

Financial and Managerial Accounting, 18e Williams
Chapter 3 The Accounting Cycle: Capturing Economic Events

- 1) The credit side of an account is the right side, while the debit side is the left side.
- 2) In its simplest form an account has only three elements: a title, a left side (called debit), and a right side (called credit).
- 3) A credit to a ledger account refers to the entry of an amount on the right side of an account.
- 4) Every transaction affects equal numbers of ledger accounts and is recorded by equal dollar amounts of debits and credits.
- 5) All liability accounts normally have a credit balance.
- 6) Decreases to owners' equity accounts are recorded using debits.
- 7) Liability accounts should only be debited and never credited.
- 8) Increases in owners' equity are recorded by credits; increases in assets and in liabilities are recorded by debits.
- 9) An increase in a liability is recorded by a credit; an increase in owners' equity by a debit.
- 10) The left-hand side of an account is used for recording debits and the right-hand side for recording credits.
- 11) If the number of debit entries in an account is greater than the number of credit entries, the account will have a debit balance.
- 12) Every business transaction is recorded by a debit to a balance sheet account and a credit to an income statement account.
- 13) When making a general journal entry, there can only be one debit and one credit.
- 14) When a company uses the double-entry method, the total dollar amount of debits recorded must equal the total dollar amount of credits recorded, but the number of debit and credit entries may differ.
- 15) The ledger is a chronological, day-by-day, record of business transactions.
- 16) When recording a journal entry, asset accounts are shown first, followed by liabilities, and finally owners' equity accounts.

- 17) Ledger accounts are updated first, and then transactions are recorded in the journal.
- 18) Ledger accounts are updated through a process called posting.
- 19) Earning revenue increases owners' equity and expenses reduce owners' equity, therefore, revenues are recorded with debit entries and expenses are recorded with credit entries.
- 20) Dividends are an expense to a corporation and appear on the income statement.
- 21) The matching principle refers to the relationship between revenues and expenses.
- 22) The purpose of accrual accounting is to measure the amounts of cash received and paid during the period.
- 23) The concept of applying the accounting treatment that results in the lowest, most conservative, estimate of net income for the period is called the matching principle.
- 24) The accrual basis of accounting recognizes expenses only when they are paid.
- 25) A business that is profitable and liquid will have more accounts with credit balances than with debit balances.
- 26) Revenues increase owners' equity and are, therefore, recorded by crediting the revenues account.
- 27) Every transaction that affects an income statement account also affects a balance sheet account.
- 28) Since most companies update their Retained Earnings balances only once per year, the Retained Earnings balance will always have a \$0 balance *in the trial balance*.
- 29) A trial balance includes only the balance sheet accounts; income statement accounts are not included on a trial balance.
- 30) A trial balance that balances provides proof that all transactions were correctly journalized and posted to the ledger.
- 31) A trial balance proves that equal amounts of debits and credits were posted to the ledger.
- 32) A CEO or CFO associated with fraudulent financial reporting may be fined, but not imprisoned, under the Sarbanes Oxley Act.

33) "I was just following orders" is an acceptable defense if you commit an unethical action during an audit.

34) The sequence of accounting procedures used to record, classify, and summarize accounting information is called the:

- A) Accounting cycle.
- B) Accounting period.
- C) Accrual accounting.
- D) Double-entry bookkeeping.

35) Which of the following is *not* a step in the accounting cycle?

- A) Prepare a trial balance.
- B) Prepare a purchase order.
- C) Prepare financial statements.
- D) Prepare an adjusted trial balance.

36) Steps in the accounting cycle include (1) prepare financial statements, (2) post each journal entry to the appropriate ledger account, and (3) journalize transactions. Which of the following reflects the correct order of these steps?

- A) (1), (2), (3).
- B) (3), (2), (1).
- C) (2), (1), (3).
- D) (3), (1), (2).

37) The accounting cycle begins with:

- A) Posting of journal entries to ledger accounts.
- B) Formation of a business.
- C) Initial recording of business transactions.
- D) Preparation of a trial balance.

38) In the general ledger, a separate "account" is maintained for each:

- A) Type of asset and liability and for each element of owners' equity.
- B) Business transaction.
- C) Business day.
- D) Journal entry.

39) Which of the following is *not* true regarding the general ledger account for Cash?

- A) The *balance* of the account indicates the amount of cash owned by the business on a particular date.
- B) Each debit entry in the Cash account represents a cash receipt.
- C) Debit entries are made before credit entries.
- D) Credit entries in the Cash account represent cash payments.

40) The cash account of Grande Home Improvement Store shows the following: a debit on June 1 for \$25,000; a credit on June 5 for \$10,000, a debit on June 16 for \$14,000, and a credit on June 27 for \$8,000. What is the balance in the cash account at the end of June?

- A) \$39,000 debit.
- B) \$21,000 debit.
- C) \$18,000 credit.
- D) \$21,000 credit.

41) The purchase of equipment on credit is recorded by a:

- A) Debit to Equipment and a credit to Accounts Payable.
- B) Debit to Accounts Payable and a credit to Equipment.
- C) Debit to Equipment and a debit to Accounts Payable.
- D) Credit to Equipment and a credit to Accounts Payable.

42) The collection of accounts receivable is recorded by a:

- A) Debit to Cash and a debit to Accounts Receivable.
- B) Credit to Cash and a credit to Accounts Receivable.
- C) Debit to Cash and a credit to Accounts Receivable.
- D) Credit to Cash and a debit to Accounts Receivable.

43) In accounting, the terms *debit* and *credit* indicate, respectively:

- A) Increase and decrease.
- B) Left and right.
- C) Decrease and increase.
- D) Right and left.

44) In a ledger, debit entries cause:

- A) Increases in owners' equity, decreases in liabilities, and increases in assets.
- B) Decreases in liabilities, increases in assets, and decreases in owners' equity.
- C) Decreases in assets, decreases in liabilities, and increases in owners' equity.
- D) Decreases in assets, increases in liabilities, and increases in owners' equity.

45) Which of the following accounts normally has a credit balance?

- A) Cash
- B) Service revenue
- C) Accounts receivable
- D) Utilities expense

46) Which of the following accounts normally contain a debit balance?

- A) Asset
- B) Liability
- C) Owners' equity
- D) Revenue

- 47) Sue Costa, owner of A-1 Cleaning Services, invested an additional \$75,000 in the company. Which of the following would be a part of the correct journal entry to record this transaction?
- A) A debit to the Cash account.
 - B) A debit to the Equity account.
 - C) A debit to the Capital Stock account.
 - D) A debit to the Revenue account.
- 48) If a company purchases equipment on account:
- A) Assets will increase and owners' equity will also increase.
 - B) Assets will increase and owners' equity will decrease.
 - C) Assets will increase and owners' equity will remain unchanged.
 - D) Assets will increase and liabilities will decrease.
- 49) The journal entry to record a particular business transaction includes a credit to a liability account. This transaction is most likely also to include:
- A) Issuance of new capital stock.
 - B) The purchase of an asset on account.
 - C) A cash payment.
 - D) A credit to Accounts Receivable.
- 50) The journal entry to record a particular business transaction includes a credit to the Cash account. This transaction is most likely also to include:
- A) Issuance of new capital stock.
 - B) The purchase of an asset on account.
 - C) Payment of an outstanding note payable.
 - D) A credit to Accounts Receivable.
- 51) The collection of an account receivable is recorded by a debit to Cash and a credit to Accounts Payable. If this error is not corrected:
- A) Total liabilities are understated.
 - B) Total assets are understated.
 - C) Total liabilities are overstated.
 - D) Owners' equity is overstated.
- 52) If a company purchases equipment for cash:
- A) Assets will increase and owners' equity will also increase.
 - B) Assets will increase and owners' equity will decrease.
 - C) Assets will increase and owners' equity will remain unchanged.
 - D) Total assets and owners' equity will remain unchanged.

- 53) Collection of an accounts receivable:
- A) Increases the total assets of a company.
 - B) Decreases the total assets of a company.
 - C) Does not change the total assets of a company.
 - D) Reduces a company's total liabilities.

- 54) 200 Which of the following accounts normally has a credit balance?
- A) Accounts receivable.
 - B) Cash.
 - C) Building.
 - D) Capital Stock.

- 55) 200 On June 18, Baltic Arena paid \$6,600 to Marvin Maintenance, Inc. for cleaning the arena following a monster truck show. Which of the following most likely occurred on Baltic's books as a result of this transaction?
- A) The accounts receivable account was debited.
 - B) Total assets increased.
 - C) The cash account was credited.
 - D) Total liabilities increased.

[The following information applies to the questions displayed below.]

The following transactions occurred during March, the first month of operations for Quality Galleries, Inc.:

- * Capital stock was issued in exchange for \$360,000 cash.
- * Purchased \$180,000 of equipment by making a \$60,000 cash down payment and signing a note payable for the balance.
- * Made a \$35,000 cash payment on the note payable from the purchase of equipment.
- * Sold a piece of equipment for cash of \$18,000. The equipment was sold at cost, so there is no gain or loss on the sale.

- 56) What is the balance in the Cash account at the end of March?
- A) \$283,000
 - B) \$343,000
 - C) \$318,000
 - D) \$378,000

57) What are total assets of Quality Galleries at the end of March?

- A) \$283,000
- B) \$162,000
- C) \$445,000
- D) \$480,000

58) What is the balance in the Note Payable account at the end of March?

- A) \$120,000
- B) \$85,000
- C) \$35,000
- D) \$155,000

59) What is the total owners' equity at the end of March?

- A) \$283,000
- B) \$445,000
- C) \$480,000
- D) \$360,000

[The following information applies to the questions displayed below.]

The following transactions occurred during May, the first month of operations for Hunter Products, Inc.:

- * Issued 50,000 shares of capital stock to the owners of the corporation in exchange for \$600,000 cash.
- * Purchased a piece of land for \$400,000, making a \$150,000 cash down payment and signing a note payable for the balance.
- * Made a \$60,000 cash payment on the note payable from the purchase of land.
- * Purchased equipment on credit from BBW, Inc. for \$63,000.

60) What is the balance in the Cash account at the end of May?

- A) \$210,000
- B) \$390,000
- C) \$600,000
- D) \$810,000

61) What are total assets of Hunter Products at the end of May?

- A) \$913,000
- B) \$790,000
- C) \$853,000
- D) \$916,000

- 62) What is the total of Hunter Products' liabilities at the end of May?
- A) \$253,000
 - B) \$190,000
 - C) \$63,000
 - D) \$313,000
- 63) What is the total owners' equity at the end of May?
- A) \$810,000
 - B) \$600,000
 - C) \$790,000
 - D) \$660,000
- 64) Master Equipment has a \$17,400 liability to Arrow Paint Co. When Master Equipment makes a partial payment of \$7,600 on this liability, which of following occurs on Master's books?
- A) Retained earnings are debited \$9,800.
 - B) The Accounts Payable account is credited \$9,800.
 - C) The Cash account is debited \$7,600.
 - D) The Accounts Payable account is debited \$7,600.
- 65) Eagle News has a \$6,000 account receivable from one of its advertisers, Allwood Floors. When Eagle receives \$3,600 from Allwood as partial payment:
- A) Eagle should debit Accounts Receivable for \$3,600.
 - B) Eagle should credit Cash for \$3,600.
 - C) Eagle should credit Accounts Receivable for \$3,600.
 - D) Eagle makes no journal entry until the total of \$6,000 is received from Allwood.
- 66) Bruno's Pizza Restaurant makes full payment of \$8,300 on an account payable to Stella's Cheese Co. Stella's would record this transaction with a:
- A) Debit to Accounts Payable for \$8,300.
 - B) Credit to Cash for \$8,300.
 - C) Credit to Accounts Receivable for \$8,300.
 - D) Credit to Accounts Payable for \$8,300.
- 67) The purchase of office equipment at a cost of \$7,600 with an immediate payment of \$4,200 and agreement to pay the balance within 60 days is recorded by the purchaser with:
- A) A debit of \$7,600 to Office Equipment, a debit of \$4,200 to Accounts Receivable, and a credit of \$3,400 to Accounts Payable.
 - B) A debit of \$7,600 to Office Equipment, a credit of \$4,200 to Cash, and a credit of \$3,400 to Accounts Receivable.
 - C) A debit of \$3,400 to Accounts Receivable, a debit of \$4,200 to Cash, and a credit of \$7,600 to Office Equipment.
 - D) A debit of \$7,600 to Office Equipment, a credit of \$4,200 to Cash, and a credit of \$3,400 to Accounts Payable.

68) Land is purchased by making a cash down payment of \$40,000 and signing a note payable for the balance of \$130,000. The journal entry to record this transaction in the accounting records of the purchaser includes:

- A) A credit to Land for \$40,000.
- B) A debit to Cash for \$40,000.
- C) A debit to Land for \$170,000.
- D) A debit to Note Payable for \$130,000.

69) Montauk Oil Co. reports these account balances at December 31, 2017

Accounts Payable	\$	110,000
Land	\$	200,000
Notes Payable	\$	260,000
Equipment	\$	160,000
Cash	\$	80,000
Accounts Receivable	\$	100,000
Buildings	\$	240,000
Capital Stock	\$	340,000
Retained Earnings	\$	70,000

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On January 2, 2018, Montauk Oil collected \$50,000 of its accounts receivable and paid \$20,000 of its accounts payable. On January 3, 2018, total liabilities are:

- A) \$370,000.
- B) \$350,000.
- C) \$300,000.
- D) \$70,000.

70) Ceramic Products, Inc. reports these account balances at January 1, 2018 (shown in alphabetical order):

Accounts Payable	\$	28,000
Accounts Receivable		20,000
Buildings		153,000
Capital Stock		185,000
Cash		13,000
Equipment		20,000
Land		80,000
Notes Payable		24,000
Retained Earnings		49,000
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On January 5, Ceramic Products collected \$12,000 of its accounts receivable and paid \$11,000 on its note payable. On January 6, 2018, total liabilities are:

- A) \$0.
- B) \$30,000.
- C) \$56,000.
- D) \$41,000.

71) Ben Dryden, president of Jet Glass, Inc, noticed a \$8,000 debit to Accounts Payable in the company's general ledger. This debit could correspond to:

- A) A \$8,000 sale to a customer.
- B) A purchase of equipment costing \$8,000 on credit.
- C) A payment of \$8,000 to a supplier to settle a balance due.
- D) The failure to pay this month's \$8,000 utility bill on time.

72) Indirect Oil Co. reports these account balances at December 31, 2017

Accounts Payable	\$	55,000
Land	\$	100,000
Notes Payable	\$	130,000
Equipment	\$	80,000
Cash	\$	40,000
Accounts Receivable	\$	50,000
Buildings	\$	120,000
Capital Stock	\$	170,000
Retained Earnings	\$	35,000
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On January 2, 2018, Indirect Oil collected \$25,000 of its accounts receivable and paid \$20,000 of its accounts payable. On January 3, 2018, total liabilities are:

- A) \$185,000.
- B) \$165,000.
- C) \$150,000.
- D) \$70,000.

[The following information applies to the questions displayed below.]

Wilson Trucking, Inc. reports these account balances at January 1, 2018 (shown in alphabetical order):

Accounts Payable	\$	220,000
Accounts Receivable	\$	200,000
Buildings	\$	480,000
Capital Stock	\$	680,000
Cash	\$	160,000
Equipment	\$	320,000
Land	\$	400,000
Notes Payable	\$	520,000
Retained Earnings	\$	140,000
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On January 5, Wilson Trucking collected \$175,000 of its accounts receivable, paid \$150,000 on its accounts payable, and paid \$11,000 on its note payable.

73) On January 6, 2018, total liabilities are:

- A) \$901,000.
- B) \$579,000.
- C) \$1,399,000.
- D) \$1,721,000.

74) On January 6, 2018, total assets are:

- A) \$1,350,000.
- B) \$1,399,000.
- C) \$1,560,000.
- D) \$1,574,000.

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

- A) Accounts payable.
- B) Retained earnings.
- C) Accounts receivable.
- D) Service revenue.

76) The rules of debit and credit may be summarized as follows:

- A) Asset accounts are increased by debits, whereas, liabilities and owners' equity are increased by credits.
- B) The balance of a ledger account is increased by debit entries and is decreased by credit entries.
- C) Accounts on the left side of the balance sheet are increased by credits, whereas accounts on the right side of the balance sheet are increased by debits.
- D) The balance of a ledger account is increased by credit entries and is decreased by debit entries.

77) The essential point of a double-entry system of accounting is that every transaction:

- A) Affects accounts on both sides of the balance sheet.
- B) Is recorded in both the journal and the ledger.
- C) Increases one ledger account and decreases another.
- D) Affects two or more ledger accounts and is recorded by an equal dollar amount of debits and credits.

78) Double-entry accounting is characterized by which of the following?

- A) Every transaction affects both an asset account and either a liability account or an owners' equity account.
- B) The number of general ledger accounts with debit balances is equal to the number with credit balances.
- C) The total dollar amount of debit entries posted to the general ledger is equal to the dollar amount of the credit entries.
- D) The number of debit entries posted to the general ledger equals the number of credit entries.

- 79) All of the following statements are true of double-entry accounting *except*:
- A) There is a need for both debit and credit entries for each and every transaction.
 - B) Double-entry accounting can only be used with computer-based accounting systems.
 - C) The total dollar amount of debit entries posted to the general ledger is equal to the dollar amount of the credit entries.
 - D) Double-entry accounting allows us to measure net income at the same time we record the effect of transactions on the balance sheet accounts.
- 80) The process of originally recording a business transaction in the accounting records is termed:
- A) Journalizing.
 - B) Footing.
 - C) Posting.
 - D) Balancing.
- 81) Brett Tarek, a manager at D&J Landscaping, Inc. needs information regarding the amount of accounts payable currently owed by the company. This information would most easily be found in the:
- A) General ledger.
 - B) General journal.
 - C) Income statement.
 - D) Notes to the financial statements.
- 82) Transactions are recorded in the general journal in:
- A) Numerical order.
 - B) Chronological order.
 - C) Account number order.
 - D) Financial statement order.
- 83) A transaction is first recorded in which of the following accounting records?
- A) Trial balance.
 - B) Ledger.
 - C) General journal.
 - D) Balance sheet.
- 84) Preparing a journal entry in proper form involves all the following *except*:
- A) Listing all accounts debited before any credits.
 - B) Computing the balances in accounts involved in the transaction.
 - C) Indicating the date of the transaction.
 - D) Providing a brief written explanation of the transaction.

85) Posting is the process of:

- A) Transferring debit and credit entries from the journal into the appropriate ledger accounts.
- B) Determining that the dollar amount of debit entries recorded in the ledger is equal to the dollar amount of credit entries.
- C) Entering information into a computerized data base.
- D) Preparing journal entries to describe each business transaction.

[The following information applies to the questions displayed below.]

The bookkeeper for Wood Mfg. made the following journal entry on January 30, 2018:

Land	201,500	
Buildings	84,500	
Cash		65,000
Notes Payable		221,000
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86) This transaction involves:

- A) The sale of land and building for \$286,000.
- B) Payment of \$221,000 on a note payable.
- C) The receipt of \$65,000 cash.
- D) An increase in liabilities of \$221,000.

87) Before the journal entry above, Wood had assets, liabilities, and owners' equity of \$450,000, \$100,000, and \$350,000, respectively. What are *total assets* immediately *after* the above transaction occurs?

- A) \$221,000.
- B) \$671,000.
- C) \$735,500.
- D) \$450,000.

[The following information applies to the questions displayed below.]

The following entry appears in Martin Supply's general journal on March 10, 2018:

Accounts Receivable	30,000	
Cash	21,000	
Equipment		51,000
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88) This transaction involves:

- A) Martin's collection of \$30,000 on an account receivable.
- B) Payment of \$21,000 cash by Martin.
- C) A \$21,000 overall increase in Martin's assets.
- D) Sale of equipment by Martin for \$51,000.

89) Before the journal entry above, Martin had assets of \$900,000; liabilities of \$460,000; and owners' equity of \$440,000. Total assets immediately after the above transaction has been recorded amount to:

- A) \$900,000.
- B) \$921,000.
- C) \$956,000.
- D) \$794,000.

[The following information applies to the questions displayed below.]

The following entry appears in Galloway Paints general journal on April 23, 2018:

Inventory	26,000	
Accounts Payable		20,000
Cash		6,000
-		

90) This transaction involves:

- A) Galloway's collection of \$20,000 on an account payable.
- B) Payment of \$6,000 cash by Galloway.
- C) A \$26,000 overall increase in Galloway's assets.
- D) Sale of inventory by Galloway for \$26,000.

91) Before the journal entry above, Galloway had assets of \$450,000; liabilities of \$230,000; and owners' equity of \$220,000. Total assets immediately after the above transaction has been recorded amount to:

- A) \$430,000.
- B) \$450,000.
- C) \$470,000.
- D) \$476,000.

92) The price of the goods sold or services rendered during a given accounting period is called:

- A) Net income.
- B) Profit.
- C) Revenue.
- D) Equity.

93) All of the following statements are true of an income statement *except*:

- A) The period of time covered by an income statement is the company's accounting period.
- B) A fiscal year is any accounting period less than 12 months in length.
- C) The length of a company's accounting period may vary.
- D) Every business prepares an annual income statement.

94) Which of the following would *not* appear on an income statement?

- A) Repair service revenue.
- B) Insurance expense.
- C) Dividends.
- D) Net income.

95) Sally Smith had expenses of \$800 in June which she paid in July. She reported these expenses on her June income statement. By doing this, she is following the accounting principle of:

- A) Revenue realization.
- B) Adequate disclosure.
- C) Matching.
- D) Conservatism.

96) The principle that states revenue should be recognized at the time goods are sold or services rendered is called:

- A) Adequate disclosure.
- B) Conservatism.
- C) Matching.
- D) Revenue realization.

97) Recognizing revenue when it is earned and not when cash is received and recognizing expenses when the related goods or services are used rather than when they are paid for is called:

- A) Revenue recognition.
- B) Accrual accounting.
- C) Conservatism.
- D) Matching.

98) The *realization principle* indicates that revenue usually should be recognized and recorded in the accounting records:

- A) When goods are sold or services are rendered to customers.
- B) When cash is collected from customers.
- C) At the end of the accounting period.
- D) Only when the revenue can be matched by an equal dollar amount of expenses.

99) In February of each year, the Carlton Hotel holds a very popular wine tasting event. Tickets must be ordered and paid for in advance, and are typically sold out by November of the preceding year. The realization principle indicates that the revenue from these ticket sales should be recognized in the period in which the:

- A) Order is placed.
- B) Wine tasting event is held.
- C) Payments are received.
- D) Expenses associated with the wine tasting are paid in full.

100) The *matching principle* is best demonstrated by:

- A) Using debits to record decreases in owners' equity and credits to record increases.
- B) The equation $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$.
- C) Allocating the cost of an asset to expense over the periods during which benefits are derived from the asset.
- D) Offsetting the cash receipts of the period with the cash payments made during the period.

101) Clinton prepares monthly financial statements. Which of the following *violates* the matching principle?

- A) A portion of the salary payments made this month are not recognized as expense because some of the work was done by employees last month.
- B) The premium on a six-month insurance policy is charged immediately to expense.
- C) Expenses for the period exceed revenues.
- D) The cost of advertising done during the month is charged to expense even though no payment is due for 60 days.

102) The matching principle:

- A) Applies only to situations in which a cash payment occurs before an expense is recognized.
- B) Applies only to situations in which a cash receipt occurs before revenue is recognized.
- C) Is used in accrual accounting to determine the proper period in which to recognize revenue.
- D) Is used in accrual accounting to determine the proper period for recognition of expenses.

103) Davis, Inc., a music group, entertained at a black-tie dinner dance on April 26, and collected the fee in full at the end of the evening. This transaction:

- A) Causes an increase in assets and revenue, as well as an increase in owners' equity.
- B) Is recorded by debiting Cash and crediting the Retained Earnings account.
- C) Causes an increase in assets and a decrease in owners' equity.
- D) Violates the matching principle unless any expenses associated with this cash receipt are paid prior to recording the revenue.

104) At the end of October, Flagship Marina received a bill for fuel used in October. Payment is not due until November 30. This transaction:

- A) Should not be recorded in the accounting records until November.
- B) Causes a decrease in assets and in owners' equity in November, when the bill is paid.
- C) Should be recorded as an expense of October, regardless of the payment date.
- D) Is recorded as a liability in October, but is not considered an expense until paid.

105) On June 27, Healthy Life Services, Inc. performed extensive tests on lab specimens submitted by several customers and sent invoices totaling \$5,200, due in 30 days.

- A) No revenue from rendering these services should be recorded until payment is received.
- B) This situation causes an increase in assets and in revenue in June, but has no effect on owners' equity until payment is received.
- C) Revenue is earned in June, but assets are not increased until payment is received.
- D) Assets, revenue, and owners' equity are increased in June, regardless of when payments are received for the services rendered.

106) Green Systems sold and delivered modems to Blue Computers for \$660,000 to be paid by Blue in three equal installments over the next three months. The journal entry made by Blue Computers to record the last of the three installment payments will include:

- A) A debit of \$220,000 to Modem Expense.
- B) A debit of \$220,000 to Accounts Receivable.
- C) A debit of \$220,000 to Cash.
- D) A debit of \$220,000 to Accounts Payable.

107) Black Systems sold and delivered modems to White Computers for \$330,000 to be paid by White in three equal installments over the next three months. The journal entry made by Black Systems to record this transaction will include:

- A) A debit to Sales Revenue for \$330,000.
- B) A debit to Accounts Receivable for \$330,000.
- C) A debit to Accounts Receivable for \$110,000.
- D) A debit to Cash for \$330,000.

108) The statement "This business produced net income of \$520,000" is unclear because it failed to specify:

- A) The accounting method, that is, accrual or cash basis.
- B) Whether the amount earned is before or after expenses.
- C) The time period.
- D) The amount of cash withdrawn from the business by the owner.

109) The term *revenue* can best be described as:

- A) The selling price of goods and services rendered to customers during a given accounting period.
- B) The cash received from selling goods and serving customers during a given accounting period.
- C) The net increase in owners' equity during a given period.
- D) The "bottom line" in the income statement.

110) Net income is:

- A) The excess of debits over credits.
- B) The increase in owners' equity resulting from the profitable operations of the business.
- C) The excess of liabilities over assets.
- D) The increase in assets of a company during a year.

111) The reason that revenue is recorded by a *credit entry* to a revenue account is:

- A) That revenue always involves a debit to the Cash account.
- B) Explained by the realization principle.
- C) Explained by the matching principle.
- D) That revenue increases owners' equity.

112) Revenues increase owners' equity because:

- A) Revenues increase net income, which increases retained earnings.
- B) Revenues are recorded by a debit.
- C) Of the matching principle.
- D) The conservatism principle requires revenues be recognized with an increase to owners' equity.

- 113) The reason that both expenses and dividends are recorded by debit entries is that:
- A) All dividend and expense transactions involve offsetting credit entries to the Cash account.
 - B) Both expenses and dividends are offset against revenues in the income statement.
 - C) Both expenses and dividends reduce owners' equity.
 - D) The statement is untrue-expenses are recorded by debits, but dividends are recorded by credits to the owners' equity account.
- 114) A journal entry that records revenue must include:
- A) A debit to Cash.
 - B) A credit to a revenue account.
 - C) A credit to the owners' equity account.
 - D) A debit to the owners' equity account.
- 115) A journal entry to record revenue could include each of the following, *except*:
- A) A credit to a revenue account.
 - B) A credit to the Capital Stock account.
 - C) A debit to Cash.
 - D) A debit to Accounts Receivable.
- 116) A journal entry to recognize an expense must include:
- A) A credit to Accounts Payable.
 - B) A credit to an expense account.
 - C) A credit to Cash.
 - D) A debit to an expense account.
- 117) A journal entry to recognize an expense could include each of the following, *except*:
- A) A debit to an expense account.
 - B) A credit to Accounts Payable.
 - C) A debit to a liability account.
 - D) A credit to Cash.
- 118) The agreement of the debit and credit totals of the trial balance gives assurance that:
- A) All transactions were posted correctly.
 - B) No transactions were omitted.
 - C) The number of accounts with debit balances equals the number of accounts with credit balances.
 - D) The total debits equal the total credits.
- 119) If the trial balance has a higher debit balance than credit balance, it signifies:
- A) Assets are more than liabilities.
 - B) A profit.
 - C) A loss.
 - D) An error has been made.

120) If the trial balance has a smaller debit balance than credit balance, it signifies:

- A) Assets are more than liabilities.
- B) A profit.
- C) A loss.
- D) An error has been made.

121) A trial balance that is out of balance indicates that:

- A) The number of ledger accounts with debit balances is not equal to the number of accounts with credit balances.
- B) A debit has been posted to the wrong account.
- C) There is not an equality of debit and credit amounts in the ledger.
- D) A journal entry has been completely omitted from the posting process.

122) A trial balance consists of:

- A) A two-column schedule of all debit and credit entries posted to ledger accounts.
- B) A two-column financial statement intended for distribution to interested parties outside the business.
- C) A two-column schedule showing the totals of all debits and of all credits made in journal entries.
- D) A two-column schedule listing names and balances of all ledger accounts.

123) Which of the following errors would be disclosed by preparation of a trial balance?

- A) The collection of an account receivable was recorded by a debit to the Land account rather than to the Cash account.
- B) The collection of an account receivable for \$219 was recorded by a \$291 debit to Cash and a \$291 credit to Accounts Receivable.
- C) The collection of a \$365 account receivable was not recorded at all.
- D) The collection of a \$325 account receivable was recorded by a \$325 debit to Cash and a \$325 debit to Accounts Receivable.

124) Which of the following errors would *not* be disclosed by preparation of a trial balance?

- A) An error was made in computing the balance of the Cash account.
- B) A journal entry included a debit to the Equipment account for \$3,200, but this amount was erroneously posted as \$2,300.
- C) During the posting process, a \$1,700 debit to Cash was accidentally entered in the credit side of the Cash account.
- D) The journal entries recorded on the last day of the year have never been posted to the ledger.

[The following information applies to the questions displayed below.]

Montauk Oil Co. reports these account balances at December 31, 2017

Accounts Payable	\$	110,000
Land	\$	200,000
Notes Payable	\$	260,000
Equipment	\$	160,000
Cash	\$	80,000
Accounts Receivable	\$	100,000
Buildings	\$	240,000
Capital Stock	\$	340,000
Retained Earnings	\$	70,000

-

On January 2, 2018, Montauk Oil collected \$50,000 of its accounts receivable and paid \$20,000 of its accounts payable.

125) In a trial balance prepared at *December 31, 2017* the total of the debit column is:

- A) \$1,540,000.
- B) \$780,000.
- C) \$1,020,000.
- D) \$700,000.

126) In a trial balance prepared at *January 3, 2018*, the total of the debit column is:

- A) \$760,000.
- B) \$1,570,000.
- C) \$740,000.
- D) \$370,000.

[The following information applies to the questions displayed below.]

Ceramic Products, Inc. reports these account balances at January 1, 2018 (shown in alphabetical order):

Accounts Payable	\$	28,000
Accounts Receivable		20,000
Buildings		153,000
Capital Stock		185,000
Cash		13,000
Equipment		20,000
Land		80,000
Notes Payable		24,000
Retained Earnings		49,000
-		

On January 5, Ceramic Products collected \$12,000 of its accounts receivable and paid \$11,000 on its note payable.

127) In a trial balance prepared for Ceramic Products on January 1, 2018, the total of the credit column is:

- A) \$182,000.
- B) \$196,000.
- C) \$166,000.
- D) \$286,000.

128) In a trial balance prepared on January 6, 2018, the total of the credit column is:

- A) \$275,000.
- B) \$286,000.
- C) \$287,000.
- D) \$297,000.

[The following information applies to the questions displayed below.]

Indirect Oil Co. reports these account balances at December 31, 2017

Accounts Payable	\$	55,000
Land	\$	100,000
Notes Payable	\$	130,000
Equipment	\$	80,000
Cash	\$	40,000
Accounts Receivable	\$	50,000
Buildings	\$	120,000
Capital Stock	\$	170,000
Retained Earnings	\$	35,000

-

On January 2, 2018, Indirect Oil collected \$25,000 of its accounts receivable and paid \$20,000 of its accounts payable.

129) In a trial balance prepared at *December 31, 2017* the total of the debit column is:

- A) \$805,000.
- B) \$780,000.
- C) \$415,000.
- D) \$390,000.

130) In a trial balance prepared at *January 3, 2018*, the total of the debit column is:

- A) \$760,000.
- B) \$825,000.
- C) \$740,000.
- D) \$370,000.

[The following information applies to the questions displayed below.]

Wilson Trucking, Inc. reports these account balances at January 1, 2018 (shown in alphabetical order):

Accounts Payable	\$	220,000
Accounts Receivable	\$	200,000
Buildings	\$	480,000
Capital Stock	\$	680,000
Cash	\$	160,000
Equipment	\$	320,000
Land	\$	400,000
Notes Payable	\$	520,000
Retained Earnings	\$	140,000

-

On January 5, Wilson Trucking collected \$175,000 of its accounts receivable, paid \$150,000 on its accounts payable, and paid \$11,000 on its note payable.

131) In a trial balance prepared for Wilson Trucking on January 1, 2018, the total of the credit column is:

- A) \$1,580,000.
- B) \$1,560,000.
- C) \$1,620,000.
- D) \$3,120,000.

132) In a trial balance prepared for Wilson Trucking on January 6, 2018, the total of the debit column is:

- A) \$1,580,000.
- B) \$1,399,000.
- C) \$1,620,000.
- D) \$3,120,000.

133) In a trial balance prepared on January 6, 2018, the total of the credit column is:

- A) \$1,350,000.
- B) \$1,399,000.
- C) \$1,560,000.
- D) \$1,721,000.

134) The need for familiarity with accounting concepts is:

- A) Limited to those planning a career in accounting.
- B) Limited to those planning to pursue the CPA credential.
- C) Universal for each and every career path.
- D) Necessary for anyone entering the world of business.

135) Accounting terminology

Listed below are nine technical accounting terms introduced in this chapter:

<i>Matching principle</i>	<i>Debit</i>	<i>Trial balance</i>
<i>Double-entry</i>	<i>Credit</i>	<i>Journal</i>
<i>Accounting cycle</i>	<i>Ledger</i>	<i>Conservatism</i>

For each question part A through G, choose a term from the table above that best matches.

- (A.) The accounting record in which transactions are initially recorded.
- (B.) A concept designed to avoid overstatement of the financial strength of a company.
- (C.) A schedule prepared to determine the equality of the debit and credit amounts in the ledger.
- (D.) An amount entered in the right side of a ledger account.
- (E.) The sequence of procedures involved in recording transactions, processing the information in the accounting system, and summarizing the information in the form of financial statements.
- (F.) The accounting record that contains a separate account for each type of asset and liability, and for each element of owners' equity appearing in the balance sheet.
- (G.) The system of accounting in which every business transaction is recorded by equal dollar amounts of debit and credit entries.

136) Recording transactions directly in T accounts; trial balance

On July 20, Mollie Rose began a new business called MR Printing, which provides typing, duplicating, and printing services. The following six transactions were completed by the business during July.

- (a.) Issued to Rose 1,000 shares of capital stock in exchange for her investment of \$200,000 cash.
- (b.) Purchased land and a small building for \$450,000, paying \$165,000 cash and signing a note payable for the balance. The land was considered to be worth \$240,000 and the building \$210,000.
- (c.) Purchased office equipment for \$30,000 from Quality Interiors, Inc. Paid \$17,000 cash and agreed to pay the balance within 60 days.
- (d.) Purchased a motorcycle on credit for \$3,400 to be used for making deliveries to customers. Mollie agreed to make payment to Spokes, Inc. within 10 days.
- (e.) Paid in full the account payable to Spokes, Inc.
- (f.) Borrowed \$30,000 from a bank and signed a note payable due in six months.

Instructions

(A.) Record the above transactions directly in the T accounts below. Identify each entry in a T account with the letter shown for the transaction. This exercise does not call for the use of a journal.

Cash			Office Equipment			Notes Payable	
Land			Delivery Equipment			Accounts Payable	
Buildings						Capital Stock	

(B.) Prepare a trial balance at July 31 by completing the form provided.

MR PRINTING
 Trial Balance
 July 31, 20__

Debit Credit

137) Recording transactions in T accounts; trial balance

On May 15, George Manny began a new business, called Sounds, Inc., a recording studio to be rented out to artists on an hourly or daily basis. The following six transactions were completed by the business during May:

- (a.) Issued to Manny 5,000 shares of capital stock in exchange for his investment of \$200,000 cash.
- (b.) Purchased land and a building for \$410,000, paying \$100,000 cash and signing a note payable for the balance. The land was considered to be worth \$310,000 and the building \$100,000.
- (c.) Installed special insulation and soundproofing throughout most of the building at a cost of \$120,000. Paid \$32,000 cash and agreed to pay the balance in 60 days. Manny considers these items to be additional costs of the building.
- (d.) Purchased office furnishings costing \$18,000 and recording equipment costing \$88,400 from Music Supplies. Sounds paid \$28,000 cash with the balance due in 30 days.
- (e.) Borrowed \$180,000 from a bank by signing a note payable.
- (f.) Paid the full amount of the liability to Music Supplies arising from the purchases in D above.

Instructions

(A.) Record the above transactions directly in the T accounts below. Identify each entry in a T account with the letter shown for the transaction. This exercise does not call for the use of a journal.

Cash		Office Furnishings		Notes Payable	
Land		Recording Equipment		Accounts Payable	
Buildings				Capital Stock	

(B.) Prepare a trial balance at May 31 by completing the form provided.

SOUNDS, INC.

Trial Balance

May 31, 20__

Debit

Credit

138) Recording transactions journal entry grid

A list of accounts for Harding Company is given below, followed by a series of transactions. Indicate the accounts that would be debited and credited in recording each transaction by placing the appropriate number (or numbers) in the space provided.

1	Cash	5	Office Equipment
2	Accounts Receivable	6	Notes Payable
3	Land	7	Accounts Payable
4	Building	8	Capital Stock
		9	Retained Earnings

Transaction	Account(s) Debited	Account(s) Credited
Example: Purchased office equipment, paying part cash, with the balance due on account	5	1, 7
A. Purchased land and a building, paying part cash and issuing a note payable for the balance of the purchase price		
B. Sold a piece of the company's office equipment at cost, received part of the proceeds in cash, with the balance due in 30 days		
C. Collected an account receivable		
D. Borrowed money from a bank and signed a note payable due in one year		
E. Paid an account payable		
F. Issued capital stock in exchange for cash		

139) Listed below are accounts of Global Company, each identified by a number. Following this list of accounts is a series of transactions. You are to indicate for each transaction the accounts that should be debited and credited by inserting the proper account numbers in the space provided.

1	Cash	5	Delivery Equipment
2	Accounts Receivable	6	Notes Payable
3	Land	7	Accounts Payable
4	Building	8	Capital Stock
		9	Retained Earnings

Transaction	Account(s) Debited	Account(s) Credited
Example: Purchased delivery equipment, paying part cash and charging the balance on account	5	1, 7
A. Paid an account payable		
B. Collected an account receivable		
C. Issued capital stock in exchange for cash		
D. Sold some delivery equipment at cost, received part of the proceeds in cash, with the balance due in 60 days		
E. Purchased land and building paying part cash and signing a note payable for the balance		
F. Borrowed money from a bank and signed a note payable due in six months		

140) Effects of a series of transactions on balance sheet items

Fieldstone, Inc. had the following transactions during the month of March, the first month of operations for the business:

* The corporation issued 12,000 shares of capital stock to Sandy Fieldstone in exchange for \$120,000 cash.

* Purchased \$73,000 of equipment; made an \$18,000 down payment and signed a note payable for the balance.

* Made payment of \$9,000 on the amount owed for equipment.

(A.) Compute the balance in the Cash account at the end of March.

(B.) What are the total assets of Fieldstone, Inc. at the end of March?

(C.) Compute the balance in the Notes Payable account at the end of March.

(D.) What is the total amount of owners' equity at the end of March?

141) Effects of a series of transactions on balance sheet items

Clark Plumbing had the following transactions during the month of June, the first month of operations for the business:

* The corporation issued 12,000 shares of capital stock to Bill Clark in exchange for his investment of \$72,000 cash.

* Purchased \$36,000 of equipment; made an \$8,000 down payment and signed a note payable for the balance.

* Made payment of \$4,000 on the amount owed for equipment.

(A.) Compute the balance in the Cash account at the end of June.

(B.) What are the total assets of Clark Plumbing at the end of June?

(C.) Compute the balance in the Notes Payable account at the end of June.

(D.) What is the total amount of owners' equity at the end of June?

142) Rules of debit and credit as applied to balance sheet accounts

Items in the balance sheet are classified into three categories: assets, liabilities, and owners' equity.

(A.) Identify by name *two ledger accounts* in each of the first two categories above (assets and liabilities) and *one* owners' equity account. State whether each account would normally have a debit or credit balance.

(B.) Describe briefly the rules of debits and credits as applied to the three categories of balance sheet accounts: asset accounts, liability accounts, and owners' equity accounts.

143) Double-entry accounting

The accounting system of most businesses, whether manual or computer-based, is some form of a *double-entry* system of accounting.

(A.) What is meant by the term "double-entry accounting"?

(B.) Explain how the double-entry system is applied in accounting for the following transaction: Majestic Company purchases a piece of equipment costing \$6,000, paying \$3,000 cash with the balance of the purchase price to be paid within 60 days.

144) Recording transactions in general journal

Enter the following transactions in the two-column journal of Baumann Bathrooms. Include a brief explanation of the transaction as part of each journal entry.

Mar	1	Borrowed \$90,000 cash from the bank by signing a 90-day note payable.
	3	Issued an additional 5,000 shares of capital stock in exchange for \$40,000 cash.
	4	Purchased an adjacent vacant lot for use as parking space. The price was \$70,000, of which \$30,000 was paid in cash; a note payable was issued for the balance.
	8	Acquired shop equipment from Elite Baths for \$5,400 cash.
	8	Collected an account receivable of \$2,900 from a customer, Beekman Art Shoppe.
	9	Issued a check for \$1,060 in full payment of an account payable to Austin Industries, Inc.

Date	General Journal		
20__			
Mar 1			
3			
4			
8			
8			
9			

145) Recording transactions in general journal

Enter the following transactions in the two-column journal of Festive Parties, Inc. Include a brief explanation of the transaction as part of each journal entry.

June	2	Collected an account receivable of \$860 from a customer, East, Inc.
	5	Issued a check for \$430 in full payment of an account payable to North, Inc.
	9	Borrowed \$12,000 cash from the bank by signing a 120-day note payable.
	12	Issued an additional 3,000 shares of capital stock in exchange for \$45,000 cash.
	15	Purchased equipment for the business. The price was \$13,000, of which \$3,000 was paid in cash; a note payable was issued for the balance.
	21	Acquired office furniture from West Company for \$1,100, on account.

Date	General Journal			
20__				
June 2				
5				
9				
12				
15				
21				

146) Journalize and post basic transactions

Precision Grading Co. was organized to grade construction sites.

* On June 1, owner Dave Precision deposited \$90,000 in a new bank account opened in the name of the business in exchange for stock.

* On June 3, the company acquired grading equipment costing \$89,000, paying \$43,000 cash and signing a note payable for the balance.

* On June 10, the company paid \$13,000 of the amount owed for equipment acquired on June 3.

Instructions: Journalize these three transactions and post to the ledger accounts.

GENERAL JOURNAL			Page 1
Date	Account Titles & Explanations	Debit	Credit

Cash			Account No. 1	
Date	Explanation	Debit	Credit	Balance

Grading Equipment			Account No. 25	
Date	Explanation	Debit	Credit	Balance

Notes Payable			Account No. 40	
Date	Explanation	Debit	Credit	Balance

Capital Stock			Account No. 50	
Date	Explanation	Debit	Credit	Balance

147) Journalize and post basic transactions

Geller Landscaping was organized on April 5 when the corporation issued 20,000 shares of capital stock to Larry Geller in exchange for \$60,000 cash.

* On April 8, the business acquired gardening equipment by paying cash of \$26,000 and signing a \$20,000 note payable, due in four monthly installments of \$5,000 each, beginning on April 15.

* On April 15, Larry Geller made the first payment on the note payable by writing a check from the business bank account.

Instructions: Journalize these three transactions and post to the ledger accounts.

GENERAL JOURNAL			Page 1
Date	Account Titles & Explanations	Debit	Credit

Cash			Account No. 1	
Date	Explanation	Debit	Credit	Balance
Gardening Equipment			Account No. 25	
Date	Explanation	Debit	Credit	Balance
Notes Payable			Account No. 40	
Date	Explanation	Debit	Credit	Balance
Capital Stock			Account No. 50	
Date	Explanation	Debit	Credit	Balance

148) Matching principle

In April, Grinnel Paving, Inc. acquired a large quantity of crushed stone on account with payment due in 90 days. The stone was used in May when Grinnel Paving, Inc. completed a large parking lot for a local shopping center. In early July, Grinnel Paving, Inc. paid the supplier from which the crushed stone had been purchased. In which month should Grinnel Paving, Inc. recognize the cost of the crushed stone as an expense? What accounting principle provides the justification for the answer?

AACSB: Analytical Thinking

149) Given the following list of accounts and their amounts for Hayden's Co. in alphabetical order, prepare a trial balance for December 31, 2018 as it should be presented.

Accounts Payable	5,000
Accounts Receivable	3,000
Advertising expense	400
Building	18,000
Capital stock	14,100
Cash	6,500
Dividends	1,600
Land	26,000
Notes Payable	15,000
Revenue	31,000
Retained Earnings	?
Supplies	700
Utilities expense	900
Wage expense	13,250
Wages Payable	3,050

150) The following trial balance of Brian's Pickle Co. for June 30, 2018 does not balance.

Cash	\$21,860	
Accounts Receivable	35,000	
Supplies	3,640	
Building	51,000	
Note Payable		\$15,500
Owners' Equity		30,000
Retained Earnings		10,000
Revenue		39,500
Expenses	25,000	
Total	<u>\$136,500</u>	<u>\$95,000</u>

The following errors were discovered:

1. A purchase of supplies for cash was posted as \$40 when it should have been \$400.
2. The first two numbers of the amount for notes payable were transposed while being copied from the account balance to the trial balance. The correct amount of Notes Payable should be \$51,500.
3. A collection of cash was debited to the cash account in the amount of \$5,500 but was not credited to the revenue account.
4. A purchase of supplies for \$725 on account was not recorded.

Instructions: Prepare a corrected trial balance