

Financial Accounting, 8e
Harrison/Horngren/Thomas
Test Item File
Chapter 2: Transaction Analysis

2.1-1 A journal entry is a record of an event that has a financial impact on the business that can be reliably measured.

Answer: True

LO: 2-1

Diff: 1

EOC REF: E2-16

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.1-2 Every transaction has two sides—you give something and you receive something.

Answer: True

LO: 2-1

Diff: 1

EOC REF: S2-3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.1.3 It is the collection of cash, not the performance of the service that earns revenue.

Answer: False

LO: 2-1

Diff: 2

EOC REF: S2-3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.1-4 Accrued Salaries Payable is a liability account.

Answer: True

LO: 2-1

Diff: 2

EOC REF: S2-6

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.1-5 The Retained Earnings account represents the excess of net income over dividends retained in the business since its inception.

Answer: True

LO: 2-1

Diff: 2

EOC REF: E2-16

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.1-6 The Dividends account indicates an increase in common stock.

Answer: False

LO: 2-1

Diff: 2

EOC REF: S2-5

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.1-7 Income statement data appears as revenues and expenses under Retained Earnings.

Answer: True

LO: 2-1

Diff: 2

EOC REF: E2-16

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.1-8 The purchase of office equipment for cash would increase both an asset and a liability account.

Answer: False

LO: 2-1

Diff: 2

EOC REF: P2-63

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.1-9 Which of the following is NOT a business transaction?

- A) The company sells goods for cash.
- B) The company buys land for cash.
- C) The company hires a new president.
- D) The company pays a dividend to its stockholders.

Answer: C

LO: 2-1

Diff: 2

EOC REF: E2-16

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.1-10 A business transaction has occurred when:

- A) an event affects the entity's financial position.
- B) the event can be reliably measured.
- C) the accountant determines that the event is important enough to be a business transaction.
- D) both A and B occur.

Answer: D

LO: 2-1

Diff: 2

EOC REF: E2-16

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.1-11 A record of all the changes in a particular asset, liability, or stockholders' equity during a period is called a (n):

- A) transaction.
- B) trial balance.
- C) journal
- D) account.

Answer: D

LO: 2-1

Diff: 1

EOC REF: E2-14

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.1-12 Which of the following is NOT an asset account?

- A) Accounts Receivable
- B) Prepaid Rent
- C) Common Stock
- D) All of these are asset accounts.

Answer: C

LO: 2-1

Diff: 2

EOC REF: E2-15

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.1-13 Any event that has a financial impact on the business and can be measured reliably is a(n):

- A) income statement.
- B) transaction.
- C) asset.
- D) journal.

Answer: B

LO: 2-1

Diff: 1

EOC REF: P2-70

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.1-14 The rules for recording accounting transactions do NOT include which of the following?

- A) Every transaction's net amount on the left side of the equation must equal the net amount on the right side.
- B) Both sides of the accounting equation must be affected.
- C) Every transaction affects the financial statements of the business.
- D) Total assets must always equal total liabilities plus total equity.

Answer: B

LO: 2-1

Diff: 3

EOC REF: E2-16

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-15 Prepaid expense accounts appear on:
- A) the Income Statement.
 - B) the Balance Sheet.
 - C) the Statement of Retained Earnings and on the Income Statement.
 - D) both the Income Statement and Balance Sheet.

Answer: B

LO: 2-1

Diff: 2

EOC REF: E2-16

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-16 Revenues are recorded when:
- A) the company signs a contract.
 - B) work is begun on the job.
 - C) cash is received from the customer.
 - D) the work is completed on the job, whether or not the cash is received.

Answer: D

LO: 2-1

Diff: 2

EOC REF: E2-16

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-17 Goods purchased on account for future use in the business, such as Office Supplies, are called:
- A) Accrued liabilities.
 - B) Prepaid expenses.
 - C) Revenues.
 - D) Expenses.

Answer: B

LO: 2-1

Diff: 2

EOC REF: E2-26

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-18 A company received cash in exchange for issuing stock. This transaction increased assets and:
- A) increased expenses.
 - B) increased revenues.
 - C) increased liabilities.
 - D) increased equity.

Answer: D

LO: 2-1

Diff: 2

EOC REF: S2-5

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-19 When a business makes a sale on account, the asset created is a(n):
- A) revenue.
 - B) expense.
 - C) account receivable.
 - D) account payable.

Answer: C

LO: 2-1

Diff: 2

EOC REF: S2-6

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-20 The debt created by a business when it makes a purchase on account is a(n):
- A. account receivable.
 - B. revenue.
 - C. prepaid expense.
 - D. account payable.

Answer: D

LO: 2-1

Diff: 2

EOC REF: S2-3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.1-21 Transactions affecting Stockholders' Equity include:

- A) sale of common stock and payment of expenses.
- B) revenues and purchase of supplies on account.
- C) purchase of land and a sale on account.
- D) payment of a liability and payment of expenses.

Answer: A

LO: 2-1

Diff: 2

EOC REF: S2-5

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.1-22 A company purchased Office Supplies for cash. This transaction increased assets and:

- A) increased equity.
- B) increased liabilities.
- C) increased revenues.
- D) decreased assets.

Answer: D

LO: 2-1

Diff: 2

EOC REF: S2-5

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.1-23 A company performed services for a customer on account. This transaction increased assets and:

- A) decreased equity.
- B) increased liabilities.
- C) increased expenses.
- D) increased revenues

Answer: D

LO: 2-1

Diff: 1

EOC REF: E2-16

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-24 A company paid cash for employee wages. This transaction:
- A) increased cash and increased expenses.
 - B) increased cash and decreased expenses.
 - C) decreased cash and increased expenses.
 - D) decreased cash and decreased revenues.

Answer: C

LO: 2-1

Diff: 1

EOC REF: E2-27

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-25 A company paid cash for an amount owed to a creditor. This transaction decreased cash and:
- A) decreased revenues.
 - B) decreased liabilities.
 - C) decreased expenses.
 - D) increased expenses.

Answer: B

LO: 2-1

Diff: 1

EOC REF: P2-61

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-26 The owner of a business paid cash from his personal checking account to purchase an automobile for his personal use. This transaction:
- A) increased a liability account and increased liabilities.
 - B) decreased cash and increased expenses.
 - C) increased assets and increased owners' equity.
 - D) is not a transaction recognized by the business.

Answer: D

LO: 2-1

Diff: 2

EOC REF: E2-26

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking, Legal/Regulatory

- 2.1-27 Which type of account is increased when a company records an increase in debt?
- A) Expense
 - B) Retained earnings
 - C) Liability
 - D) None of the above

Answer: C

LO: 2-1

Diff: 2

EOC REF: E2-26

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-28 All of the following accounts would be considered assets EXCEPT for:
- A) Cash.
 - B) Retained earnings.
 - C) Prepaid expenses.
 - D) Notes receivable.

Answer: B

LO: 2-1

Diff: 2

EOC REF: E2-15

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-29 What type of account is prepaid insurance?
- A) A liability
 - B) An expense
 - C) Stockholders' equity
 - D) An asset

Answer: D

LO: 2-1

Diff: 2

EOC REF: E2-15

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-30 Which of the following accounts are a standard component of stockholders' equity?
- A) Prepaid Expenses
 - B) Dividends
 - C) Additional Paid In Stock
 - D) Unearned Income

Answer: B

LO: 2-1

Diff: 2

EOC REF: P2-61

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-31 Notes payable, accounts payable, taxes payable and salaries payable are all examples of:
- A) liabilities.
 - B) revenues.
 - C) expenses.
 - D) assets.

Answer: A

LO: 2-1

Diff: 1

EOC REF: S2-12

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-32 Which type of account is decreased when a company pays its employees with cash?
- A) A liability
 - B) A prepaid asset
 - C) An asset
 - D) Owners' equity

Answer: C

LO: 2-1

Diff: 2

EOC REF: E2-16

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-33 Which of the following business events would NOT be recorded in a company's accounting records?
- A) The company paid a monthly utility bill of \$1,000.
 - B) The company issued 100 shares of common stock for \$75,000.
 - C) The company purchased two acres of land for future plant expansion for \$600,000.
 - D) The company signed a contract to provide services in the next accounting period for \$125,000.

Answer: D

LO: 2-1

Diff: 2

EOC REF: P2-70

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-34 Which of the following transactions would increase total assets?
- I. Borrowed cash on a note payable, \$80,000
 - II. Provided services on account, \$10,000
 - III. Received cash from a customer as payment on account, \$8,000
 - IV. Received a utility bill, \$1,200
- A) I and II
 - B) I and III
 - C) I, II, and III
 - D) All of these answers are correct.

Answer: A

LO: 2-1

Diff: 3

EOC REF: S2-2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-35 Consider the following transactions:
- I. Borrowed cash on a note payable, \$80,000
 - II. Provided services on account, \$10,000
 - III. Received cash from a customer as payment on account, \$8,000
 - IV. Received a utility bill, \$1,200

Total assets would be:

- A) \$96,800.
- B) \$88,000.
- C) \$90,000.
- D) \$98,000.

Answer: C

Calculations: $80,000 + 10,000 + 8,000 - 8,000 = 90,000$

LO: 2-1

Diff: 3

EOC REF: S2-8

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-36 The payment of an amount owed to a creditor would:
- A) decrease assets.
 - B) increase net income.
 - C) decrease liabilities.
 - D) both decrease assets and decrease liabilities.

Answer: D

LO: 2-1

Diff: 2

EOC REF: S2-7

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-37 The payment of salaries to employees would:
- A) increase assets and increase liabilities.
 - B) decrease net income and decrease assets.
 - C) increase liabilities and increase net income.
 - D) decrease assets and increase liabilities.

Answer: B

LO: 2-1

Diff: 2

EOC REF: E2-16

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-38 When a company performs a service and immediately collects the cash from the customer, which of the following would occur?
- A) Stockholders' equity would decrease.
 - B) Assets would decrease.
 - C) Expenses would decrease.
 - D) Net income would increase.

Answer: D

LO: 2-1

Diff: 2

EOC REF: E2-16

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-39 Purchasing supplies on account would:
- A) increase total assets and decrease total liabilities.
 - B) increase total liabilities and decrease total assets.
 - C) increase total assets and increase total liabilities.
 - D) increase total liabilities and increase stockholders' equity.

Answer: C

LO: 2-1

Diff: 2

EOC REF: P2-61

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-40 Paying a utility bill as soon as it was received would:
- A) increase expenses.
 - B) increase liabilities.
 - C) increase owners' equity.
 - D) decrease revenues.

Answer: A

LO: 2-1

Diff: 2

EOC REF: P2-61

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-41 Borrowing money from the bank by signing a note payable would:
- A) increase stockholders' equity.
 - B) have no effect on stockholders' equity.
 - C) decrease liabilities.
 - D) increase net income.

Answer: B

LO: 2-1

Diff: 2

EOC REF: P2-64

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-42 Receiving a payment from a customer on account would:
- A) increase stockholders' equity.
 - B) have no effect on total assets.
 - C) increase stockholders' equity.
 - D) decrease liabilities.

Answer: B

LO: 2-1

Diff: 2

EOC REF: P2-61

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-43 The purchase of land for cash would:
- A) increase total assets.
 - B) decrease stockholders' equity.
 - C) increase the total debits on the trial balance.
 - D) have no effect on total assets.

Answer: D

LO: 2-1

Diff: 2

EOC REF: E2-16

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-44 If a person starting a business had an investment of a building, valued at \$300,000 with an \$180,000 outstanding mortgage and issued stock for the balance, the effect would be to:
- A) increase assets by \$120,000.
 - B) increase assets by \$180,000.
 - C) increase stockholders' equity by \$120,000.
 - D) increase stockholders' equity by \$300,000.

Answer: C

LO: 2-1

Diff: 3

EOC REF: S2-5

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-45 Performing services on account would:
- A) decrease both assets and liabilities.
 - B) increase assets and decrease stockholders' equity.
 - C) decrease revenues and decrease stockholders' equity.
 - D) increase net income and stockholders' equity.

Answer: D

LO: 2-1

Diff: 3

EOC REF: S2-3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-46 The collection of cash from a cash sale would:
- A) increase assets and stockholders' equity.
 - B) increase assets and decrease liabilities.
 - C) decrease assets and increase net income.
 - D) have no effect on net income or stockholders' equity.

Answer: A

LO: 2-1

Diff: 3

EOC REF: S2-3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-47 Cash dividends paid to the stockholders will:
- A) increase assets and decrease liabilities.
 - B) increase assets and increase liabilities.
 - C) have no effect on stockholders' equity or revenues.
 - D) decrease assets and decrease stockholders' equity.

Answer: D

LO: 2-1

Diff: 3

EOC REF: E2-15

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-48 Consider the following transactions:
- I. Borrowed cash on a note payable, \$80,000
 - II. Provided services on account, \$10,000
 - III. Received cash from a customer as payment on account, \$8,000
 - IV. Received a utility bill, \$1,200

Total liabilities would be:

- A) \$1,200.
- B) \$81,200.
- C) \$98,000.
- D) \$80,000.

Answer: B

Calculations: $80,000 + 1,200 = 81,200$

LO: 2-1

Diff: 3

EOC REF: E2-16

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-49 Consider the following transactions:
- I. Owners invested \$8,000 cash to begin the business
 - II. Provided services for cash, \$6,000
 - III. Provided services on account, \$4,000
 - IV. Paid cash for expenses, \$7,500

How much cash does the business have?

- A) \$ 2,500
- B) \$ 4,500
- C) \$ 6,500
- D) \$10,500

Answer: C

Calculations: $8,000+6,000-7,500=6,500$

LO: 2-1

Diff: 3

EOC REF: E2-16

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-50 Consider the following transactions:
- I. Owners invested \$8,000 cash to begin the business
 - II. Provided services for cash, \$6,000
 - III. Provided services on account, \$4,000
 - IV. Paid cash for expenses, \$7,500

How much net income did the business have?

- A) \$ 2,500
- B) \$ 4,500
- C) \$ 6,500
- D) \$10,500

Answer: A

Calculations: $6,000+4,000-7,500=2,500$

LO: 2-1

Diff: 3

EOC REF: E2-16

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-51 All of the statements are true about the income statement EXCEPT the income statement:
- A) data appears as revenues and expenses under Retained Earnings.
 - B) reports revenues and expenses.
 - C) reports a net income or a net loss.
 - D) is as of a specific date and not a period of time.

Answer: D

LO: 2-1

Diff: 2

EOC REF: E2-16

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-52 To compute ending retained earnings on the Statement of Retained Earnings:
- A) net income is added to the beginning retained earnings and dividends are subtracted from the beginning retained earnings.
 - B) net income and dividends are both added to beginning retained earnings
 - C) net loss and dividends are both added to beginning retained earnings
 - D) net income or net loss does not affect retained earnings.

Answer: A

LO: 2-1

Diff: 2

EOC REF: E2-19

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-53 The Balance Sheet lists:
- A) assets, liabilities, and revenues.
 - B) revenues and expenses.
 - C) assets, liabilities, and stockholders' equity.
 - D) dividends and assets.

Answer: C

LO: 2-1

Diff: 2

EOC REF: P2-60

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-54 If Joe Donaldson deposited \$80,000 in a bank account, purchased a company for \$60,000 cash (Building \$40,000 and Inventory \$20,000), performed services for clients for \$10,000 cash, purchased supplies for \$5,000 cash, and paid utilities of \$2,000 cash, what is the company's net income for the month?
- A) \$8,000
 - B) \$5,000
 - C) \$3,000
 - D) None of the above

Answer: A

Calculations: $10,000 - 2,000$

LO: 2-1

Diff: 2

EOC REF: S2-2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-55 Joe Donaldson deposited \$80,000 in a bank account, purchased a company for \$60,000 cash (Building \$40,000 and Inventory \$20,000), performed services for clients for \$10,000 cash, purchased supplies for \$5,000 cash, and paid utilities of \$2,000 cash. What is the amount of total assets?
- A) \$80,000
 - B) \$78,000
 - C) \$88,000
 - D) None of the above

Answer: C

Calculations: $80,000 - 60,000 + 40,000 + 20,000 + 10,000 - 5,000 + 5,000 - 2,000$

LO: 2-1

Diff: 2

EOC REF: S2-2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.1-56. Joe Donaldson deposited \$80,000 in a bank account, purchased a company for \$60,000 cash (Building \$40,000 and Inventory \$20,000), performed services for clients for \$10,000 cash, purchased supplies for \$5,000 cash, and paid utilities of \$2,000 cash. The amount of stockholders' equity at the end of the period is:
- A) \$60,000.
 - B) \$80,000.
 - C) \$140,000.
 - D) none of the above.

Answer: D

Calculations: $80,000 + 10,000 - 2,000 = 88,000$

LO: 2-1

Diff: 2

EOC REF: S2-2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.2-1 An account with a normal debit balance indicates that the account is a liability account.

Answer: False

LO: 2-2

Diff: 2

EOC REF: S2-9

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.2-2 The amount remaining in an account is called its balance.

Answer: True

LO: 2-2

Diff: 1

EOC REF: S2-7

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.2-3 Double-entry accounting records only those transactions affecting the income statement.

Answer: False

LO: 2-2

Diff: 1

EOC REF: E2-18

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.2-4 The left hand side of a T account is the debit side and the right hand side is the credit side.

Answer: True

LO: 2-2

Diff: 1

EOC REF: S2-7

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.2-5 Accounts are records of increases and decreases in individual financial statement items.

Answer: True

LO: 2-2

Diff: 1

EOC REF: S2-8

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.2-6 An account with a normal credit balance is most often a liability or stockholders' equity account.

Answer: True

LO: 2-2

Diff: 2

EOC REF: S2-12

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.2-7 Liabilities and revenues are decreased by credits.

Answer: False

LO: 2-2

Diff: 2

EOC REF: Q2-51

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.2-8 Assets, owners' equity and dividends are all increased by debits.

Answer: False

LO: 2-2

Diff: 2

EOC REF: E2-17

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.2-9 Revenues and expenses are specialized stockholders' equity accounts, all having debit balances.

Answer: False

LO: 2-2

Diff: 2

EOC REF: E2-17

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.2-10 Dividends and expenses are specialized stockholders' equity accounts that are increased by debits.

Answer: True

LO: 2-2

Diff: 2

EOC REF: E2-17

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.2-11 Every business transaction involves both debits and credits.

Answer: True

LO: 2-2

Diff: 2

EOC REF: E2-29

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.2-12 All business transactions involve an increase in at least one account and a decrease in at least one other account.

Answer: False

LO: 2-2

Diff: 2

EOC REF: E2-17

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.2-13 The left side of a T-account is always the:

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

Answer: C

LO: 2-2

Diff: 1

EOC REF: S2-7

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.2-14 Which of the following statements regarding T accounts is FALSE?

- A) The account title appears at the top of the T account.
- B) The right side is the debit side.
- C) The right side is the credit side.
- D) T accounts are a useful tool in accounting.

Answer: B

LO: 2-2

Diff: 1

EOC REF: S2-7

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.2-15 The credit side of an account:

- A) is the left side of the account.
- B) depends on whether the account is an asset or liability.
- C) is the right side of the account.
- D) can change as needed.

Answer: C

LO: 2-2

Diff: 2

EOC REF: S2-7

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.2-16 Which of the following statements regarding accounts is TRUE?
- A) An asset is increased by a debit and decreased by a credit.
 - B) Dividends are decreased by debits and increased by credits.
 - C) A liability is increased by a debit and decreased by a credit.
 - D) Revenue is increased by a debit; an expense is increased by a credit.

Answer: A

LO: 2-2

Diff: 3

EOC REF: E2-29

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.2-17 Transactions affecting stockholders' equity include:
- A) common stock, revenues, expenses and collection of an account receivable.
 - B) retained earnings, revenues, expenses, and liabilities.
 - C) common stock, revenues, expenses, dividends and retained earnings.
 - D) common stock, retained earnings, revenues and assets.

Answer: C

LO: 2-2

Diff: 2

EOC REF: P2-68

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.2-18 Increases in stockholders' equity that result from delivering goods or services to customers are:
- A) assets.
 - B) revenues.
 - C) expenses.
 - D) liabilities.

Answer: B

LO: 2-2

Diff: 2

EOC REF: P2-68

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.2-19 Decreases in stockholders' equity that are due to the cost of operating the business are:

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

Answer: C

LO: 2-2

Diff: 2

EOC REF: P2-68

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.2-20 Which statement is NOT true?

- A) A credit increases a liability account.
- B) A debit increases an asset account
- C) Revenues are increased by a debit.
- D) Expenses are increased by a debit.

Answer: C

LO: 2-2

Diff: 2

EOC REF: S2-5

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.2-21 Which accounts are increased by debits?

- A) Assets and owners' equity
- B) Expenses and owners' equity
- C) Assets, expenses and dividends
- D) Assets, expenses and owners' equity

Answer: C

LO: 2-2

Diff: 3

EOC REF: P2-68

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.2-22 An account is increased by a debit and has a normal balance of a debit. This account is:
- A) an expense account.
 - B) a liability account.
 - C) an asset account.
 - D) both an expense account and an asset account.

Answer: D

LO: 2-2

Diff: 3

EOC REF: E2-17

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.2-23 A business purchases a truck by signing a note payable to the seller. This transaction would include a:
- A) credit to Truck.
 - B) debit to Note Payable.
 - C) credit to Note Payable.
 - D) debit to Prepaid Maintenance.

Answer: C

LO: 2-2

Diff: 2

EOC REF: P2-70

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.2-24 The accounting transaction to record a loan would include a credit to:
- A) Cash.
 - B) Notes Payable.
 - C) Utilities Expense.
 - D) Accounts Receivable.

Answer: B

LO: 2-2

Diff: 2

EOC REF: P2-64

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-1 Debits are always listed before credits in a journal entry.

Answer: True

LO: 2-3

Diff: 1

EOC REF: S2-6

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-2 The cash account is always debited.

Answer: False

LO: 2-3

Diff: 1

EOC REF: E2-17

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-3 Entering a transaction in the journal automatically gets the data into the ledger.

Answer: False

LO: 2-3

Diff: 1

EOC REF: P2-72

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-4 The balance of an account is the difference between the account's total debits and its total credits.

Answer: True

LO: 2-3

Diff: 1

EOC REF: S2-6

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-5 In a journal entry, the sum of the debits must always equal the sum of the credits.

Answer: True

LO: 2-3

Diff: 1

EOC REF: P2-72

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-6 The chart of accounts would be the same for General Motors and Wal-Mart.

Answer: False

LO: 2-3

Diff: 2

EOC REF: P2-65

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-7 Journal entries can have more than two accounts as long as the total debits equal the total credits.

Answer: True

LO: 2-3

Diff: 2

EOC REF: S2-6

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-8 If an account's total debits exceed its total credits, the account would have a credit balance.

Answer: False

LO: 2-3

Diff: 1

EOC REF: P2-69

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-9 The balance of an account can be determined by adding all of the debits, adding all of the credits, and then subtracting the two amounts.

Answer: True

LO: 2-3

Diff: 1

EOC REF: P2-69

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-10 Accounts in the ledger are maintained in alphabetical order.

Answer: False

LO: 2-3

Diff: 2

EOC REF: P2-72

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-11 A journal shows a chronological listing of the accounting activities of a business.

Answer: True

LO: 2-3

Diff: 1

EOC REF: P2-72

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-12 Posting accounting transactions avoids the necessity of journalizing transactions.

Answer: False

LO: 2-3

Diff: 1

EOC REF: P2-72

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-13 If a company wanted to know how much cash it had available, it would look in the journal.

Answer: False

LO: 2-3

Diff: 2

EOC REF: P2-71

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-14 Accounting transactions are initially recorded in the:

A) T-account.

B) ledger.

C) journal.

D) financial statements.

Answer: C

LO: 2-3

Diff: 2

EOC REF: P2-65

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-15 The process of recording a transaction in the journal is called:

A) posting.

B) summarizing.

C) journalizing.

D) preparing the financial statements.

Answer: C

LO: 2-3

Diff: 2

EOC REF: S2-12

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-16 The process of copying the information from the journal to the ledger is called:
- A) posting.
 - B) summarizing.
 - C) journalizing.
 - D) preparing the financial statements.

Answer: A

LO: 2-3

Diff: 2

EOC REF: S2-12

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-17 A listing of all of the accounts that make up the ledger is called the:
- A) T-account.
 - B) ledger.
 - C) journal.
 - D) chart of accounts.

Answer: D

LO: 2-3

Diff: 2

EOC REF: S2-12

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-18 A chronological record (or history) of an entity's transactions is called a:
- A) T-account.
 - B) ledger.
 - C) journal.
 - D) financial statements.

Answer: C

LO: 2-3

Diff: 1

EOC REF: S2-12

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-19 Which statement about the journal is NOT true?
- A) The journal lists transactions in chronological order.
 - B) The journal entry lists debits before credits.
 - C) The journal entry shows a complete transaction in one place.
 - D) The journal entry shows the balance in each account.

Answer: D

LO: 2-3

Diff: 1

EOC REF: S2-6

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-20 Accounts are listed in the ledger:
- A) alphabetically.
 - B) chronologically.
 - C) in random order.
 - D) in the same order as they appear on the financial statements.

Answer: D

LO: 2-3

Diff: 2

EOC REF: S2-12

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-21 An account will have a debit balance if:
- A) the amount of the credits exceeds the amount of the debits.
 - B) the amount of the debits exceeds the amount of the credits.
 - C) the account has more debit entries than credit entries.
 - D) it is a liability account.

Answer: B

LO: 2-3

Diff: 2

EOC REF: E2-19

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-22 What is the first step in the journalizing process?
- A) Record the transaction in the journal.
 - B) Post the transaction to the ledger.
 - C) Determine whether each account is increased or decreased by the transaction.
 - D) Specify each account affected by the transaction and classify each account by type.

Answer: D

LO: 2-3

Diff: 2

EOC REF: E2-17

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-23 Which of the following items would NOT be included in the journal entry for a transaction?
- A) The source documents initiating the transaction
 - B) The date the accounting transaction was entered
 - C) The titles of the accounts debited
 - D) The dollar amount credited

Answer: A

LO: 2-3

Diff: 2

EOC REF: E2-28

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-24 The proper order for the accounting process is:
- A) posting, transaction occurs, journalizing.
 - B) transaction occurs, posting, journalizing.
 - C) transaction occurs, transaction analyzed, journalizing, and posting.
 - D) transaction occurs, posting, transaction analyzed, journalizing.

Answer: C

LO: 2-3

Diff: 2

EOC REF: P2-62

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-25 In accounting, the process of posting involves transferring data from the:
- A) ledger to the journal.
 - B) journal to the ledger.
 - C) source documents to the ledger.
 - D) source documents to the journal.

Answer: B

LO: 2-3

Diff: 2

EOC REF: S2-12

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-26 A grouping of all the T-accounts with their balances is called the:
- A) accounting equation.
 - B) trial balance.
 - C) journal.
 - D) ledger.

Answer: D

LO: 2-3

Diff: 2

EOC REF: S2-12

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-27 Double-entry accounting means that each transaction:
- A) increases at least one account and decreases at least one account.
 - B) debits at least one account and credits at least one account.
 - C) is recorded in both the journal and in the ledger.
 - D) affects both an income statement account and a balance sheet account.

Answer: B

LO: 2-3

Diff: 2

EOC REF: S2-6

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-28 Which element(s) of an accounting system provide(s) information about the balance in each account?
- A) Source documents
 - B) Journals
 - C) Ledgers
 - D) Accrual record

Answer: C

LO: 2-3

Diff: 2

EOC REF: P2-69

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-29 The normal balance of an account:
- A) is always a debit.
 - B) is always a credit.
 - C) is the side that increases the account balance.
 - D) can be determined from the journal.

Answer: C

LO: 2-3

Diff: 2

EOC REF: P2-69

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-30 Credits to revenue accounts ultimately result in a(n):
- A) decrease in stockholders' equity and assets.
 - B) increase in stockholders' equity and assets.
 - C) decrease in assets and liabilities.
 - D) increase in liabilities and assets.

Answer: B

LO: 2-3

Diff: 2

EOC REF: Q2-42

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-31 The entry to record the purchase of supplies on account would include a debit to:
- A) Supplies.
 - B) Accounts Payable.
 - C) Supplies Expense.
 - D) Retained Earnings.

Answer: A

LO: 2-3

Diff: 2

EOC REF: P2-64

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-32 The entry 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 Accounts Receivable.

Answer: C

LO: 2-3

Diff: 2

EOC REF: P2-64

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-33 The journal entry to record performing a service on account would include a debit to:
- A) Cash.
 - B) Service Revenue Expense.
 - C) Accounts Receivable.
 - D) Retained Earnings.

Answer: C

LO: 2-3

Diff: 2

EOC REF: P2-64

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-34 The payment for monthly rent of an office building would include a:
- A) debit to Cash.
 - B) debit to Prepaid Rent.
 - C) debit to Rent Expense.
 - D) credit to Revenue.

Answer: C

LO: 2-3

Diff: 2

EOC REF: P2-64

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-35 The purchase of office furniture for cash would include a debit to:
- A) Accounts Payable.
 - B) Office Furniture.
 - C) Office Furniture Expense.
 - D) Cash.

Answer: B

LO: 2-3

Diff: 2

EOC REF: P2-65

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-36 An owner makes an investment of cash into the business. This transaction would include a:
- A) debit to Common Stock and a credit to Common Stock.
 - B) debit to Cash and a credit to Common Stock.
 - C) debit to Retained Earnings and a credit to Cash.
 - D) debit to Common Stock and a credit to Retained Earnings.

Answer: B

LO: 2-3

Diff: 2

EOC REF: P2-64

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-37 A stockholder's investment of land and a building into the business would include a debit to:
- A) Land and Building and a credit to Common Stock.
 - B) Land and a credit to Building.
 - C) Common Stock and a credit to Building.
 - D) Building and a credit to Retained Earnings.

Answer: A

LO: 2-3

Diff: 3

EOC REF: P2-66

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-38 The purchase of an automobile involving a cash down payment and a promise to pay the balance in the future would include a debit to:

- A) Note Payable and a credit to Cash.
- B) Cash and a credit to Automobile.
- C) Cash and a debit to Note Payable.
- D) none of the above.

Answer: D

LO: 2-3

Diff: 3

EOC REF: P2-63

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-39 The purchase of office computers for cash would include a debit to:
- A) Cash and a credit to Office Equipment.
 - B) Office Equipment and a credit to Accounts Payable.
 - C) Accounts Receivable and credit to Office Equipment.
 - D) Office Equipment and a credit to Cash.

Answer: D

LO: 2-3

Diff: 2

EOC REF: P2-64

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-40 Paying a previous dividend due to the company's stockholders would include a debit to:
- A) Cash and a credit to Dividends.
 - B) Dividends Payable and a credit to Cash.
 - C) Retained Earnings and a credit to Cash.
 - D) Accounts Payable and a credit to Retained Earnings.

Answer: B

LO: 2-3

Diff: 2

EOC REF: P2-64

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-41 Receiving a check from a customer on account would include a credit to:
- A) Cash.
 - B) Accounts Payable.
 - C) Sales Revenue.
 - D) Accounts Receivable.

Answer: D

LO: 2-3

Diff: 2

EOC REF: E2-29

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-42 Making a cash payment to settle a debt would include a:
- A) debit to Cash.
 - B) credit to Cash.
 - C) credit to Accounts Payable.
 - D) debit to Accounts Receivable.

Answer: B

LO: 2-3

Diff: 2

EOC REF: E2-29

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-43 The entry to record the purchase of office supplies on account for \$400 would be:

| | | | |
|---------------------|-----|-------------------------|-----|
| A) Office Supplies | 400 | | |
| | | Cash | 400 |
| B) Accounts Payable | 400 | | |
| | | Cash | 400 |
| C) Office Supplies | 400 | | |
| | | Accounts Payable | 400 |
| D) Cash | 400 | | |
| | | Office Supplies Expense | 400 |

Answer: C

LO: 2-3

Diff: 2

EOC REF: E2-27

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-44 The entry to record an owner investment of \$600 into the business would be:

| | | | |
|--------------|-----|-----------------|-----|
| A) Dividends | 600 | | |
| | | Cash | 600 |
| B) Cash | 600 | | |
| | | Dividends | 600 |
| C) Cash | 600 | | |
| | | Service revenue | 600 |
| D) Cash | 600 | | |
| | | Common Stock | 600 |

Answer: D

LO: 2-3

Diff: 2

EOC Ref: P2-71

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-45 The entry to record the payment of \$925 to a supplier for office supplies previously purchased on account would be:

| | | | |
|----------------------------|-----|------------------|-----|
| A) Cash | 925 | | |
| | | Accounts Payable | 925 |
| B) Accounts Payable | 925 | | |
| | | Cash | 925 |
| C) Office Supplies Expense | 925 | | |
| | | Cash | 925 |
| D) Office Supplies Expense | 925 | | |
| | | Accounts Payable | 925 |

Answer: B

LO: 2-3

Diff: 2

EOC Ref: P2-71

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-46 The entry to record the payment of the monthly salaries of \$1,000 would be:

| | | | |
|---------------------|-------|------------------|-------|
| A) Cash | 1,000 | | |
| | | Salaries Expense | 1,000 |
| B) Salaries Expense | 1,000 | | |
| | | Accounts Payable | 1,000 |
| C) Salaries Expense | 1,000 | | |
| | | Cash | 1,000 |
| D) Accounts Payable | 1,000 | | |
| | | Cash | 1,000 |

Answer: C

LO: 2-3

Diff: 2

EOC REF: S2-6

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-47 The entry to record \$1,000 received from a customer for services previously rendered would be:

| | | | |
|--------------------|-------|---------------------|-------|
| A) Cash | 1,000 | | |
| | | Accounts Receivable | 1,000 |
| B) Cash | 1,000 | | |
| | | Service Revenue | 1,000 |
| C) Service Revenue | 1,000 | | |
| | | Accounts Receivable | 1,000 |
| D) Dividends | 1,000 | | |
| | | Cash | 1,000 |

Answer: A

LO: 2-3

Diff: 2

EOC REF: E2-29

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-48 The normal balance of an expense account is a _____ because expenses decrease _____.
- A) debit, assets
 - B) debit, expenses
 - C) debit, stockholders' equity
 - D) credit, stockholders' equity

Answer: C

LO: 2-3

Diff: 2

EOC Ref: P2-30

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-49 The normal balance of the Dividends account is a _____ because it decreases _____.
- A) debit, assets
 - B) debit, expenses
 - C) debit, stockholders' equity
 - D) credit, stockholders' equity

Answer: C

LO: 2-3

Diff: 2

EOC Ref: E2-30

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-50 The normal balance of a revenue account is a _____ because revenues increase _____.
- A) debit, assets
 - B) debit, expenses
 - C) debit, stockholders' equity
 - D) credit, stockholders' equity

Answer: D

LO: 2-3

Diff: 2

EOC Ref: E2-30

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-51 The classification and normal balance of the cash account is:
- A) an expense account with a debit balance.
 - B) an expense account with a credit balance.
 - C) an asset account with a credit balance.
 - D) an asset account with a debit balance.

Answer: D

LO: 2-3

Diff: 2

EOC Ref: E2-30

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.3-52 Joe Donaldson deposited \$80,000 in a bank account, purchased a company for \$60,000 cash (Building \$40,000 and Inventory \$20,000), performed services for clients for \$10,000 cash, purchased supplies for \$5,000 cash, and paid utilities of \$2,000 cash. The journal entry to record the purchase of the company includes a:
- A) credit to Building for \$40,000.
 - B) debit to Common Stock for \$60,000.
 - C) debit to Inventory for \$20,000.
 - D) credit to Cash for \$40,000.

Answer: C

LO: 2-3

Diff: 2

EOC REF: P2-73

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.3-53 George P. Smythe Co. purchased equipment from Chester Grahame Co for \$200,000, paying 10% as a down payment and financing the remainder. The proper journal entry for this event is:

| | | | |
|---------------|---------|------------------|---------|
| A) Equipment | 200,000 | | |
| | | Cash | 200,000 |
| B) Equipment | 200,000 | | |
| | | Cash | 20,000 |
| | | Notes Receivable | 180,000 |
| C) Equipment | 1,000 | | |
| | | Cash | 20,000 |
| | | Notes Payable | 180,000 |
| D) Cash | 20,000 | | |
| Notes Payable | 180,000 | | |
| | | Equipment | 200,000 |

Answer: C

LO: 2-3

Diff: 2

EOC REF: P2-71

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.4-1 A trial balance is a list of all accounts and their balances for a period of time.

Answer: False

LO: 2-4

Diff: 1

EOC REF: P2-65

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.4-2 A trial balance is an optional financial statement that reports the financial position of the company as of a given day in time.

Answer: False

LO: 2-4

Diff: 1

EOC REF: P2-65

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.4-3 A chart of accounts is organized in the alphabetical order of the accounting equation—with assets first, followed by expenses, liabilities, owners' equity, and revenues—because using numbers can be very complicated.

Answer: False

LO: 2-4

Diff: 2

EOC REF: E2-32

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.4-4 When the trial balance is out of balance due to a transposition error, the difference between total debits and total credits will be evenly divisible by 2.

Answer: False

LO: 2-4

Diff: 2

EOC REF: S2-11

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.4-5 When the trial balance is out of balance due to a slide-type error, the difference between total debits and total credits will be evenly divisible by 9.

Answer: True

LO: 2-4

Diff: 2

EOC REF: S2-11

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.4-6 When the trial balance is out of balance due to an incorrect posting of a debit as a credit , the difference is evenly divisibly by 2.

Answer: True

LO: 2-4

Diff: 2

EOC REF: S2-11

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.4-7 If the payment of a utilities bill is not posted, assets will be overstated.

Answer: True

LO: 2-4

Diff: 2

EOC REF: S2-11

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.4-8 The normal balance for any account is always the side of the account (debit or credit) where the largest amount is found.

Answer: False

LO: 2-4

Diff: 2

EOC REF: E2-21

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

2.4-9 The T-account is a tool for visualizing business transactions and usually can be easily prepared.

Answer: True

LO: 2-4

Diff: 2

EOC REF: P2-65

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-10 The trial balance is used to determine whether:
- A) total assets equal total liabilities.
 - B) total debits equal total credits.
 - C) total revenues plus gains equal total expenses plus losses.
 - D) total increases in accounts equal total decreases in accounts

Answer: B

LO: 2-4

Diff: 2

EOC REF: S2-9

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-11 If the debit amount of an entry to record the purchase of supplies on account was not posted:
- A) assets would be understated.
 - B) assets would be overstated.
 - C) liabilities would be understated.
 - D) liabilities would be overstated.

Answer: A

LO: 2-4

Diff: 2

EOC REF: S2-22

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-12 If a posting error has occurred when recording a transaction by posting a debit as a credit, then the out-of-balance amount will be evenly divisible by:
- A) 11.
 - B) 9.
 - C) 2.
 - D) 5.

Answer: C

LO: 2-4

Diff: 2

EOC REF: S2-11

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-13 A trial balance showed total debits of \$360,000 and total credits of \$36,000. This discrepancy is most likely due to which type of error?
- A) Slide
 - B) Transposition
 - C) Mislabeling
 - D) Failure to post a transaction

Answer: A

LO: 2-4

Diff: 2

EOC REF: S2-11

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-14 A trial balance showed total debits of \$540,000 and total credits of \$450,000. This discrepancy is most likely due to which type of error?
- A) Slide
 - B) Transposition
 - C) Mislabeling
 - D) Failure to post a transaction

Answer: B

LO: 2-4

Diff: 2

EOC REF: S2-11

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-15 If the credit amount of an entry to record the payment of salaries was not posted:
- A) assets would be overstated and owners' equity would be overstated.
 - B) liabilities would be understated and owners' equity would be overstated.
 - C) expenses would be understated and owners' equity would be understated.
 - D) there would be no effect on stockholders' equity.

Answer: D

LO: 2-4

Diff: 3

EOC REF: S2-11

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-16 If the total debits and the total credits of a trial balance are not equal, the error could be due to:
- A) recording the same transaction twice.
 - B) recording both the debit and credit of the journal entry for the same incorrect amount.
 - C) an error in determining an account balance.
 - D) forgetting to record a transaction.

Answer: C

LO: 2-4

Diff: 3

EOC REF: S2-11

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-17 Which of the following statements regarding a trial balance is TRUE?
- A) A trial balance may be taken at any time during the accounting period.
 - B) A trial balance is a list of all accounts with their balances.
 - C) A trial balance shows that total debits equals total credits.
 - D) All of the above are true.

Answer: D

LO: 2-4

Diff: 2

EOC REF: S2-11

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-18 A trial balance has which of the following features?
- A) Totals for balance sheet accounts only
 - B) Totals for income statement accounts only
 - C) Totals for all accounts listed in the ledger
 - D) Both A and B are correct

Answer: C

LO: 2-4

Diff: 2

EOC REF: S2-24

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-19 A trial balance is:
- A) prepared before the posting process is completed.
 - B) a list of all accounts with their balances.
 - C) a list of balance sheet accounts with their balances.
 - D) a list of income statement accounts with their balances.

Answer: B

LO: 2-4

Diff: 2

EOC REF: S2-10

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-20 Which statement about a trial balance is NOT true?
- A) The trial balance can be prepared at any time, but is generally prepared at the end of the accounting period.
 - B) The trial balance is a list of all accounts with their balances.
 - C) The trial balance lists the income statement accounts and their balances first and then the balance sheet accounts and their balances.
 - D) The trial balance lists asset accounts and their balances first, then liability accounts and their balances, and then stockholders' equity accounts and their balances.

Answer: C

LO: 2-4

Diff: 2

EOC REF: S2-10

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-21 A trial balance has total debits of \$720,000 and total credits of \$850,000, with a debit balance of \$65,000 for notes payable. This situation indicates:
- A) a slide.
 - B) an incorrect posting.
 - C) a transposition.
 - D) that none of the above are correct.

Answer: B

LO: 2-4

Diff: 2

EOC REF: S2-11

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-22 The normal balance of Accounts Receivable is a _____ because it is a(n) _____ account.
- A) credit, liability
 - B) debit, asset
 - C) credit, stockholders' equity
 - D) debit, expense

Answer: B

LO: 2-4

Diff: 2

EOC REF: E2-32

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-23 The normal balance of the Supplies account is a _____ because it is a(n) _____ account.
- A) credit, liability
 - B) debit, stockholders' equity
 - C) credit, expense
 - D) debit, asset

Answer: D

LO: 2-4

Diff: 2

EOC REF: E2-32

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-24 The normal balance of the Accounts Payable account is a _____ because it is a(n) _____ account.
- A) credit, liability
 - B) debit, stockholders' equity
 - C) credit, expense
 - D) debit, asset

Answer: A

LO: 2-4

Diff: 2

EOC REF: E2-32

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-25 The normal balance of the Common Stock account is a _____ because it increases _____.
- A) debit, assets
 - B) debit, expenses
 - C) debit, stockholders' equity
 - D) credit, stockholders' equity

Answer: D

LO: 2-4

Diff: 2

EOC REF: E2-32

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-26 ABC Company had a beginning cash balance of \$10,000, received cash of \$8,000 and ended the month with a cash balance of \$6,000. Cash payments for the month
- A) were \$6,000.
 - B) were \$24,000.
 - C) were \$12,000.
 - D) cannot be determined from the information given.

Answer: C

Calculations: $10,000 + 8,000 - 6,000$

LO: 2-4

Diff: 3

EOC REF: E2-37

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-27 ABC Company had a beginning Accounts Receivable balance of \$10,000, and had \$12,000 of sales on account for the month. The ending Accounts Receivable balance was \$14,000. Collections on Accounts Receivable for the month:
- A) were \$12,000.
 - B) were \$36,000.
 - C) were \$8,000.
 - D) can't be determined from the information given.

Answer: C

Calculations $10,000 + 12,000 - 14,000$

LO: 2-4

Diff: 3

EOC REF: E2-37

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-28 The accounts receivable account for James Rivers Inc. had a beginning balance of \$6,000. During the month, the company received payments of \$8,000 and additional accounts of \$11,000. The ending balance in accounts receivable is _____ and is a _____.
- A) \$9,000, credit
 - B) \$9,000, debit
 - C) \$3,000, debit
 - D) \$3,000, credit

Answer: B

Calculations $6,000 - 8,000 + 11,000 = 9,000$

LO: 2-4

Diff: 3

EOC REF: E2-37

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-29 A chart of accounts is:
- A) prepared as the first step in analyzing transactions.
 - B) a source document.
 - C) a list of all of the accounts of the organization.
 - D) a list of all of the accounts of the organization and their related account numbers.

Answer: D

LO: 2-4

Diff: 1

EOC REF: S2-12

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-30 When using a four-column ledger account format, the pair of columns on the far right is used to show the:
- A) names of the accounts being debited and credited.
 - B) transaction dates and journal reference.
 - C) account balance.
 - D) debit and credit amounts posted from journal entries.

Answer: C

LO: 2-4

Diff: 2

EOC REF: P2-65

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.4-31 Joe Donaldson deposited \$80,000 in a bank account, purchased a company for \$60,000 cash (Building \$40,000 and Inventory \$20,000), performed services for clients for \$10,000 cash, purchased supplies for \$5,000 cash, and paid utilities of \$2,000 cash. What is the amount of credits in the trial balance for the month?
- A) \$78,000
 - B) \$88,000
 - C) \$80,000
 - D) \$90,000

Answer: D

Calculations: $80,000 + 10,000$

LO: 2-4

Diff: 3

EOC REF: E2-19

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.5-1 Businesspeople must often make decisions without the benefit of a complete accounting system:

Answer: True

LO: 2-5

Diff: 2

EOC REF: S2-13

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.5-2 To see how transactions affect a business, managers can go directly to T- accounts.

Answer: True

LO: 2-5

Diff: 2

EOC REF: S2-13

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 2.5-3 Managers who need information quickly can analyze the transaction by using T-accounts.

Answer: True

LO: 2-5

Diff: 2

EOC REF: S2-13

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking