner's equity on December 31, 2020 is

- \$100,000.
- \$140,000.
- \$220,000.
- \$260,000.

Ans: c LO4 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Analytic AICPA FC: Reporting Subtopic: Transaction Analysis Using the Expanded Accounting Equation

Solution: $\$140,000 + (\$340,000 - \$240,000) - \$20,000 = \$220,000$
 [Beg. owner's equity + (Rev. - Exp.) - Draws. = End. owner's equity]

109. Luis Consulting started the year with total assets of \$60,000 and total liabilities of \$17,000. During the year, the business recorded \$48,000 in consulting revenues and \$36,000 in expenses. Luis made an additional investment of \$8,000 and withdrew cash of \$9,000 during the year. The owner's equity at the end of the year was
- \$33,000.
 - \$54,000.
 - \$57,000.
 - \$63,000.

Ans: b LO4 BT: AP Difficulty: Hard TOT: 1.5 min. AACSB: Analytic AICPA FC: Reporting Subtopic: Transaction Analysis Using the Expanded Accounting Equation

Solution: $(\$60,000 - \$17,000) + (\$48,000 - \$36,000) + \$8,000 - \$9,000 = \$54,000$
 $[(\text{Beg. assets} - \text{Beg. liabl.} = \text{Beg. owner's equity}); (\text{Beg. owner's equity} + (\text{Rev.} - \text{Exp.}) + \text{Add'l. invest.} - \text{Draws.} = \text{End. owner's equity})]$

110. Luis Consulting started the year with total assets of \$60,000 and total liabilities of \$17,000. During the year, the business recorded \$48,000 in consulting revenues and \$36,000 in expenses. Luis made an additional investment of \$8,000 and withdrew cash of \$9,000 during the year. Owner's equity changed by what amount from the beginning of the year to the end of the year?
- \$3,000
 - \$11,000
 - \$12,000
 - \$45,000

Ans: b LO4 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Analytic AICPA FC: Reporting Subtopic: Transaction Analysis Using the Expanded Accounting Equation

Solution: $(\$48,000 - \$36,000) + \$8,000 - \$9,000 = \$11,000$
 $[(\text{Rev.} - \text{Exp.}) + \text{Add'l. invest.} - \text{Draws.} = \text{Chg. in owner's equity}]$

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BRIEF EXERCISES

BE 111

Match the following terms and definitions.

- | | |
|------------------------|---------------------|
| a. Accounts receivable | c. Accounts payable |
| b. Creditor | d. Note payable |

- _____ (1) Amounts due from customers
- _____ (2) Amounts owed to suppliers for goods and services purchased
- _____ (3) Amounts owed to bank
- _____ (4) Party to whom money is owed

Solution 111

1. a
2. c
3. d
4. b

LO1 BT: K Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation
Subtopic: Assets and Liabilities

BE 112

Indicate which of these items is an asset (A), liability (L) or owner's equity (OE) account.

- _____ (1) Supplies
- _____ (2) Owner's Drawings
- _____ (3) Buildings
- _____ (4) Notes Payable
- _____ (5) Salaries and Wages Payable

Solution 112

1. Asset (A)
2. Owner's Equity (OE)
3. Asset (A)
4. Liability (L)
5. Liability (L)

LO1 BT: K Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation
Subtopic: Assets, Liabilities, and Owner's Equity

BE 113

Indicate which of these items is an asset (A), liability (L) or owner's equity (OE) account.

- _____ (1) Accounts Receivable
- _____ (2) Owner's Drawings
- _____ (3) Equipment
- _____ (4) Accounts Payable
- _____ (5) Sales Tax Payable

Solution 113

1. Asset (A)
2. Owner's Equity (OE)
3. Asset (A)
4. Liability (L)
5. Liability (L)

LO1 BT: K Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation
Subtopic: Assets, Liabilities, and Owner's Equity

BE 114

Use the accounting equation to answer the following questions.

1. Penny Sales Co. has total assets of \$140,000 and total liabilities of \$54,000. What is owner's equity?
2. The Virtual Sun Center has total assets of \$252,000 and owner's equity of \$100,000. What are total liabilities?
3. Columbia River Restaurant has total liabilities of \$50,000 and owner's equity of \$80,000. What are total assets?

Solution 114

1. $\$140,000 - \$54,000 = \$86,000$ owner's equity
2. $\$252,000 - \$100,000 = \$152,000$ total liabilities
3. $\$50,000 + \$80,000 = \$130,000$ total assets

LO1 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Analytic AICPA FC: Measurement Analysis and Interpretation
Subtopic: Accounting Equation in Action
[1: (Tot. assets – Tot. liabl. = Tot. owner's equity); 2: (Tot. assets – Tot. owner's equity = Tot. liabl.); 3: (Tot. liabl. + Tot. owner's equity = Tot. assets)]

BE 115

Use the accounting equation to answer the following questions.

1. Heavenly Day Spa has total assets of \$280,000 and total liabilities of \$130,000. What is owner's equity?
2. Katie's Smoothie Shoppe has total assets of \$25,000 and owner's equity of \$18,000. What are total liabilities?
3. The Local Restaurant has total liabilities of \$40,000 and owner's equity of \$62,000. What are total assets?

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Solution 115

1. $\$280,000 - \$130,000 = \$150,000$ owner's equity
2. $\$25,000 - \$18,000 = \$7,000$ total liabilities
3. $\$40,000 + \$62,000 = \$102,000$ total assets

LO1 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Analytic AICPA FC: Measurement Analysis and Interpretation Subtopic: Accounting Equation in Action
 [1: (Tot. assets – Tot. liabl. = Tot. owner's equity); 2: (Tot. assets – Tot. owner's equity = Tot. liabl.); 3: (Tot. liabl. + Tot. owner's equity = Tot. assets)]

BE 116

Determine the missing items.

Assets = Liabilities + Owner's Equity		
\$85,000	\$52,000	(a)
(b)	\$28,000	\$34,000
\$84,000	(c)	\$50,000

Solution 116

- a. $\$33,000$ ($\$85,000 - \$52,000$)
- b. $\$62,000$ ($\$28,000 + \$34,000$)
- c. $\$34,000$ ($\$84,000 - \$50,000$)

LO1 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Analytic AICPA FC: Measurement Analysis and Interpretation Subtopic: Accounting Equation in Action
 [(a): (Assets – Liabl. = Owner's equity); (b): (Liabl. + Owner's equity = Assets); (c): (Assets – Owner's equity = Liabl.)]

BE 117

Classify each of these items as an asset (A), liability (L), or owner's equity (OE).

- _____ 1. Accounts receivable
- _____ 2. Accounts payable
- _____ 3. Owner's capital
- _____ 4. Supplies
- _____ 5. Utilities expense
- _____ 6. Cash
- _____ 7. Notes payable
- _____ 8. Equipment

Solution 117 (5 min.)

- | | |
|-------|-------|
| 1. A | 5. OE |
| 2. L | 6. A |
| 3. OE | 7. L |
| 4. A | 8. A |

LO1,3 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation
Subtopic: Assets, Liabilities, and Owner's Equity and Revenues and Expense and Expanded Accounting Equation

BE 118

Classify each of these items as an asset (A), liability (L), or owner's equity (OE).

- _____ 1. Accounts receivable
- _____ 2. Notes payable
- _____ 3. Owner's drawing
- _____ 4. Advertising expense
- _____ 5. Utilities expense
- _____ 6. Cash
- _____ 7. Utilities payable
- _____ 8. Sales tax payable

Solution 118 (5 min.)

- | | |
|-------|-------|
| 1. A | 5. OE |
| 2. L | 6. A |
| 3. OE | 7. L |
| 4. OE | 8. L |

LO1,3 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation
Subtopic: Assets, Liabilities, and Owner's Equity and Revenues and Expense and Expanded Accounting Equation

BE 119

Selina Kyle opens a personal training firm on November 1. Analyze each of the following transactions in a table using the accounting equation. Use these headings:

	Assets					=	Liabilities			+	Owner's Equity	
Trans- Action	Cash	+	Supplies	+	Equipment	=	Accounts Payable	+	Notes Payable	+	Owner's Capital	Owner's Drawings

- The owner invested \$40,000 cash in the business.
- The company purchased \$3,000 of training equipment on credit.
- The company received \$5,000 cash in exchange for a note payable from the bank.
- The company paid \$800 for three months' worth of training supplies.
- The owner withdrew \$2,200 cash for personal use.

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Solution 119

	Assets				=	Liabilities		+	Owner's Equity				
Trans- Action	Cash	+	Supplies	+	Equipment	=	Accounts Payable	+	Notes Payable	+	Owner's Capital	-	Owner's Drawings
1	\$40,000										\$40,000		
2					\$3,000		\$3,000						
3	5,000								\$5,000				
4	-800		800										
5	-2,200												(\$2,200) Drawing
	\$42,000	+	\$800	+	\$3,000	=	\$3,000	+	\$5,000	+	\$40,000	□	(\$2,200)
	\$45,800						\$45,800						

LO2 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Analytic AICPA FC: Measurement Analysis and Interpretation Subtopic: Summary of Transactions

BE 120

Identify the impact on the accounting equation of each of the following transactions.

1. Purchase office supplies on account.
2. Paid secretary weekly salary.
3. Purchased office furniture for cash.
4. Received monthly utility bill to be paid at later time.

Solution 120 (5 min.)

1. Increase assets and increase liabilities.
2. Decrease assets and decrease owner's equity.
3. Increase assets and decrease assets.
4. Increase liabilities and decrease owner's equity.

LO2 BT: AP Difficulty: Medium TOT: 5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Example Transactions

BE 121

Transactions made by Benj & Co., an accounting firm, for the month of May are shown below. Prepare a tabular analysis, which shows the effects of these transactions on the expanded accounting equation, with owner's equity columns for Capital, Drawings, Revenues, and Expenses

1. The owner invested \$20,000 cash in the business.
2. The company purchased \$8,000 of office equipment on credit.
3. The company received \$9,000 cash in exchange for services performed.
4. The company paid \$1,350 for this month's rent.
5. The owner withdrew \$2,000 cash for personal use.

Solution 121

Trans- action	Assets		=	Liabilities	+	Owner's Equity			
	Cash	+ Equipment	=	Accounts Payable	+	Owner's Capital	- Owner's Drawings	+ Revenues	- Expenses
(1)	+\$20,000					+\$20,000			
(2)		+\$8,000		+\$8,000					
(3)	+9,000							+\$9,000	
(4)	-1,350								-\$1,350
(5)	-2,000						-\$2,000		
	<u>\$25,650</u>	+ <u>\$8,000</u>	=	<u>\$8,000</u>	+	<u>\$20,000</u>	- <u>\$2,000</u>	+ <u>\$9,000</u>	- <u>\$1,350</u>
	\$33,650					\$33,650			

Service
Revenues
Rent Expense
Drawing

LO3 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Analytic AICPA FC: Reporting Subtopic: Revenues, Expenses, and the Expanded Accounting Equation

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EXERCISES

Ex. 122

Determine the missing amount for each of the following.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
1.	(a)		\$55,000		\$95,000
2.	\$125,000		(b)		\$85,000
3.	\$160,000		\$65,000		(c)

Solution 122

- (a) = \$150,000 (\$55,000 + \$95,000)
- (b) = \$40,000 (\$125,000 - \$85,000)
- (c) = \$95,000 (\$160,000 - \$65,000)

LO1 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Analytic AICPA FC: Reporting Subtopic: Accounting Equation in Action

[(a): (Liabl. + Owner's equity = Assets); (b): (Assets - Owner's equity = Liabl.); (c): (Assets - Liabl. = Owner's equity)]

Ex. 123

Tesla Car Cleaning has the following accounts:

Accounts Receivable	Notes Payable
Accounts Payable	Owner's Capital
Cash	Owner's Drawing
Supplies	Equipment

- Identify which items are
- (1) Assets
 - (2) Liabilities
 - (3) Owner's Equity

Solution 123

- (1) Assets—Equipment, Cash, Supplies, Accounts Receivable
- (2) Liabilities—Accounts Payable, Notes Payable
- (3) Owner's Equity— Owner's Capital, Owner's Drawing

LO1 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Assets, Liabilities, and Owner's Equity

Ex. 124

Compute the missing amount in each category of the accounting equation.

	<u>Assets</u>	<u>Liabilities</u>	<u>Owner's Equity</u>
(a)	\$319,000	\$?	\$143,000
(b)	\$223,000	\$ 79,000	\$?
(c)	\$?	\$233,000	\$325,000

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Solution 124

- (a) \$176,000 ($\$319,000 - \$143,000 = \$176,000$).
 (b) \$144,000 ($\$223,000 - \$79,000 = \$144,000$).
 (c) \$558,000 ($\$233,000 + \$325,000 = \$558,000$).

LO1 BT: AN Difficulty: Medium TOT: 5 min. AACSB: Analytic AICPA FC: Measurement Analysis and Interpretation Subtopic: Accounting Equation in Action
 [(a): $\text{Assets} - \text{Owner's equity} = \text{Liabl.}$; (b): $(\text{Assets} - \text{Liabl.} = \text{Owner's equity})$; (c): $(\text{Liabl.} + \text{Owner's equity} = \text{Assets})$]

Ex. 125

Presented below are items for Blue Lagoon Company at December 31, 2020.

Accounts payable	\$37,000
Accounts receivable	39,000
Cash	17,000
Equipment	78,000
Owner's capital	47,000
Notes payable	50,000

Compute each of the following:

- Total assets.
- Total liabilities.

Solution 125

- Total assets = \$134,000 ($\$39,000 + \$17,000 + \$78,000$)
- Total liabilities = \$87,000 ($\$37,000 + \$50,000$)

(Accts. rec. + Cash + Equip. = Tot. assets)

(Accts. pay. + Notes pay. = Tot. liabl.)

LO1 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Analytic AICPA FC: Reporting Subtopic: Assets and Liabilities

Ex. 126

For the items listed below, fill in the appropriate code letter to indicate whether the item is an asset, liability, or owner's equity item.

	Asset	Liability	Owner's Equity	Code
				A
				L
				OE
_____ 1. Rent Expense				_____ 6. Cash
_____ 2. Equipment				_____ 7. Accounts Receivable
_____ 3. Accounts Payable				_____ 8. Owner's Drawings
_____ 4. Owner's Capital				_____ 9. Service Revenue
_____ 5. Insurance Expense				_____ 10. Notes Payable

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Solution 126

- | | |
|-------|-------|
| 1. OE | 6. A |
| 2. A | 7. A |
| 3. L | 8. OE |
| 4. OE | 9. OE |
| 5. OE | 10. L |

LO1, 3 BT: C Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation
Subtopic: Assets, Liabilities, and Owner's Equity and Revenues and Expense and Expanded Accounting Equation

Ex. 127

One item is omitted in each of the following summaries for three different companies, X, Y, and Z. Determine the amounts of the missing items, identifying each company by letter.

	Company		
	X	Y	Z
Beginning of the Year:			
Assets	\$390,000	\$150,000	\$215,000
Liabilities	240,000	105,000	168,000
End of the Year:			
Assets	450,000	175,000	195,000
Liabilities	275,000	90,000	170,000
During the Year:			
Additional Investment by the owner	?	74,000	80,000
Withdrawals by the owner	95,000	83,000	?
Revenue	195,000	?	185,000
Expenses	160,000	113,000	175,000

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Solution 127

<u>Company X</u> (\$85,000)	
Beginning Capital balance (\$390,000 – \$240,000)	\$150,000
Additional investments (\$270,000 – \$150,000 – \$35,000)	85,000
Revenues	195,000
Expenses	<u>(160,000)</u>
	270,000
Less withdrawals	<u>95,000</u>
Ending Capital balance (\$450,000 – \$275,000)	<u>\$175,000</u>

[(End. assets – End. liabl.) + Draws. – (Rev. – Exp.) – (Beg. assets – Beg. liabl.) = Add'l. invest.]

<u>Company Y</u> (\$162,000)	
Beginning Capital balance (\$150,000 – \$105,000)	\$ 45,000
Additional investments	74,000
Expenses	(113,000)
Revenue	162,000
Withdrawals	<u>(83,000)</u>
Ending Capital balance (\$175,000 – \$90,000)	<u>\$ 85,000</u>

[(End. assets – End. liabl.) + Draws. – Add'l. invest. – (Beg. assets – Beg. liabl.) + Exps = Rev.];

<u>Company Z</u> (\$112,000)	
Beginning Capital balance (\$215,000 – \$168,000)	\$ 47,000
Additional investments	80,000
Revenues	185,000
Expenses	<u>(175,000)</u>
	137,000
Withdrawals (\$137,000 – \$25,000)	<u>(112,000)</u>
Ending Capital balance (\$195,000 – \$170,000)	<u>\$ 25,000</u>

[(Beg. assets – Beg. liabl.) + Add'l. invest. + (Rev. – Exp.) – (End. assets – End. liabl.) = Draws.]

LO1, 2, 3, 4 BT: AN Difficulty: Hard TOT: 10 min. AACSB: Analytic AICPA FC: Reporting Subtopic: Accounting Equation in Action, Example Transactions, Expanded Accounting Equation, Transaction Analysis Using the Expanded Accounting Equation

Ex. 128

At the beginning of the year, Shaolin Company had total assets of \$520,000 and total liabilities of \$210,000. Answer the following questions viewing each situation as being independent of the others.

- (1) If total assets increased \$200,000 during the year, and total liabilities decreased \$75,000, what is the amount of owner's equity at the end of the year?
- (2) During the year, total liabilities increased \$230,000 and owner's equity decreased \$90,000. What is the amount of total assets at the end of the year?
- (3) If total assets decreased \$40,000 and owner's equity increased \$130,000 during the year, what is the amount of total liabilities at the end of the year?

Solution 128

	<u>Total Assets</u>		<u>Total Liabilities</u>		<u>Owner's Equity</u>
Beginning	\$520,000		\$210,000		
Change	<u>200,000</u>		<u>(75,000)</u>		
Ending	\$720,000	–	\$135,000	=	<u>\$585,000</u> (1)

	<u>Total Assets</u>		<u>Total Liabilities</u>		<u>Owner's Equity</u>
Beginning	\$520,000		\$210,000		\$310,000
Change			<u>230,000</u>		<u>(90,000)</u>
Ending	<u>\$660,000</u> (2)	=	\$440,000	+	\$220,000

	<u>Total Assets</u>		<u>Total Liabilities</u>		<u>Owner's Equity</u>
Beginning	\$520,000		\$210,000		\$310,000
Change	<u>(40,000)</u>				<u>130,000</u>
Ending	\$480,000	=	<u>\$ 40,000</u> (3)	+	\$440,000

LO2 BT: AP Difficulty: Hard TOT: 5 min. AACSB: Analytic AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis and Example Transactions

[(1): ((Beg. assets + Incr.) – (Beg. liabl. – Decr.) = End. owner's equity); (2): (Beg. assets – Beg. liabl. = Beg. owner's equity); (Beg. liabl. + Incr.) + (Beg. owner's equity – Decr. = End. assets); (3): (Beg. assets – Beg. liabl. = Beg. owner's equity); (Beg. assets – Decr.) – (Beg. owner's equity + Incr.) = End. liabl.]]

Ex. 129

At the beginning of 2020, Stand First Company had total assets of \$520,000 and total liabilities of \$270,000. Answer each of the following questions.

1. If total assets increased \$60,000 and owner's equity decreased \$90,000 during the year, determine the amount of total liabilities at the end of the year.
2. During the year, total liabilities decreased \$73,000 and owner's equity increased \$50,000. Compute the amount of total assets at the end of the year.
3. If total assets decreased \$105,000 and total liabilities increased \$55,000 during the year, determine the amount of owner's equity at the end of the year.

Solution 129

1. Ending Total Liabilities = (\$520,000 + \$60,000) – (\$520,000 – \$270,000 – \$90,000)
= \$580,000 – \$160,000 = \$420,000
2. Ending Total Assets = (\$270,000 – \$73,000) + (\$520,000 – \$270,000 + \$50,000)
= \$197,000 + \$300,000 = \$497,000
3. Ending Owner's Equity = (\$520,000 – \$105,000) – (\$270,000 + \$55,000)
= \$415,000 – \$325,000 = \$90,000

LO2 BT: AN Difficulty: Hard TOT: 5 min. AACSB: Analysis AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis and Example Transactions

[(1): ((Beg. assets + Incr.) – ((Beg. assets – Beg. liabl.) – Decr. in owner's equity) = End. liabl.); (2): ((Beg. liabl. – Decr.) + ((Beg. assets – Beg. liabl.) + Incr. in owner's equity) = End. assets); (3): ((Beg. assets – Decr.) – (Beg. liabl. + Incr.) = End. owner's equity)]

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Ex. 130

Selected transactions for Mountain Goats Tree Service are listed below.

1. Invested cash to start business.
2. Paid for monthly advertising.
3. Purchased supplies on account.
4. Billed customers for services performed.
5. Withdrew cash for owner's personal use.
6. Received cash from customers billed in (4).
7. Incurred utilities expense on account.
8. Purchased additional supplies for cash.
9. Received cash from customers when service was performed.

Instructions

List the numbers of the above transactions and describe the effect of each transaction on assets, liabilities, and owner's equity. For example, the first answer is: (1) Increase in assets and increase in owner's equity.

Solution 130

1. Increase in assets and increase in owner's equity.
2. Decrease in assets and decrease in owner's equity.
3. Increase in assets and increase in liabilities.
4. Increase in assets and increase in owner's equity.
5. Decrease in assets and decrease in owner's equity.
6. Increase in assets and decrease in assets.
7. Increase in liabilities and decrease in owner's equity.
8. Increase in assets and decrease in assets.
9. Increase in assets and increase in owner's equity.

LO2, 4 BT: C Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation
Subtopic: Example Transactions and Transaction Analysis Using the Expanded Accounting Equation

Ex. 131

Loya Company entered into the following transactions during March 2020.

1. Purchased office equipment for \$25,000 from Office Equipment, Inc. on account.
2. Paid \$3,000 cash for March rent on office furniture.
3. Received \$18,000 cash from customers for services billed in February.
4. Provided legal services to Miguel Construction Company for \$3,500 cash.
5. Paid Western States Power Co. \$2,500 cash for electric usage in March.
6. F. Loya invested an additional \$32,000 in the business.
7. Paid Office Equipment, Inc. for the office equipment purchased in (1) above.
8. Incurred advertising expense for March of \$1,600 on account.

Instructions

Indicate with the appropriate letter whether each of the transactions above results in:

- (a) an increase in assets and a decrease in assets.
- (b) an increase in assets and an increase in owner's equity.
- (c) an increase in assets and an increase in liabilities.

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- (d) a decrease in assets and a decrease in owner's equity.
- (e) a decrease in assets and a decrease in liabilities.
- (f) an increase in liabilities and a decrease in owner's equity.
- (g) an increase in owner's equity and a decrease in liabilities.

Solution 131

- | | |
|--------|--------|
| 1. (c) | 5. (d) |
| 2. (d) | 6. (b) |
| 3. (a) | 7. (e) |
| 4. (b) | 8. (f) |

LO2, 4 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation
Subtopic: Example Transactions and Transaction Analysis Using the Expanded Accounting Equation

Ex. 132

Analyze the transactions of a business organized as a proprietorship described below and indicate their effect on the basic accounting equation. Use a plus sign (+) to indicate an increase and a minus sign (–) to indicate a decrease.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
1. Received cash for services rendered.	_____		_____		_____
2. Purchased office equipment on credit.	_____		_____		_____
3. Paid employees' salaries.	_____		_____		_____
4. Received cash from customer in payment on account.	_____		_____		_____
5. Paid telephone bill for the month.	_____		_____		_____
6. Paid for office equipment purchased in transaction 2.	_____		_____		_____
7. Purchased office supplies on credit.	_____		_____		_____
8. Owner withdrew cash for personal expenses.	_____		_____		_____
9. Obtained a loan from the bank.	_____		_____		_____
10. Billed customers for services rendered.	_____		_____		_____

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Solution 132

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
1. Received cash for services rendered.	+				+
2. Purchased office equipment on credit.	+		+		
3. Paid employees' salaries.	-				-
4. Received cash from customer in payment on account.	+,-				
5. Paid telephone bill for the month.	-				-
6. Paid for office equipment purchased in transaction 2.	-		-		
7. Purchased office supplies on credit.	+		+		
8. Owner withdrew cash for personal expenses.	-				-
9. Obtained a loan from the bank.	+		+		
10. Billed customers for services rendered.	+				+

LO2, 4 BT: C Difficulty: Medium TOT: 10 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Example Transactions and Transaction Analysis Using the Expanded Accounting Equation

Ex. 133

For each of the following, indicate whether the transaction increased (+), decreased (-), or had no effect (NE) on assets, liabilities, and owner's equity using the following format.

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

- Made an investment to start the business.
- Billed customers for services performed.
- Purchased equipment on account.
- Withdrew cash for personal use.
- Paid for equipment purchased in number 3 above.

Solution 133

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
1.	+		NE		+
2.	+		NE		+
3.	+		+		NE
4.	-		NE		-
5.	-		-		NE

LO2, 4 BT: C Difficulty: Easy TOT: 10 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Example Transactions and Transaction Analysis Using the Expanded Accounting Equation

Ex. 134

Maria Martinez decides to open a cleaning and laundry service near the local college campus that will operate as a sole proprietorship. Analyze the following transactions for the month of June in terms of their effect on the basic accounting equation. Record each transaction by increasing (+) or decreasing (–) the dollar amount of each item affected. Indicate the new balance of each item after a transaction is recorded. It is not necessary to identify the cause of changes in owner's equity.

Transactions

- (1) Maria Martinez invests \$25,000 in cash to start a cleaning and laundry business on June 1.
- (2) Purchased equipment for \$5,000 paying \$3,500 in cash and the remainder due in 30 days.
- (3) Purchased supplies for \$1,200 cash.
- (4) Received a bill from College Clarion for \$200 for advertising in the campus newspaper.
- (5) Cash receipts from customers for cleaning and laundry amounted to \$2,600.
- (6) Paid salaries of \$600 to student workers.
- (7) Billed the Tiger Tennis Team \$480 for cleaning and laundry services.
- (8) Paid \$200 to College Clarion for advertising that was previously billed in Transaction 4.
- (9) Maria Martinez withdrew \$1,300 from the business for living expenses.
- (10) Incurred utility expenses for month on account, \$500.

Trans- action	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	Owner's Capital
(1)											
Balance (2)											
Balance (3)											
Balance (4)											
Balance (5)											
Balance (6)											
Balance (7)											
Balance (8)											
Balance (9)											
Balance (10)											
Totals											

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Solution 134

Trans- action (1)	Cash + +\$25,000	Accounts Receivable +	Supplies +	Equipment =	Accounts Payable +	Owner's Capital +\$25,000
Balance (2)	\$25,000 – 3,500			+\$5,000	+\$1,500	\$25,000
Balance (3)	\$21,500 – 1,200		+\$1,200	\$5,000	\$1,500	\$25,000
Balance (4)	\$20,300		\$1,200	\$5,000	\$1,500 + 200	\$25,000 – 200
Balance (5)	\$20,300 + 2,600		\$1,200	\$5,000	\$1,700	\$24,800 + 2,600
Balance (6)	\$22,900 – 600		\$1,200	\$5,000	\$1,700	\$27,400 – 600
Balance (7)	\$22,300	+\$480	\$1,200	\$5,000	\$1,700	\$26,800 + 480
Balance (8)	\$22,300 – 200	\$480	\$1,200	\$5,000	\$1,700 – 200	\$27,280
Balance (9)	\$22,100 – 1,300	\$480	\$1,200	\$5,000	\$1,500	\$27,280 – 1,300
Balance (10)	\$20,800	\$480	\$1,200	\$5,000	\$1,500 + 500	\$25,980 – 500
Totals	\$20,800	\$480	\$1,200	\$5,000	\$2,000	\$25,480

LO2, 4 BT: AP Difficulty: Medium TOT: 20 min. AACSB: Analytic AICPA FC: Measurement Analysis and Interpretation Subtopic: Example Transactions, Summary of Transactions, and Transaction Analysis using the Expanded Accounting Equation

Ex. 135

For each of the following, describe a transaction that will have the stated effect on the elements of the accounting equation.

- (a) Increase one asset and decrease another asset.
- (b) Increase an asset and increase a liability.
- (c) Decrease an asset and decrease a liability.
- (d) Increase an asset and increase owner's equity.
- (e) Increase one asset, decrease one asset, and increase a liability.

Solution 135

- (a) Receive cash from customers on account.
Purchase supplies for cash.
- (b) Purchase supplies on account.
Purchase equipment and signed a note payable.
- (c) Pay cash to reduce accounts payable.
Pay cash to reduce a note payable.
- (d) Initial contribution by an owner.
Additional contributions by an owner.
Render services on account (or for cash).
- (e) Buy equipment with a cash down payment with the remainder financed by a note payable.

LO2, 4 BT: AN Difficulty: Hard TOT: 5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation
Subtopic: Example Transactions and Transaction Analysis Using the Expanded Accounting Equation

Ex. 136

The following transactions represent part of the activities of Back Bay Tea Company for the first month of its existence. Indicate the effect of each transaction upon the total assets of the business by one of the following phrases: increased total assets, decreased total assets, or no change in total assets.

- (a) The owner invested cash to start the business.
- (b) Purchased a computer for cash.
- (c) Purchased office equipment with money borrowed from the bank.
- (d) Paid the first month's utility bill.
- (e) Collected an accounts receivable.
- (f) Owner withdrew cash from the business.

Solution 136

- (a) Increased total assets.
- (b) No change in total assets.
- (c) Increased total assets.
- (d) Decreased total assets.
- (e) No change in total assets.
- (f) Decreased total assets.

LO2, 4 BT: AN Difficulty: Hard TOT: 5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation
Subtopic: Example Transactions and Transaction Analysis Using the Expanded Accounting Equation

Ex. 137

Tess's Nail Bar had the following transactions during the month of May. Indicate the effect of each transaction upon the total assets of the business by one of the following phrases: increased total assets, decreased total assets, or no change in total assets.

- (a) Purchased additional equipment on account.
- (b) Purchased supplies for cash.
- (c) Borrowed money from the bank.
- (d) Paid the monthly utility bill.
- (e) Collected an accounts receivable.
- (f) Tess, the owner, withdrew cash from the business for personal use.

Solution 137

- (a) Increased total assets.
- (b) No change in total assets.
- (c) Increased total assets.
- (d) Decreased total assets.
- (e) No change in total assets.
- (f) Decreased total assets.

LO2, 4 BT: AN Difficulty: Hard TOT: 5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation
Subtopic: Example Transactions and Transaction Analysis Using the Expanded Accounting Equation

Ex. 138

Selected transactions for Parton Company are listed below. List the number of the transaction and then describe the effect of each transaction on assets, liabilities, and owner's equity.

Sample: Made initial cash investment in the business.

The answer would be—Increase in assets and increase in owner's equity.

- 1. Paid monthly utility bill.
- 2. Purchased new display case for cash.
- 3. Paid cash for repair work on security system.
- 4. Billed customers for services performed.
- 5. Received cash from customers billed in 4.
- 6. Withdrew cash for owner's personal use.
- 7. Incurred advertising expenses on account.
- 8. Paid monthly rent.
- 9. Received cash from customers when service was rendered.

Solution 138

- 1. Decrease in assets and decrease in owner's equity.
- 2. No net change in assets.
- 3. Decrease in assets and decrease in owner's equity.
- 4. Increase in assets and increase in owner's equity.
- 5. No net change in assets.
- 6. Decrease in assets and decrease in owner's equity.
- 7. Increase in liabilities and decrease in owner's equity.
- 8. Decrease in assets and decrease in owner's equity.
- 9. Increase in assets and increase in owner's equity.

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LO2, 4 BT: AN Difficulty: Hard TOT: 5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Example Transactions and Transaction Analysis Using the Expanded Accounting Equation

Ex. 139

Lucius Fox opens a sports consulting office on July 1, 2020. During the first month of operations, the following transactions occurred.

1. Lucius invested \$15,000 in cash in the business.
2. Paid \$900 for July rent on office space.
3. Purchased equipment on account \$4,000.
4. Performed consulting services to clients for cash \$3,500.
5. Paid \$1,000 toward equipment purchased in #3.
6. Performed consulting services for client for cash \$5,000.
7. Paid monthly expenses: salaries and wages \$700, utilities \$400, and advertising \$200.
8. Lucius withdrew \$1,800 cash for personal use.

Prepare a tabular analysis, which shows the effects of these transactions on the expanded accounting equation, with owner's equity columns for Capital, Drawings, Revenues, and Expenses

Solution 139

	Assets			=	Liabilities	+	Owner's Equity							
Trans- action	Cash	+	Equipment	=	Accounts Payable	+	Owner's Capital	-	Owner's Drawings	+	Revenues	-	Expenses	
(1)	+\$15,000	+				+	+\$15,000							
(2)	-900												-\$900	Rent Expense
(3)			+\$4,000		+\$4,000									
(4)	+3,500										+\$3,500			Service Revenue
(5)	-1,000				-1,000									
(6)	+5,000										+5,000			Service Revenue
(7)	-1,300												-700	S&W Expense
													-400	Utilities Expense
													-200	Advert. Expense
(8)	-1,800								-\$1800					Drawing
	<u>\$18,500</u>	+	<u>\$4,000</u>	=	<u>\$3,000</u>	+	<u>\$15,000</u>	-	<u>\$1,800</u>	+	<u>\$8,500</u>	-	<u>\$2,200</u>	
	\$22,500						\$22,500							

LO2, 4 BT: AP Difficulty: Medium TOT: 5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation Subtopic: Summary of Transactions and Transaction Analysis Using the Expanded Accounting Equation

Ex. 140

AJ's Auto Repair Shop shows five transactions summarized below. The effect of each transaction on the accounting equation is shown, and also the new balance of each item in the equation. For each transaction (a) to (e) write an explanation of the nature of the transaction.

	Cash	+ Accounts Rec.	+ Equip- ment	+ Land	+ Building	=	Accounts Payable	+ Owner's Capital
	\$5,000	\$6,500	\$10,000	\$7,500	\$50,000		\$3,000	\$76,000
a)	<u>-2,000</u>							<u>-2,000</u>
	3,000	6,500	10,000	7,500	50,000		3,000	74,000
b)	<u>+1,500</u>	<u>- 1,500</u>						
	4,500	5,000	10,000	7,500	50,000		3,000	74,000
c)			<u>+ 6,000</u>				<u>+6,000</u>	
	4,500	5,000	16,000	7,500	50,000		9,000	74,000
d)	<u>+2,500</u>							<u>+ 2,500</u>
	7,000	5,000	16,000	7,500	50,000		9,000	76,500
e)		<u>+4,000</u>						<u>+ 4,000</u>
	\$7,000	\$9,000	\$16,000	\$7,500	\$50,000		\$9,000	\$80,500

Solution 140

- (a) Withdrew cash from business.
- (b) Received cash from customers on account.
- (c) Bought equipment on account.
- (d) Additional investment by owner or services rendered to customers for cash.
- (e) Services rendered on account.

LO2, 4 BT: AN Difficulty: Medium TOT: 5 min. AACSB: Analysis AICPA FC: Measurement Analysis and Interpretation Subtopic: Summary of Transactions and Transaction Analysis Using the Expanded Accounting Equation

Ex. 141

There are ten transactions listed below. Match the transactions that have the identical effect on the accounting equation. You should end up with 5 matches.

- a. Receive cash from customers on account.
- b. Initial cash contribution by an owner.
- c. Pay cash to reduce an accounts payable.
- d. Purchase supplies for cash.
- e. Pay cash to reduce a notes payable.
- f. Purchase supplies on account.
- g. Additional cash contribution by an owner.
- h. Purchase equipment with a note payable.
- i. Pay utilities with cash.
- j. Owner withdraws money from the business for personal use.

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Solution 141

Match #1 = a, d
 #2 = c, e
 #3 = f, h
 #4 = b, g
 #5 = i, j

LO2, 4 BT: AN Difficulty: Hard TOT: 10 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation
 Subtopic: Example Transactions and Transaction Analysis Using the Expanded Accounting Equation

Ex. 142

Two items are omitted from each of the following summaries of balance sheet and income statement data for companies for the year 2020, Holly Enterprises and Black Sheep Co.

	<u>Holly Enterprises</u>	<u>Black Sheep Co.</u>
Beginning of year:		
Total assets	\$ 98,000	\$129,000
Total liabilities	60,000	(c)
Total owner's equity	(a)	85,000
End of year:		
Total assets	160,000	180,000
Total liabilities	100,000	50,000
Total owner's equity	60,000	130,000
Changes during year in owner's equity:		
Additional investment	(b)	25,000
Drawings	25,000	(d)
Total revenues	215,000	100,000
Total expenses	185,000	65,000

Instructions

Determine the missing amounts.

Solution 142

(a)	Total assets (beginning of year)	\$98,000
	Total liabilities (beginning of year)	<u>(60,000)</u>
	Total owner's equity (beginning of year)	<u>\$38,000</u>
(b)	Total owner's equity (end of year)	\$60,000
	Total owner's equity (beginning of year)	<u>(38,000)</u>
	Increase in owner's equity	<u>\$22,000</u>
	Increase in owner's equity	\$22,000
	Less: Revenues	\$(215,000)
	Add: Expenses	185,000
	Add: Drawings	<u>25,000</u>
	Additional investment	<u>(5,000)</u>
		<u>\$17,000</u>
(c)	Total assets (beginning of year)	\$129,000
	Total owner's equity (beginning of year)	<u>(85,000)</u>
	Total liabilities (beginning of year)	<u>\$ 44,000</u>
(d)	Total owner's equity (end of year)	\$130,000
	Total owner's equity (beginning of year)	<u>(85,000)</u>
	Increase in owner's equity	<u>\$ 45,000</u>
	Increase in owner's equity	\$45,000
	Add: Expenses	65,000
	Less: Revenues	\$ 100,000
	Additional investment	<u>25,000</u>
	Drawings	<u>(125,000)</u>
		<u>\$(15,000)</u>

LO2, 3, 4 BT: AP Difficulty: Hard TOT: 5 min. AACSB: Analytic AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis, Expanded Accounting Equation, and Transaction Analysis Using the Expanded Accounting Equation

[(a): (Beg. tot. assets – Beg. tot. liabl. = Beg. tot. owner's equity); (b): ((End. owner's equity – Beg. owner's equity) – (Tot. rev. – Tot. exp.) + Draws. = Add'l. invest.); (c): (Beg. tot. assets – Beg. tot. owner's equity = Beg. liabl.); (d): ((End. owner's equity – Beg. owner's equity) – (Tot. rev. – Tot. exp.) – Add'l. invest. = Draws.)]

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Ex. 143

An analysis of the transactions made by R&H Blacke Co., a tax firm, for the month of July is shown below. Each increase and decrease in owner's equity is explained.

	<u>Cash</u>	+	<u>Accounts Receivable</u>	+	<u>Supplies</u>	+	<u>Equipment</u>	=	<u>Accounts Payable</u>	+	<u>Owner's Equity Owner's Capital</u>
1.	+\$13,000										+\$13,000 Investment
2.	- 2,000						+\$5,000		+\$3,000		
3.	- 950				+\$950						
4.	+ 2,500		+\$7,000								+ 9,500 Service Revenue
5.	- 1,500								- 1,500		
6.	- 2,500										- 2,500 Drawings
7.	- 750										- 750 Rent Expense
8.	+ 580		- 580								
9.	- 4,200										- 4,200 Salaries Expense
10.									+ 500		- 500 Utilities Expense

Instructions

Describe each transaction

Solution 143

- Owner invested \$13,000 cash.
- Purchased equipment for \$5,000, paying \$2,000 cash and \$3,000 on account.
- Purchased \$950 supplies paying cash.
- Performed services for \$2,500 cash and \$7,000 on account.
- Paid \$1,500 on account.
- The owner withdrew \$2,500 cash from the business.
- Paid \$750 rent.
- Collected \$580 on account.
- Paid \$4,200 salaries.
- Received a bill for \$500 for utilities.

LO2, 3, 4 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Analytic AICPA FC: Measurement Analysis and Interpretation Subtopic: Transaction Analysis, Example Transactions, Summary of Transactions, Expanded Accounting Equation, and Transaction Analysis Using the Expanded Accounting Equation.

Ex. 144

For each of the following, indicate whether the transaction affects revenue (R), expense (E), owner's drawing (D), owner's investment (I), or no effect on owner's equity (NOE).

1. Made an investment to start the business.
2. Billed customers for services performed.
3. Purchased equipment on account.
4. Paid monthly rent.
5. Withdrew cash for personal use.

Solution 144

1. Investment (I)
2. Revenue (R)
3. No effect (NOE)
4. Expense (E)
5. Drawing (D)

LO3, 4 BT: C Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation
Subtopic: Expanded Accounting Equation and Transaction Analysis Using the Expanded Accounting Equation

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COMPLETION STATEMENTS

145. Transactions are the _____ events of a business that are recorded by accountants.
146. _____ are the gross increase in owner's equity resulting from business activities entered into for the purpose of earning income.
147. _____ are the costs of assets consumed or services used in the process of earning revenue.
148. The expanded accounting equation adds _____, _____, and _____ to the basic accounting equation.
149. _____ are a withdrawal of cash or other assets for personal use.
150. The basic accounting equation is assets = _____ + owner's equity.
151. An _____ is a record of increases and decreases in specific asset, liability, or owner's equity items.
152. The residual claim on total assets of a business is known as _____ and is equal to total assets minus total liabilities.
153. Drawings _____ owner's equity but are not expenses.

Answers to Completion Statements

- | | |
|-----------------------------------|---------------------|
| 145. economic | 150. liabilities |
| 146. Revenues | 151. account |
| 147. Expenses | 152. owner's equity |
| 148. revenues, expenses, drawings | 153. reduce |
| 149. drawings | |

LO1-4 BT: K Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation
Subtopic: Expanded Accounting Equation

MATCHING

154. Match the items below by entering the appropriate code letter in the space provided.

- | | |
|---------------------------------|-----------------|
| A. Account | F. Liabilities |
| B. Basic accounting equation | G. Assets |
| C. Drawings | H. Claims |
| D. Expanded accounting equation | I. Expenses |
| E. Investments by owners | J. Transactions |

- _____ 1. The assets an owner puts into a business.
- _____ 2. Consumption of assets or services.
- _____ 3. Includes drawings, revenues, and expenses.
- _____ 4. A record of increases and decreases
- _____ 5. What creditors and owners have against the assets of the business.
- _____ 6. Creditors' claims against total assets.
- _____ 7. Withdrawal of cash or other assets by the owner
- _____ 8. Includes only assets, liabilities, and owner's equity.
- _____ 9. Future economic benefits.
- _____ 10. Economic events recorded by accountants.

Answers to Matching

- | | |
|------|-------|
| 1. E | 6. F |
| 2. I | 7. C |
| 3. D | 8. B |
| 4. A | 9. G |
| 5. H | 10. J |

LO1-4 BT: K Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation
Subtopic: Expanded Accounting Equation

SHORT-ANSWER ESSAY QUESTIONS

S-A E 155

The framework used to record and summarize the economic activities of a business enterprise is referred to as the accounting equation. State the basic accounting equation and define its major components. How are business transactions related to the accounting equation?

Solution 155

The basic accounting equation is expressed as follows:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

Assets are defined as resources owned by the business. Liabilities are creditorship claims against the assets of the business; or simply put, liabilities are existing debts and obligations. Owner's equity is the ownership claim on the total assets of the business; it is equal to total assets minus total liabilities.

Business transactions are economic events and activities that affect the elements of the basic accounting equation; that is, transactions cause increases or decreases in the assets, liabilities, and owner's equity.

LO1 BT: C Difficulty: Medium TOT: 4 min. AACSB: Communication AICPA PC: Communication AICPA FC: Reporting Subtopic: Basic Accounting Equation

S-A E 156

Explain the difference between the basic accounting equation and the expanded accounting equation.

Solution 156

The basic accounting equation is: $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$. The expanded accounting equation expands the basic accounting equation by showing the items that comprise owner's equity. It replaces owner's equity with owner's capital (where investments by owners are recorded), owner's drawings, revenues, and expenses. The expanded accounting equation is $\text{Assets} = \text{Liabilities} + \text{Owner's Capital} - \text{Owner's Drawings} + \text{Revenues} - \text{Expense}$.

LO1, 3 Difficulty: Easy TOT: 3 min. AACSB: Communication AICPA PC: Communication AICPA FC: Reporting Subtopic: Basic Accounting Equation and Expanded Accounting Equation

S-A E 157

Ed Nygma is opening a pub. Explain to Ed what items will increase or decrease owner's equity for his new business.

Solution 157

Increases in owner's equity are from owner's investments and revenues. Investments by owner are the assets (such as cash and equipment) the owner puts into the business; these investments increase owner's equity and are included in a category called owner's capital. Revenues are the gross increase in owner's equity resulting from business activities entered into for the purpose of earning income.

Decreases in owner's equity are from owner's drawings and expenses. A drawing is when an owner withdraws cash or other assets for personal use. Drawings decrease owner's equity. Expenses are the cost of assets consumed or services used in the process of earning revenue. Expenses are decreases in owner's equity that result from operating the business. When expenses increase, this results in a decrease in owner's equity.

LO1, 2, 3, 4 Difficulty: Medium TOT: 4 min. AACSB: Communication AICPA PC: Communication AICPA FC: Reporting Subtopic: Accounting Equation in Action, Transaction Analysis, Expanded Accounting Equation, and Transaction Analysis Using the Expanded Accounting Equation