Fundamentals of Financial Accounting, 6e **(Phillips)**
Chapter 2 The Balance Sheet

1) A transaction is an exchange or event that directly affects the assets, liabilities, or stockholders' equity of a company.

2) General Motors (GM) signs a new labor agreement that its workers will receive a 5% wage increase next year. This transaction affects GM's financial statements in the current year.

3) If total assets decrease, then either total liabilities or total stockholders' equity must also decrease.

4) Goodrich, Inc. signed an agreement to rent a warehouse from Ellie Co. This is an example of a transaction that should not be recorded.

5) A business is obliged to repay both debt and equity financing.

6) You are pleasantly surprised to discover that a popular actress appears on *The Tonight Show* wearing your company's jeans. Later, your company's sales increase by $500,000 as a result. When the actress appeared on TV, you would have recorded an asset because the TV appearance was expected to bring future economic benefits to your company.

7) Eagle Company used $50,000,000 of its cash to pay off debt, as a result, Eagle's stockholders' equity will decrease $50,000,000.

8) Puffin, Inc. issues $1,000,000 in new stock for cash. Puffin's stockholders' equity does not change because as new shares are sold, the value of its existing shares falls.

9) The record-analyze-summarize process is applied only to daily transactions, month-end adjustments need not be analyzed and summarized.

10) The list of account names and reference numbers that the company will use when accounting for transactions is called the chart of accounts.

11) A debit may increase or decrease an account, depending on the type of account.

12) The normal balance of an account is on the same side that decreases the account.

13) If the total dollar value of debits to an account exceeds the total dollar value of credits to that account, the ending balance of the account will be a debit balance.

14) Every transaction increases at least one account and decreases at least one account.

15) Accounts increase on the same side as they appear in the accounting equation: A = L + SE.

16) Journal entries show the effects of transactions on the elements of the accounting equation, as well as the account balances.

17) The general ledger is an internal report that lists all the accounts and their balances and is used to check that total debits equals total credits.

18) A trial balance shows a subtotal for current assets and current liabilities.

19) When a company prepares a classified balance sheet, liability accounts must be shown in subcategories of current and noncurrent.

20) The trial balance is a financial statement that reports the assets, liabilities, and equity of a business at a point in time.

21) The acquisition of inventory in an exchange for a company's stock would increase the current ratio of the company.

22) The current ratio can be used to evaluate a company's ability to pay liabilities in the short term, and in general, a higher ratio means better ability to pay.

23) Owners of a company:
A) hold promissory notes as evidence of their ownership claim.
B) are entitled to repayment of their investment.
C) have a claim that is secondary to creditor's claims.
D) have a claim equal to the amount of liabilities a company owes.

24) If a company borrows money from a bank and signs an agreement to repay the loan several years from now, in which account would the company report the amount borrowed?
A) Common Stock
B) Accounts Payable
C) Notes Payable (long-term)
D) Retained Earnings

25) The Sweet Smell of Success Fragrance Company borrowed $60,000 from the bank to be paid back in five years and used all of the money to purchase land for a new store. Sweet Smell's balance sheet would show this as:
A) $60,000 under Land and $60,000 under Notes Payable (long-term).
B) $60,000 under Depreciation Expense and $60,000 under Notes Payable (long-term).
C) $60,000 under Land and $60,000 under Notes Receivable (long-term).
D) $60,000 under Other Assets and $60,000 under Other Liabilities.

26) Typical steps needed before a business can start selling goods and/or services to customers include:
A) financing and investing activities.
B) only financing activities.
C) only investing activities.
D) only operating activities.

27) Who has first claim to a business's assets should the company go out of business?
A) Creditors
B) Stockholders
C) Customers
D) Management

28) The creditors' claims to a company's resources are represented by:
A) common stock.
B) total stockholder's equity.
C) total liabilities.
D) retained earnings.

29) A difference between debt financing and equity financing is that:
A) debt financing must be repaid, while repayment of equity financing is not required.
B) equity financing must be repaid, while repayment of debt financing is not required.
C) only debt financing can be used to purchase assets.
D) only equity financing can be used to purchase assets.

30) Debt financing is financing obtained from:
A) stockholders.
B) creditors.
C) selling goods or services on credit.
D) both creditors and stockholders.

31) Equity financing is financing obtained from:
A) creditors.
B) stockholders.
C) selling goods or services on credit.
D) both creditors and stockholders.

32) The cost principle is used:
A) to refer to the two sources of financing available to businesses.
B) to measure the amount used to record assets on the date of the transaction.
C) by small businesses, but not by large businesses.
D) to measure internal events, but not external exchanges.

33) Transactions include which two types of events?
A) Direct events, indirect events
B) Monetary events, production events
C) External exchanges, internal events
D) Past events, future events

34) Which of the following is an accounting transaction?
A) A manager hires an employee.
B) A manager orders supplies.
C) A manager signs a promissory note and receives cash.
D) A manager agrees to deliver their product in three weeks.

35) Your company places an order for inventory with suppliers for delivery in two weeks.
A) This is an internal event and it does not affect the balance sheet.
B) This is an activity that does not affect the balance sheet.
C) This is an internal event that affects the balance sheet.
D) This is an external exchange and it affects the balance sheet.

36) The characteristic shared by all liabilities is that they:
A) provide a future economic benefit.
B) result in an inflow of resources to the company.
C) always end in the word "payable."
D) obligate the company to do something in the future.

37) Which of the following is a financing activity?
A) The business receives land and gives a check for $1,000.
B) The business receives $1,000 cash and in exchange gives a promissory note.
C) The business promises to hire an employee on the 15th of the month.
D) The business orders supplies and promises to pay for them at the end of the month.

38) Which of the following would not be recorded as an accounting transaction?
A) Issuing stock to owners in exchange for cash
B) Ordering supplies to be delivered next month
C) Selling inventory to customers in exchange for cash to be received next month
D) Paying the bank for a portion of a note payable

39) The Flynn Company started business by obtaining financing through debt financing and equity financing. Which of the following statements is not correct?
A) Equity financing refers to the money obtained through owners' contributions and reinvestments of profit.
B) Debt financing refers to the money obtained through loans.
C) The business is obligated to repay debt financing.
D) The business is obligated to repay equity financing.

40) Which of the following is an asset?
A) Common Stock
B) Retained Earnings
C) Notes Receivable
D) Notes Payable

41) Which of the following transactions for Bill's Fish 'n Chips restaurant would be treated as an accounting transaction?
A) Bill distributed coupons to local hotels for 10% off and requested that the coupons be distributed to hotel guests.
B) Bill spoke to a local high school about the rewards and challenges of being an entrepreneur.
C) Bill signed an agreement with a local fisherman to purchase 20 pounds of halibut each month.
D) Bill purchased a fryer and a dishwasher, which will be paid for next month.

42) ________ are of special importance because they are the only activities that enter the financial accounting system.
A) External exchanges
B) Internal events
C) Documents
D) Transactions

43) Which account is affected by recording the buying of goods on credit?
A) Cash
B) Retained Earnings
C) Common Stock
D) Accounts Payable

44) Which of the following is not true regarding the double-entry system?
A) Transactions must be recorded twice to ensure accuracy.
B) Debits must equal credits.
C) Assets must equal liabilities plus stockholders' equity.
D) Both what is received and what is given in exchange must be recorded.

45) Every transaction involves a(n):
A) receiving and giving something of value.
B) increase in assets.
C) increase in stockholder's equity.
D) exchange of promises.

46) Which events are recorded in the accounting system?
A) External exchanges only
B) Internal events only
C) Both external exchanges and internal events
D) Transactions are not recorded in the accounting system

47) Doug's Doodle Shop, specializing in dog supplies, signs a contract with a pet groomer. Next month, the groomer will begin leasing a portion of Doug's store and provide grooming services. The signing of the contract:
A) has no effect on the accounting equation.
B) increases assets.
C) increases liabilities.
D) decreases stockholders' equity.

48) Spin Co. has $52,000 in its Cash account, $20,000 in its Inventory account, and $12,000 in its Notes Payable (short-term) account. If Spin's only other account is Common Stock, what is the balance of that account?
A) $20,000.
B) $84,000.
C) $60,000.
D) $44,000.

49) Amounts invested and reinvested by a company's owners is called:
A) stockholders' equity in a corporation.
B) assets, or the resources presently owned by a business that generate future economic benefits.
C) a trial balance, proving that all amounts are accounted for.
D) liabilities, or the amounts presently owed by a business.

50) Typical cash flows from investing activities include:
A) payments to purchase property and equipment.
B) repayment of loans.
C) proceeds from issuing notes payable.
D) receipts from cash sales.

51) The requirement that transactions be recorded at their exchange price at the transaction date is called the:
A) conservatism exception.
B) separate entity assumption.
C) cost principle.
D) monetary unit assumption.

52) Candy Cane opened an ice cream store on June 1 and hired an accounting intern to help her establish the business. The intern has identified the following transactions. Which of these transactions is not an accounting transaction?
A) Purchased $3,400 of milk and cream from a local dairy
B) Signed a contract to deliver $1,200 of ice cream for a July 4th party
C) Paid June rent of $2,300
D) Borrowed money from the bank by signing a promissory note for $5,000

53) Candy Cane's ice cream shop, which opened in June, is a local hit. In July, Candy Cane hired a new employee at a rate of $1,200 per month to start work at the beginning of August. In July, Candy Cane should record:
A) nothing, because an exchange of promises is not a transaction.
B) a $1,200 increase to Prepaid Wages and a $1,200 decrease to Cash.
C) a $1,200 increase to Wage Expense and a $1,200 decrease to Cash.
D) a $1,200 increase in Wages Payable and a $1,200 increase in Wages Expense.

54) A ________ is a list of account titles with corresponding reference numbers used by companies so that transaction items are consistently named.
A) chart of accounts
B) trial balance
C) classified balance sheet
D) ledger

55) What does a business typically receive when it issues stock to owners?
A) Promissory note
B) Stock certificate
C) Equipment
D) Cash

56) When a business issues stock, what does it give to its owners?
A) Note Payable
B) Common Stock
C) Retained Earnings
D) Cash

57) Transactions are entered into a(n) ________ each day they occur.
A) journal
B) ledger
C) trial balance
D) classified balance sheet

58) A(n) ________ is a collection of records that summarizes the effects of multiple transactions whereas a(n) ________ is a record of each day's transactions.
A) ledger; journal
B) journal; ledger
C) trial balance; journal
D) trial balance; ledger

59) Account titles in the chart of accounts are:
A) general purpose and do not indicate the nature of the account.
B) consistent with those used by other companies.
C) linked to account numbers.
D) the names mandated for use by the FASB.

60) Every transaction:
A) increases one account and decreases another account.
B) has at least two effects on the basic accounting equation.
C) affects only balance sheet accounts or only income statement accounts.
D) is analyzed from the standpoint of the business owners.

61) Charlie Co. owes $800,000 to Tilly, Inc. from whom Charlie buys its inventory. Which account would Charlie use to report the amount owed?
A) Cash
B) Accounts Payable
C) Notes Payable
D) Accounts Receivable

62) Bolt Enterprises receives $100,000 cash from its customers on account. Bolt uses the cash to pay off $100,000 on a bank loan, the net result is that:
A) assets would increase by $100,000 while liabilities would decrease by $100,000.
B) liabilities would decrease by $100,000 while stockholders' equity would increase by $100,000.
C) assets would decrease by $100,000 and liabilities would decrease by $100,000.
D) liabilities would decrease by $100,000 and stockholders' equity would decrease by $100,000.

63) What is the minimum number of accounts that must be involved in any transaction?
A) One
B) Two
C) Three
D) There is no minimum.

64) Amounts owed to suppliers for goods purchased on credit are called:
A) Common Stock.
B) Retained Earnings.
C) Accounts Payable.
D) Inventory.

65) In part, a transaction affects the accounting equation by decreasing a liability. There is no effect on assets. Which of the following statements is correct with regards to this transaction?
A) If other liabilities are unchanged, stockholders' equity must be decreasing.
B) If other liabilities are unchanged, stockholders' equity must be increasing.
C) If stockholders' equity is unchanged, another liability must be decreasing.
D) If stockholders' equity is unchanged, other liabilities must be unchanged.

66) Sue Shells, Inc. pays back $200,000 on a loan it had obtained earlier from a bank.
A) Assets decrease by $200,000; liabilities and stockholders' equity are both unchanged.
B) Assets decrease by $200,000, liabilities decrease by $200,000, and stockholders' equity is unchanged.
C) Assets decrease by $200,000 and liabilities increase by $200,000.
D) Assets decrease by $200,000, liabilities are unchanged, and stockholders' equity decreases by $200,000.

67) Sue Shells, Inc. issues $400,000 in new stock. It later uses the cash received to purchase land. What accounts are affected by these two transactions?
A) Common Stock, Cash, and Land.
B) Common Stock, Cash, and Investments.
C) Cash, Common Stock, and Investments, and Land.
D) Common Stock, and Land.

68) A business can obtain financing by issuing stock or borrowing from third parties, such as banks. What are the balance sheet effects of issuing stock to obtain cash?
A) No effect on assets; Decrease liabilities; Increase stockholders' equity
B) Increase assets; Increase liabilities; Increase stockholders' equity
C) Increase assets; No effect on liabilities; Increase stockholders' equity
D) Increase assets; Increase liabilities; No effect on stockholders' equity

69) What will be the effect on the balance sheet of issuing shares of common stock in exchange for cash?
A) An increase in Retained Earnings
B) A decrease in Common Stock
C) A decrease in Retained Earnings
D) An increase in Common Stock

70) Kirby, Inc. borrows $16 million from its bank. It then uses this money to buy equipment. How do these two transactions affect the company's accounting equation?
A) Assets and liabilities both increase by $16 million.
B) Assets increase by $8 million and liabilities decrease by $8 million.
C) Assets increase by $16 million, liabilities increase by $8 million, and stockholders' equity increases by $8 million.
D) Assets remain unchanged and liabilities increase by $16 million.

71) A company receives $100,000 cash from investors in exchange for stock. Several weeks later, the company buys a $250,000 machine using all of the cash from the stock issue and signing a promissory note for the remainder. The accounts involved in these two transactions are:
A) Cash; Equipment; Noncurrent Investments; and Accounts Payable.
B) Cash; Noncurrent Investments; Common Stock; and Notes Payable.
C) Cash; Equipment; Common Stock; and Notes Payable.
D) Equipment; Notes Payable; and Retained Earnings.

72) During the current year, Sue Shells, Inc.'s total liabilities decreased by $50,000 and stockholders' equity increased by $10,000. By what amount and in what direction did Sue's total assets change during the same time period?
A) $40,000 increase
B) $40,000 decrease
C) $60,000 increase
D) $60,000 decrease

73) A company issues $20 million in new stock. The company later uses this money to acquire a building. What is the effect of these two transactions on the company's accounts?
A) Buildings increases and Common Stock increases.
B) Buildings increases and Common Stock decreases.
C) Cash increases, Buildings increases, and Common Stock increases.
D) Cash decreases, Buildings increases, and Common Stock decreases.

74) Park & Company was recently formed with a $25,000 investment in the company by stockholders in exchange for common stock. The company then borrowed $10,000 from a local bank, purchased $5,000 of supplies on account, and also purchased $25,000 of equipment by paying $10,000 in cash and signing a promissory note for the balance. Based on these transactions, the company's total assets are:
A) $35,000.
B) $45,000.
C) $50,000.
D) $55,000.

75) Danny Company purchased supplies using cash. What is the effect on Danny's balance sheet?
A) No effect on total assets; decrease total liabilities; increase total stockholders' equity
B) Increase total assets; increase total liabilities; increase total stockholders' equity
C) Decrease total assets; no effect on total liabilities; increase total stockholders' equity
D) No effect on total assets; no effect on total liabilities; no effect on total stockholders' equity

76) The Noble Corp. installs $75,000 of equipment, paying $25,000 cash and promising to pay the remaining $50,000 in 6 months. What is the impact to this transaction on the accounting equation?
A) Total assets are increased by $50,000.
B) Current assets are increased by $50,000.
C) Total assets are increased by $75,000.
D) Current assets are increased by $75,000.

77) If land is purchased for cash:
A) total assets will increase.
B) total assets will decrease.
C) total assets will remain the same.
D) stockholders' equity will increase.

78) What is the effect on the balance sheet if a company purchases $100 of supplies using cash?
A) Total assets will remain the same.
B) Total assets will decrease.
C) Liabilities will decrease.
D) Total assets will increase.

79) Puffin, Inc. purchased land costing $54,000 by paying cash of $13,500 and signing a 90-day note for the balance. The entry to record this transaction would:
A) increase total assets.
B) decrease total liabilities.
C) decrease Common Stock.
D) increase total assets and decrease total liabilities.

80) On January 1, Kirk Corporation had total assets of $425,000. During the month, the following activities occurred:

Kirk Corporation acquired equipment costing $3,000, promising to pay cash for it in 60 days.
Kirk Corporation purchased $1,750 of supplies for cash.
Kirk Corporation sold land, which it had acquired 2 years ago. The land had cost $7,500 and it was sold for $7,500 cash.
Kirk Corporation signed an agreement to rent additional storage space next month at a charge of $500 per month.

What is the amount of total assets of Kirk Corporation at the end of the month?
A) $429,750
B) $428,000
C) $418,750
D) $420,000

81) When accounts receivable are collected:
A) stockholders' equity increases.
B) total assets increase.
C) total assets decrease.
D) the amount of total assets is unchanged.

82) A company was formed with $300,000 cash contributed by its owners in exchange for common stock. The company borrowed $150,000 from a bank. The company purchased $50,000 of inventory and paid cash for it. The company also purchased $350,000 of equipment by paying $50,000 in cash and issuing a note for the remainder.

What is the amount of the total assets to be reported on the balance sheet?
A) $750,000
B) $800,000
C) $450,000
D) $400,000

83) A company was formed with $300,000 cash contributed by its owners in exchange for common stock. The company borrowed $150,000 from a bank. The company purchased $50,000 of inventory and paid cash for it. The company also purchased $350,000 of equipment by paying $50,000 in cash and issuing a note for the remainder.

What is the amount of the total liabilities to be reported on the balance sheet?
A) $300,000
B) $0
C) $450,000
D) $400,000

84) Assets totaled $24,250 and liabilities totaled $8,500 at the beginning of the year. During the year, assets decreased by $3,500 and liabilities increased by $2,800.

What is the amount of the change in stockholders' equity during the year?
A) $5,750 increase
B) $700 decrease
C) $6,300 decrease
D) $550 increase

85) Assets totaled $24,250 and liabilities totaled $8,500 at the beginning of the year. During the year, assets decreased by $3,500 and liabilities increased by $2,800.

What is the amount of stockholders' equity at the end of the year?
A) $9,450
B) $15,750
C) $15,050
D) $14,450

86) During its first year of operations, a company entered into the following transactions:

Borrowed $20,000 from the bank by signing a promissory note.
Issued stock to owners for $40,000.
Purchased $4,000 of supplies on account.
Paid $1,600 to suppliers as payment on account for the supplies purchased.

What is the amount of total assets at the end of the year?
A) $64,000
B) $22,400
C) $60,000
D) $62,400

87) During its first year of operations, a company entered into the following transactions:

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Purchased $4,000 of supplies on account.
Paid $1,600 to suppliers as payment on account for the supplies purchased.

What is the amount of total liabilities at the end of the year?
A) $24,000
B) $62,400
C) $64,000
D) $22,400

88) The Smith Corp. began business this year and entered into the following transactions during the year. The company issued common stock in exchange for cash of $80,000 from stockholders, borrowed $40,000 from a bank, bought $12,000 of inventory on account, and purchased $32,000 of equipment by paying $12,000 in cash and issuing a note for the remainder. What is the amount of total assets to be reported on the balance sheet at the end of the year?
A) $104,000
B) $120,000
C) $128,000
D) $152,000

89) Meridian Furniture had the transactions for the month that are summarized below.

Purchased $3,600 in supplies with cash.
Issued 400 shares of stock for $45 per share.
Ordered supplies at a cost of $8,000.
Paid a utility bill for $1,000.

If the Cash account had a beginning balance of $20,000, what was the balance at the end of the month?
A) $22,600
B) $25,400
C) $33,400
D) $40,600

90) Which of the following requires a credit?
A) Decreases in liabilities
B) Decreases in stockholders' equity
C) Increases to assets
D) Increases to liabilities

91) In addition to requiring that the accounting equation remain in balance, the double-entry system also requires that:
A) the number of asset accounts must equal the number of liability and stockholder's equity accounts.
B) for any transaction, only two accounts are affected.
C) for any transaction, both sides of the accounting equation are affected.
D) the total dollar amount of debits must equal the total dollar amount of credits.

92) Which of the following statements regarding debits and credits is always correct?
A) Debits decrease accounts while credits increase them.
B) The total value of all debits recorded in the ledger must equal the total value of all credits recorded in the ledger.
C) The total value of all debits to a particular account must equal the total value of all credits to that account.
D) The normal balance for an account is the side on which it decreases.

93) Accounts Payable had a balance of $9,100 at the beginning of the month. During the month, three debits in the amounts of $2,350, $5,650, and $7,400 were posted to Accounts Payable, and three credits in the amounts of $1,800, $4,750, and $6,350 were posted to Accounts Payable. What is the ending balance of the Accounts Payable account?
A) $6,600
B) $2,500
C) $11,600
D) $24,500

94) How do debits appear in a T-account?
A) They are listed on the left side for asset accounts, but listed on the right side for liabilities and stockholders' equity accounts.
B) They are always listed on the right side of the account.
C) They are always listed on the left side of the account.
D) They are listed on the right side for asset accounts, but listed on the left side for liabilities and stockholders' equity accounts.

95) Within the debit/credit framework, the best interpretation of the word "credit" is:
A) left side of an account.
B) increase side of an account.
C) right side of an account.
D) decrease side of an account.

96) The Accounts Payable account:
A) has a normal credit balance.
B) is increased by a debit.
C) is an asset.
D) is increased when a company receives cash from customers.

97) The Accounts Receivable account:
A) has a normal credit balance.
B) is increased by a debit.
C) is a liability.
D) is increased when a company receives cash from its customers.

98)

Cash

Beginning Balance	371,700		
(a)	44,100	(c)	18,000
(b)	114,900	(d)	17,400
		(e)	22,200
		(f)	36,000
		(g)	33,600

What is the ending balance of the Cash account?
A) $657,900
B) $339,900
C) $85,500
D) $403,500

99)

Cash			
Beginning Balance	371,700		
(a)	44,100	(c)	18,000
(b)	114,900	(d)	17,400
		(e)	22,200
		(f)	36,000
		(g)	33,600

In the T-account above:
A) (a) and (b) are credits.
B) (c) through (g) are debits.
C) if the sum of (a) and (b) is less than the sum of (c) through (g), the Cash account balance will increase.
D) (a) and (b) are increases.

100) A debit would make which of the following accounts increase?
A) Common Stock
B) Inventory
C) Notes Payable
D) Retained Earnings

101) Cash had a beginning balance of $206,700. During the month, Cash was credited for $48,000 and debited for $54,900. At the end of the month, the balance is:
A) $213,600 credit.
B) $213,600 debit.
C) $199,800 debit.
D) $199,800 credit.

102) Which of the following statements about normal account balances is correct?
A) Assets have debit balances and liabilities have credit balances.
B) Assets and liabilities have credit balances.
C) Assets have credit balances and liabilities have debit balances.
D) Assets and liabilities have debit balances.

103) For both accounts and amounts, the standard formatting for a journal entry lists:
A) credits first and then debits, both aligned to the left.
B) credits first and then debits, indented underneath.
C) debits first and then credits, both aligned to the right.
D) debits first and then credits, indented to the right underneath.

104) The standard formatting for a journal entry lists the dollar amounts for:
A) credits underneath and to the right of the dollar amounts for debits.
B) debits and credits aligned equally to the right.
C) debits underneath and to the right of the dollar amounts for credits.
D) debits and credits aligned equally to the left.

105) Which of the following statements about the debit/credit framework is correct?
A) Stockholders' Equity = Assets + Liabilities.
B) The total value of credits in all accounts must always equal the total value of debits in all accounts.
C) The normal balance for an account is the side on which it decreases.
D) A decrease in Common Stock would be recorded with a credit.

106) The normal balance of any account is the:
A) left side.
B) right side.
C) side which increases that account.
D) side which decreases that account.

107) A company started the year with a normal balance of $136,000 in the Inventory account. During the year, debits totaling $90,000 and credits totaling $110,000 were posted to the Inventory account. Which of the following statements about the Inventory account is correct?
A) The normal balance of the Inventory account is a credit balance.
B) After these amounts are posted, the balance in the Inventory account is a credit balance of $116,000.
C) The Inventory account is decreased by debits.
D) The debits and credits posted to the Inventory account caused it to decrease by $20,000.

108) Which of the following statements about the debit/credit framework is correct?
A) All asset accounts have a normal debit balance with the exception of cash, which has a normal credit balance.
B) The Common Stock account is increased by debits.
C) When payment is made on a liability such as accounts payable, the liability account is decreased with a debit.
D) The total amount of asset accounts must equal the total amount of liability accounts minus the total amount of stockholders' equity accounts.

109) A company purchased equipment for use in the business at a cost of $36,000, one-fourth was paid in cash, and the company signed a note for the balance. The journal entry to record this transaction will include a:
A) debit to Notes Payable of $27,000.
B) debit to Cash of $36,000.
C) credit to Notes Payable of $27,000.
D) debit to Equipment of $9,000.

110) Which account would be decreased with a credit?
A) Retained Earnings
B) Accounts Receivable
C) Common Stock
D) Notes Payable

111) Which account would be increased with a debit?
A) Supplies
B) Accounts Payable
C) Common Stock
D) Retained Earnings

112) Shaylee, Inc. borrowed $62,000 from a bank, depositing those funds in its bank account and signing a formal agreement to repay the loan in two years. What is the correct journal entry for this transaction?
A) Debit notes payable and credit cash for $62,000
B) Debit notes payable and debit cash for $62,000
C) Credit notes payable and credit cash for $62,000
D) Debit cash and credit notes payable for $62,000

113) A company borrows money from a bank. The journal entry to record the transaction would include a:
A) credit to Notes Payable and debit to Common Stock.
B) debit to Cash and a credit to Notes Payable.
C) debit to Cash and a credit to Common Stock.
D) credit to Cash and a debit to Notes Payable.

114) If a company pays back money borrowed from a bank, which of the following would be included in the journal entry to record this transaction?
A) Credit Notes Payable and debit Common Stock
B) Debit Cash and credit Notes Payable
C) Debit Cash and credit Common Stock
D) Credit Cash and debit Notes Payable

115) Carol Co. has total debits in its cash T-account of $155,000 and total credits of $120,000. The balance in the cash T-account is a:
A) debit of $155,000.
B) debit of $35,000.
C) credit of $120,000.
D) credit of $35,000.

116) Forrest Industries has the following information in regard to its Cash account for the month of August. The account had a normal balance of $62,500 on August 1. During August, it had three debit entries totaling $250,000. The balance in the Cash account on August 31 was $112,500. What was the total of the credit entries to the Cash account during the month of August?
A) $50,000
B) $112,500
C) $200,000
D) $300,000

117) Which of the following statements about the debit/credit framework is correct?
A) Asset and liability accounts have a normal debit balance.
B) To debit an account means to increase it.
C) Common Stock has a normal credit balance.
D) To credit an account means to decrease it.

118) Which of the following statements about transaction analysis is correct?
A) Transactions are analyzed from the standpoint of the owners.
B) All business activities are considered to be accounting transactions.
C) The transaction amount is determined for each exchange based on the cost of the items given and received.
D) A business needs journal entries only to show how transactions affect the balance sheet.

119) Which of the following statements about liabilities is not correct?
A) Liabilities are amounts owed by a business.
B) Liability accounts have a normal credit balances.
C) Financing activities may affect the amount of liabilities.
D) Examples of liabilities include Notes Payable, Common Stock, and Income Tax Payable.

120) Each account is assigned a number; this listing of all accounts is called a:
A) trial balance.
B) journal.
C) ledger.
D) chart of accounts.

121) Baldwin Company purchased equipment for $420,000 and planned to use it when the company expanded one of its product lines. However, six months later, the company changed its plans and sold the equipment to Stick, Inc. for $420,000. Stick signed a note for $420,000 that is due in 60 days. The journal entry prepared by Baldwin Company to record the sale of the equipment would include which of the following?
A) Credit to Note Receivable
B) Debit to Cash
C) Credit to Equipment
D) Debit to Accounts Payable

122) B. Darin Company issued common stock to investors and received $50,000. Which of the following statements about this transaction is correct?
A) This is an example of a cash inflow from an investing activity.
B) The journal entry to record this transaction will include a credit to Cash.
C) This is an example of a cash outflow from a financing activity.
D) The journal entry to record this transaction will include a credit to Common Stock.

123) Transactions are first entered in the:
A) ledger.
B) journal.
C) T-accounts.
D) chart of accounts.

124) T-accounts represent a simplified version of the:
A) ledger.
B) journal.
C) trial balance.
D) financial statements.

125) A ledger is used to:
A) show increases and decreases in individual accounts, as well as the ending balance.
B) report the results of operations to stockholders, creditors, and managers.
C) prove that debits equal credits.
D) make a balance sheet unnecessary.

126) When a company purchases an asset but only pays for a portion of it and owes the remainder, which of the following is true?
A) The asset is debited for the amount paid plus the amount owed.
B) The asset is debited for the amount paid. The amount owed will be debited to the asset once paid.
C) The asset is credited for the amount paid plus the amount owed.
D) The asset is credited for the amount paid. The amount owed will be debited to the asset once paid.

127) The journal entry to record the purchase of supplies on account includes a credit to:
A) Cash.
B) Accounts Payable.
C) Supplies.
D) Accounts Receivable.

128) On September 5, Heidi Co., purchases $87,000 of supplies; payment is not required until October 4. What action should be taken by Heidi on September 5?
A) No journal entry is required; this transaction should not be recorded until the payment is made.
B) A journal entry that includes a credit to Accounts Payable should be prepared.
C) A journal entry that includes a debit to Accounts Payable should be prepared.
D) A journal entry that includes a debit to Prepaid Expenses should be prepared.

129) A company uses $100,000 in cash to pay off $100,000 in notes payable. This would result in a:
A) $100,000 debit to Notes Payable and a $100,000 credit to Cash.
B) $100,000 credit to Cash and a $100,000 credit to Notes Payable.
C) $100,000 debit to Cash and a $100,000 credit to Notes Payable.
D) $100,000 debit to Cash and a $100,000 debit to Notes Payable.

130) Purrfect Pets, Inc., makes a $10,000 payment on account. This would result in a:
A) $10,000 credit to Cash and a $10,000 credit to Accounts Payable.
B) $10,000 debit to Cash and a $10,000 debit to Accounts Payable.
C) $10,000 debit to Accounts Payable and a $10,000 credit to Cash.
D) $10,000 debit to Cash and a $10,000 credit to Accounts Payable.

131) Slug, Inc. purchases equipment for $1,200,000 million paying $180,000 in cash and issuing $1,020,000 in promissory notes. When the journal entry is posted to the related accounts:
A) $1,200,000 will be credited and $180,000 will be debited to asset accounts; $1,020,000 will be debited to liability accounts.
B) $1,200,000 will be debited to asset accounts; $1,020,000 will be credited to liability accounts.
C) $1,200,000 will be debited and $180,000 will be credited to asset accounts; $1,020,000 will be credited to liability accounts.
D) $1,200,000 will be credited to asset accounts; $1,200,000 will be debited to liability accounts.

132) Consider the following journal entry:

Software	18,000	
Cash		7,200
Note Payable		10,800

Which of the following explanations best describes this journal entry?
A) The company buys $18,000 of software, pays cash of $7,200, and signs a note for $10,800.
B) The company receives $7,200 in cash and $10,800 in notes payable in exchange for selling $18,000 of software.
C) The company buys $18,000 of software, pays $7,200 cash, and promises to cancel a debt owed to the company in the amount of $10,800.
D) The company sells $18,000 of software, receives $7,200 in cash, and pays off $10,800 it owes on the software.

133) Which of the following is a report for internal use only?
A) Balance sheet
B) Statement of financial position
C) Trial balance
D) Classified balance sheet

134) Which of the following would cause a trial balance to be out of balance?
A) A transaction was recorded twice.
B) A transaction was not recorded.
C) A transaction was posted to the wrong accounts.
D) Only the credit portion of a transaction was recorded.

135) Assume a company only entered into financing and investing activities and has prepared its journal entries and posted them to T-accounts. How would the related account balances be listed on its trial balance?
A) Credits first, followed by debits
B) Debits first, followed by credits
C) Alphabetically
D) In descending order by dollar amount

136) All of the following would be classified as current on a classified balance sheet except:
A) Common Stock.
B) Cash.
C) Accounts Payable.
D) Supplies.

137) Broadway, Inc.'s trial balance was in balance at the end of the period and showed the following accounts:

Account	Balance
Accounts Payable	$ 30,600
Cash	62,100
Common Stock	30,000
Equipment	13,500
Land	45,000
Notes Payable	60,000

What is the balance of the credit column on Broadway's trial balance?
A) $241,200
B) $120,600
C) $90,600
D) $90,000

138) The following account balances were listed on the trial balance of Edgar Company at the end of the period:

Account	Balance
Accounts Payable	$ 30,600
Cash	48,900
Common Stock	30,000
Equipment	13,500
Land	45,000
Notes Payable	60,000

The company's trial balance is not in balance and the company's accountant has determined that the error is in the cash account. What is the correct balance in the cash account?
A) $57,900
B) $31,500
C) $2,100
D) $62,100

139) In a classified balance sheet, assets and liabilities are classified according to whether they are current or noncurrent. Which of the following statements is not correct about current assets?
A) They will be acquired within one year.
B) They will be converted to cash within one year.
C) They will be sold within one year.
D) They will be used up within one year.

140) With a classified balance sheet, current assets are usually listed:
A) in alphabetical order.
B) in the order of when the assets were acquired.
C) from the largest to smallest dollar amount.
D) in the order of liquidity.

141) Which one of the following is not a current asset?
A) Cash
B) Supplies
C) Equipment
D) Prepaid Insurance

142) Which of the following would be listed as a current liability?
A) Cash
B) Notes Payable (due in two years)
C) Supplies
D) Accounts Payable

143) A noncurrent liability is one that the company:
A) has owed for over one year.
B) has owed for over five years.
C) will not pay within 12 months.
D) will not pay within five years.

144) A current asset is one that the company:
A) has owned for over one year.
B) has owned for over five years.
C) will use up or convert into cash in less than 12 months.
D) has updated to reflect its current value.

145) At the start of the first year of operations, Retained Earnings would be:
A) equal to zero.
B) equal to Common Stock.
C) equal to stockholders' equity.
D) equal to the Net Income.

146) Current liabilities are expected to be:
A) converted to cash within one year.
B) fulfilled within one year.
C) used in the business within one year.
D) acquired within one year.

147) Assets are listed on a classified balance sheet:
A) in alphabetical order.
B) from the largest dollar amount to the lowest dollar amount.
C) beginning with noncurrent assets and ending with current assets.
D) beginning with current assets and starting with Cash.

148) Which of the following would not be classified as a current asset?
A) Cash
B) Accounts Payable
C) Supplies
D) Inventory

149) Which of the following would be classified as a noncurrent liability on the balance sheet at December 31, Year 1?
A) An accounts payable due on January 30, Year 2
B) A notes payable due November 30, Year 2
C) A note receivable that matures on April 30, Year 3
D) A notes payable due January 15, Year 3

150) Constable Co. reported the following information at December 31, Year 1:

Accounts Payable	$ 6,750
Accounts Receivable	14,025
Cash	35,235
Common Stock	135,000
Equipment	74,250
Inventory	46,800
Notes Payable due December 31, Year 3	3,750
Retained Earnings, December 31, Year 1	21,135
Wages Payable	3,675

What is the amount of current assets on the classified balance sheet?
A) $170,310
B) $96,060
C) $49,260
D) $123,255

151) Constable Co. reported the following information at December 31, Year 1:

Accounts Payable	$ 6,750
Accounts Receivable	14,025
Cash	35,235
Common Stock	135,000
Equipment	74,250
Inventory	46,800
Notes Payable due December 31, Year 3	3,750
Retained Earnings, December 31, Year 1	21,135
Wages Payable	3,675

What is the amount of current liabilities on the classified balance sheet?
A) $14,175
B) $10,425
C) $170,310
D) $6,750

152) Constable Co. reported the following information at December 31, Year 1:

Accounts Payable	$ 6,750
Accounts Receivable	14,025
Cash	35,235
Common Stock	135,000
Equipment	74,250
Inventory	46,800
Notes Payable due December 31, Year 3	3,750
Retained Earnings, December 31, Year 1	21,135
Wages Payable	3,675

What is the total of the credit balance accounts?
A) $166,560
B) $156,135
C) $170,310
D) $162,885

153) Which of the following statements about the balance sheet is correct?
A) A classified balance sheet is one that contains privileged information.
B) Current liabilities are debts and other obligations that will be paid or fulfilled within 12 months of the balance sheet date.
C) All companies use the chart of account names defined by the Financial Accounting Standards Board (FASB).
D) A balance sheet is prepared for a period of time.

154) Which of the following statements about the balance sheet is correct?
A) An item on a balance sheet that is labeled as "payable" is a liability of that company.
B) Assets are listed on the balance sheet in alphabetical order.
C) The balance sheet balances when assets plus liabilities equal stockholders' equity.
D) The balance sheet proves that asset debits = liability credits.

155) Which of the following statements regarding posting and classification is correct?
A) Posting journal entries involves copying the dollar amounts from the ledger into the journal.
B) If a $100 debit is erroneously posted to an account as a $100 credit, the accounts will be out of balance by $100.
C) If a $5,000 credit to a stockholders' equity account is misclassified as a $5,000 credit to a liability, the accounting equation will still balance.
D) If a purchase of supplies on account for $100 is recorded with a debit to Supplies of $10 and a credit to Accounts Payable for $10, the accounting equation will not balance.

156)

PURRFECT PETS, INC.
Balance Sheet
at June 30, Year 1

Assets		Liabilities	
Cash	$ 732,600	Accounts Payable	$ 349,200
Accounts Receivable	419,200	Notes Payable due June 30, Year 3	268,900
Supplies	58,400	Total Liabilities	618,100
Equipment	118,500		
Other Assets	69,400	Stockholders' Equity	
		Common Stock	662,100
		Retained Earnings	117,900
		Total Stockholders' Equity	780,000
Total Assets	$ 1,398,100	Total Liabilities & Stockholders' Equity	$ 1,398,100

Which line items would be classified as noncurrent on a classified balance sheet?
A) Cash; Supplies; Accounts Payable
B) Equipment; Other Assets; Notes Payable
C) Supplies; Equipment; Notes Payable
D) Accounts Receivable; Equipment; Other Assets

157)

PURRFECT PETS, INC.
Balance Sheet
at June 30, Year 1

Assets		Liabilities	
Cash	$ 732,600	Accounts Payable	$ 349,200
Accounts Receivable	419,200	Notes Payable due June 30, Year 3	268,900
Supplies	58,400	Total Liabilities	618,100
Equipment	118,500		
Other Assets	69,400	Stockholders' Equity	
		Common Stock	662,100
		Retained Earnings	117,900
		Total Stockholders' Equity	780,000
Total Assets	$ 1,398,100	Total Liabilities & Stockholders' Equity	$ 1,398,100

How much financing did the stockholders of Purrfect Pets, Inc., directly contribute to the company?
A) $117,900
B) $662,100
C) $780,000
D) $1,398,100

158) Which of the following sequences indicates the correct order of steps in the accounting cycle?
A) Post to ledger, prepare journal entries, prepare trial balance, and prepare financial statements.
B) Post to ledger, prepare journal entries, prepare financial statements, and prepare trial balance.
C) Prepare journal entries, post to ledger, prepare trial balance, and prepare financial statements.
D) Prepare journal entries, post to ledger, prepare financial statements, and prepare trial balance.

159) T-account:

	Accounts Receivable	
Beg. Bal.	187,500	
	104,900	18,000
	63,900	5,400
		14,700
		19,200

Partial list of account balances at the end of the year:

Cash	$ 28,000
Accounts Receivable	Unknown
Equipment	35,600
Accounts Payable	5,900

The amount of total current assets that will be reported on the company's balance sheet at the end of the year is:
A) $362,600.
B) $368,500.
C) $139,500.
D) $327,000.

160) T-account:

	Accounts Receivable	
Beg. Bal.	187,500	
	104,900	18,000
	63,900	5,400
		14,700
		19,200

Partial list of account balances at the end of the year:

Cash	$ 28,000
Accounts Receivable	Unknown
Equipment	35,600
Accounts Payable	5,900

Which of the following is an accurate description of the economic events involving Accounts Receivable as documented in the T-account above?
A) Sales to customers on account exceeded the payments received from customers on account.
B) Payments received from customers on account exceeded the sales made to customers on account.
C) The company paid off its debt more than it incurred new debt.
D) The company incurred more debt than it paid off.

161) Which of the following statements about transaction analysis is not correct?
A) A transaction is an exchange or event that has a direct and measurable financial effect.
B) Every transaction has at least two effects.
C) Cash is the account credited when a bank loan is repaid.
D) Notes Payable is the account debited when money is borrowed from a bank using a promissory note.

162) What does the current ratio measure?
A) The relative proportion of current versus noncurrent assets
B) Whether current assets are sufficient to pay current liabilities
C) The speed which current assets can be converted to cash
D) Whether cash is sufficient to pay current liabilities

163) The current ratio:
A) is a measure of a firm's ability to pay its current liabilities.
B) equals current liabilities divided by current assets.
C) equals total assets divided by total liabilities.
D) is a measure of profitability.

164) Which of the following statements about the concepts underlying the balance sheet is correct?
A) A company bought land for $5 million dollars 10 years ago. The land is now worth $15 million. The company should increase the book value of this asset on its balance sheet to reflect its current value.
B) All events affecting the current value of a company are reported on the balance sheet.
C) According to the cost principle, assets are valued at their replacement cost.
D) If an asset's value increases, the increase in value is generally not recorded under GAAP.

165) In Year 2, the Denim Company bought an acre of land that cost $15,000. In Year 5, another company purchased a nearby acre of land for $28,000 and a different company purchased another nearby acre of land for $26,000. As a result, an appraiser estimated that the acre owned by Denim had increased in value to $27,000. If Denim prepares a balance sheet at the end of Year 5, the acre of land that it owns should be reported at:
A) $15,000.
B) $28,000.
C) $27,000.
D) the average of all of the amounts.

166) How will a company's current ratio be affected by the purchase of equipment for cash?
A) The current ratio will increase because current assets increase.
B) The current ratio will decrease because current liabilities increase.
C) The current ratio will decrease because current assets decrease.
D) The current ratio will remain unchanged.

167) How will a company's current ratio be affected when the company receives $20,000 from owners and issues common stock to them?
A) The current ratio will increase because current assets increase.
B) The current ratio will increase because current liabilities decrease.
C) There will be no change in the company's current ratio.
D) The current ratio will decrease because current liabilities increase.

168) Your company's president donates a large amount of her own money to charity and receives significant publicity that includes the company's name. How would the benefits of this publicity appear on the balance sheet?
A) It would appear as a current asset.
B) It would appear as Common Stock.
C) It would appear as a noncurrent asset.
D) It would not appear on the balance sheet.

169) Which of the following would a company be most likely to overstate if the company was trying to mislead potential creditors as to its ability to pay debts as they become due?
A) Accounts Receivable
B) Notes Payable
C) Salaries Expense
D) Accounts Payable

170) Which concept should be applied when reporting a piece of land that was bought for $50,000 five years ago, and which would probably now sell for $80,000?
A) The cost principle
B) The accounting equation
C) The separate entity concept
D) The monetary concept

171) The classified balance sheet for a company reported current assets of $811,925, total liabilities of $399,770, Common Stock of $500,000, and Retained Earnings of $65,130. The current ratio was 2.5.

What is the total amount of noncurrent assets?
A) $246,795
B) $412,155
C) $324,770
D) $152,975.

172) The classified balance sheet for a company reported current assets of $811,925, total liabilities of $399,770, Common Stock of $500,000, and Retained Earnings of $65,130. The current ratio was 2.5.

What is the total amount of current liabilities?
A) $324,770
B) $2,029,813
C) $385,960
D) $399,770

173) The classified balance sheet for a company reported current assets of $811,925, total liabilities of $399,770, Common Stock of $500,000, and Retained Earnings of $65,130. The current ratio was 2.5.

Which of the following statements is not correct?
A) Total Assets are $964,900.
B) Total Stockholders' equity is $565,130.
C) Noncurrent liabilities are $65,130.
D) The amount of current assets is 2.5 times the amount of current liabilities.

174) Which of the following statements about the current ratio is not correct?
A) When making comparisons across companies, it's far easier to express the relationship as a ratio.
B) The current ratio is used to evaluate a company's ability to pay current obligations.
C) Having more current assets than current liabilities will yield a current ratio less than 1.0.
D) A high current ratio suggests good liquidity.

175) A company's trial balance included the following account balances:

Accounts Payable	$ 19,207
Accounts Receivable	81,336
Cash	73,324
Income Tax Payable	3,512
Inventory	25,816
Note Payable, due in two years	1,709
Equipment	54,128
Stockholders' Equity	202,808
Supplies	5,512
Wages Payable	12,880

What is the amount of Total Assets on the Balance Sheet?
A) $240,116
B) $214,300
C) $442,924
D) $480,232

176) A company's trial balance included the following account balances:

Accounts Payable	$ 19,207
Accounts Receivable	81,336
Cash	73,324
Income Tax Payable	3,512
Inventory	25,816
Note Payable, due in two years	1,709
Equipment	54,128
Stockholders' Equity	202,808
Supplies	5,512
Wages Payable	12,880

What is the amount of Total Liabilities on the Balance Sheet?
A) $240,116
B) $37,308
C) $35,599
D) $20,916

177) A company's trial balance included the following account balances:

Accounts Payable	$ 19,207
Accounts Receivable	81,336
Cash	73,324
Income Tax Payable	3,512
Inventory	25,816
Note Payable, due in two years	1,709
Equipment	54,128
Stockholders' Equity	202,808
Supplies	5,512
Wages Payable	12,880

What is the amount of the current ratio? **(Round your answer to 2 decimal places.)**
A) 8.05
B) 6.44
C) 5.22
D) 1.00

178) Oats, Inc., has $14,000 in Cash, $37,000 in Accounts Receivable, $2,500 in Supplies, $52,000 in Accounts Payable and $12,400 in Wages Payable. If Oats uses Cash to pay off $8,000 of the Wages Payable, which of the following statements is correct?
A) The company's current ratio will not change since current assets decreased by the same amount that current liabilities decreased.
B) The company will look more favorable to creditors.
C) The company has a greater ability to pay current liabilities.
D) The company's current ratio will decrease.

179) Which of the following statements is correct?
A) A current ratio of 1.60 means the company's current assets are probably not sufficient to pay its current liabilities.
B) The separate entity assumption requires that the financial activities of the owners of a company be reported on the company's balance sheet.
C) The cost principle states that recording activities at cost will result in the balance sheet representing the true value of the company.
D) A transaction is recorded if it has a measurable financial effect on the assets, liabilities or stockholders' equity of a business.

180) Which of the following is an example of proper accounting when it comes to reporting values on a company's balance sheet?
A) X Company reported its land at the amount it could be sold for on the balance sheet date, which is higher than the original cost of the land.
B) X Company reported its damaged equipment at an amount lower than it originally cost.
C) X Company reported its inventory at its current market value, which is higher than its original cost.
D) X Company reported its notes receivable at the amount it originally loaned to employees, some of whom have since been laid off.

181) Consider the following account balances of Evan McGruder, Inc., as of December 31, Year 3:

Accounts Payable	$ 298,500	Retained Earnings	136,750
Equipment	1,054,000	Notes Payable, due Year 5	858,000
Common Stock	500,000	Accounts Receivable	506,250
Income Tax Payable	9,750	Cash	242,750

Required:

Prepare a classified balance sheet at December 31, Year 3.

182) Selected accounts for Moonbills Corporation appear below.

Required:
For each account, indicate the following:

Part a. In the first column at the right, indicate the nature of each account, using the following abbreviations: Asset – A, Liability – L, Stockholders' Equity – SE.
Part b. In the second column, indicate the normal balance by inserting *dr* (for debit) or *cr* (for credit).

	(Part a) Type of Account	(Part b) Normal Balance
1. Supplies		
2. Notes Payable		
3. Income Tax Payable		
4. Equipment		
5. Accounts Payable		
6. Accounts Receivable		
7. Common Stock		
8. Cash		
9. Retained Earnings		
10. Land		

183) Grizzly Co. enters into the following transactions:

Stockholders contribute $25,000 cash to a company in exchange for common stock.
The company purchases $12,500 of new equipment in exchange for its promise to pay $12,500 at the end of next month.
The company pays $7,500 to suppliers on account.

Required:

Part a. Show the effect of these transactions on the basic accounting equation.

Part b. Prepare the journal entries that would be used to record the transactions.

184) The following is a list of account balances for Pick-A-Pet, Inc., as of June 30, Year 3:

Accounts Payable	$ 349,200
Accounts Receivable	419200
Cash	732600
Common Stock	662,100
Equipment	58,400
Logo and Trademarks	421,600
Notes Payable	268,900
Retained Earnings	470,100
Software	118,500

The company entered into the following transactions during July, Year 3. Stockholders contribute $300,000 cash for additional ownership shares and the company borrows $150,000 in cash from a bank to buy new equipment at a later date. No other transactions took place during July, Year 3.

Required:

Part a. Prepare a classified balance sheet for the company at June 30, Year 3.

Part b. Show the effects of the July transactions on the basic accounting equation.

Part c. Prepare the journal entries that would be used to record the transactions.

185) During the month, a company enters into the following transactions:

- Borrows $3,200 of cash from the bank by signing a formal agreement to repay the loan in 2 years.

- Buys $4,000 of new equipment on account.

- Pays off $2,400 of accounts payable.

- Pays off $1,200 of notes payable

Required:

Part a. Show the effect of these transactions on the basic accounting equation.

Part b. Prepare the journal entries that would be used to record the transactions.

186) O'Brien Construction had the following business activities:

1. Stockholders invest $50,000 cash in the corporation.
2. CBI purchased $800 of office supplies on credit.
3. CBI purchased office equipment for $14,000, paying $5,000 in cash and signing a 30-day note payable for the remainder.
4. CBI paid $400 cash on account for office supplies purchased in transaction 2.
5. CBI purchased two acres of land for $20,000, signing a 2-year note payable.
6. CBI sold one acre of land at one-half of the total cost of the two acres, receiving the full amount or $10,000 in cash.
7. CBI made a payment of $10,000 on its 2-year note.

Required:

Prepare the journal entries that would be used to record the transactions. (*Reference each journal entry to the transaction number, shown above).*

187) The company's total assets are $36,000. The following is a listing of the company's accounts and account balances as of December 31, Year 3. This company doesn't have any other accounts.

Accounts Payable	$ 7,000
Accounts Receivable	8,000
Supplies	1,000
Equipment	22,000
Common Stock	10,000
Cash	Unknown
Retained Earnings	Unknown

Required:

Part a. Determine the balance of the Cash account.

Part b. Determine the balance of the Retained Earnings account.

Listed below are components of several transactions. Indicate whether a debit (dr) or credit (cr) would be required to record the component of the transaction.

A) cr
B) dr

188) Increase in Cash.

189) Increase in Accounts Payable.

190) Decrease in Notes Payable.

191) Increase in Inventory.

192) Increase in Common Stock.

193) Decrease in Equipment.

Match each account name with the category that it would be included under in a classified balance sheet.

A) NCA — Noncurrent Asset
B) CL — Current Liability
C) SE — Stockholders' Equity
D) CA — Current Asset

194) Equipment

195) Common Stock

196) Supplies

197) Retained Earnings

198) Accounts Receivable

199) Accounts Payable

For each of the following, indicate how the event would most likely be categorized.

A) NT — No Transaction
B) EE — External Exchange
C) IE — Internal Event

200) A company sells $2 million in goods for immediate payment.

201) The company uses up office supplies.

202) The stock market rises 10% and the value of a company's stock increases.

203) A company pays cash to an inventor for the legal rights to produce a new product.

204) Management promises to pay workers an overtime bonus as required by their union contract.

205) A company uses up supplies to manufacture a product.

206) A company receives $1 million in orders but no down payments.

Match the term with its definition. (There are more definitions than terms.)

A) The abbreviation for an item posted on the left side of a T-account.
B) A balance sheet that has not yet been publicly released.
C) A transaction that is triggered automatically merely by the passage of time.
D) When a company becomes included in the Fortune 500.
E) The account credited when cash is received in exchange for stock issued.
F) The value of a company's public relations campaign.
G) An event that has no effect on the balance sheet and is not recorded in the financial statements.
H) A balance sheet that has assets and liabilities categorized as current vs. noncurrent.
I) Amounts owed to suppliers for goods or services bought on credit.
J) The abbreviation for an item posted on the right side of a T-account.
K) An exchange or event that has a direct impact on a company's financial statements.
L) Liabilities divided by assets.
M) Another name for stockholders' equity or shareholders' equity.
N) A method of recording a transaction in debit/credit format.
O) The expression that assets must equal liabilities plus stockholders' equity.

207) dr

208) cr

209) Classified Balance Sheet

210) Common Stock

211) Accounting Equation

212) Transaction

213) Accounts Payable

214) Journal Entry

Match the term with its definition. (There are more definitions than terms.)

A) A summary of account names and numbers.
B) A simplified version of an account in the General Ledger.
C) Compares balance sheet items from two different time periods.
D) When a dollar value is assigned to an item recorded in the accounting system.
E) A journal entry that lowers the balance of the account.
F) An amount that is posted on the left side of a T-account or ledger.
G) The concept that a company must keep separate accounts by time period.
H) An amount that is posted on the right side of a T-account or ledger.
I) Assets are initially recorded at the amount paid to acquire them.
J) When journal entries are recorded in the appropriate T-account or ledger.
K) When a company's balance sheet has been verified by an outside auditor.
L) The principle that a company should use the least optimistic measure, when uncertainty exists.
M) The concept that any transaction must have at least two effects on the accounting equation.
N) The mechanism used to record each transaction in the General Journal.

215) Duality Of Effects

216) Journal Entry

217) Posting

218) Debit

219) Chart Of Accounts

220) T-Account

221) Credit

222) Cost Principle

223) On January 1, Year 3, Wayfarer Co.'s assets were $240,000 and its stockholders' equity was $112,000. During the year, assets increased $12,000 and liabilities decreased $8,000.

Required:

Determine the amount of stockholders' equity at December 31, Year 3.

***Fundamentals of Financial Accounting, 6e* (Phillips)**
Chapter 2 The Balance Sheet

1) A transaction is an exchange or event that directly affects the assets, liabilities, or stockholders' equity of a company.

Answer: TRUE
Explanation: A transaction is an event or activity that has a direct and measurable financial effect on the assets, liabilities, or stockholders' equity of a business.
Difficulty: 1 Easy
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

2) General Motors (GM) signs a new labor agreement that its workers will receive a 5% wage increase next year. This transaction affects GM's financial statements in the current year.

Answer: FALSE
Explanation: A promise to pay has been exchanged for a promise to work next year. This activity is not a transaction because no assets or services were exchanged at the time the new labor agreement is signed. This event does not affect GM's financial statements in the current year.
Difficulty: 2 Medium
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

3) If total assets decrease, then either total liabilities or total stockholders' equity must also decrease.

Answer: TRUE
Explanation: The accounting equation (Assets = Liabilities + Stockholders' Equity) must balance. If one side of the equation decreases, the other side must decrease.
Difficulty: 1 Easy
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

4) Goodrich, Inc. signed an agreement to rent a warehouse from Ellie Co. This is an example of a transaction that should not be recorded.

Answer: TRUE
Explanation: This activity is not a transaction because no assets or services were exchanged at the time the agreement was signed.
Difficulty: 1 Easy
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

5) A business is obliged to repay both debt and equity financing.

Answer: FALSE
Explanation: There is no requirement to pay back equity contributions to stockholders. There is a legal requirement to pay back debt financing to creditors.
Difficulty: 2 Medium
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

6) You are pleasantly surprised to discover that a popular actress appears on *The Tonight Show* wearing your company's jeans. Later, your company's sales increase by $500,000 as a result. When the actress appeared on TV, you would have recorded an asset because the TV appearance was expected to bring future economic benefits to your company.

Answer: FALSE
Explanation: This activity is not a transaction because no assets or services were exchanged at the time the actress appeared on television. No asset would be recorded. In addition, recall that an asset is an economic resource presently controlled by the company; has measurable value and is expected to benefit the company by producing cash inflows or reducing cash outflows in the future. This situation does not meet the definition of an asset.
Difficulty: 3 Hard
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Evaluate
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

7) Eagle Company used $50,000,000 of its cash to pay off debt, as a result, Eagle's stockholders' equity will decrease $50,000,000.

Answer: FALSE
Explanation: Assets and liabilities would each decrease by $50,000,000; there is no impact on stockholders' equity.
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

8) Puffin, Inc. issues $1,000,000 in new stock for cash. Puffin's stockholders' equity does not change because as new shares are sold, the value of its existing shares falls.

Answer: FALSE
Explanation: When new stock is issued for cash, the company has more cash and common stock. Assets and stockholders' equity both increase.
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

9) The record-analyze-summarize process is applied only to daily transactions, month-end adjustments need not be analyzed and summarized.

Answer: FALSE
Explanation: The three-step analyze-record-summarize process is applied to daily transactions, as well as adjustments at the end of each month, before preparing a trial balance and the financial statements.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

10) The list of account names and reference numbers that the company will use when accounting for transactions is called the chart of accounts.

Answer: TRUE
Explanation: The chart of accounts is a summary of all account names (and corresponding account numbers) used to record financial results in the accounting system.
Difficulty: 1 Easy
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

11) A debit may increase or decrease an account, depending on the type of account.

Answer: TRUE
Explanation: Whether a debit or credit increases or decreases an account depends upon the type of account. Debits increase assets, expenses, and dividends, but decrease liabilities, revenues, and equity. Credits increase liabilities, revenue, and equity, but decrease assets, expenses and dividends.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

12) The normal balance of an account is on the same side that decreases the account.

Answer: FALSE
Explanation: The balance in an account is determined by the excess of increases over decreases. It is normal to have more increases in an account than decreases; therefore, the normal balance of an account is on the same side that increases the account.
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

13) If the total dollar value of debits to an account exceeds the total dollar value of credits to that account, the ending balance of the account will be a debit balance.

Answer: TRUE
Explanation: If debits exceed credits, the account will have a debit balance.
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

14) Every transaction increases at least one account and decreases at least one account.

Answer: FALSE
Explanation: A transaction may have any combination of increases and decreases. For example, a purchase of equipment on account increases both equipment and accounts payable. What is true is that every transaction is recorded with at least one debit and at least one credit.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

15) Accounts increase on the same side as they appear in the accounting equation: A = L + SE.

Answer: TRUE
Explanation: Accounts on the left side of the accounting equation (that is, assets) increase on the left side and accounts on the right side of the equation (that is, liabilities and stockholders' equity) increase on the right side.
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

16) Journal entries show the effects of transactions on the elements of the accounting equation, as well as the account balances.

Answer: FALSE
Explanation: Journal entries are entered into the journal using a debit/credit format. By themselves, journal entries show the effect of transactions, but they do not provide account balances. The entries are "posted" to the ledger accounts, which then show the balance of each of the accounts.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

17) The general ledger is an internal report that lists all the accounts and their balances and is used to check that total debits equals total credits.

Answer: FALSE
Explanation: The trial balance is an internal report that lists all the accounts and their balances and is used to check that total debits equals total credits.
Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

18) A trial balance shows a subtotal for current assets and current liabilities.

Answer: FALSE
Explanation: A classified balance sheet contains subcategories and subtotals for current assets and current liabilities.
Difficulty: 1 Easy
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

19) When a company prepares a classified balance sheet, liability accounts must be shown in subcategories of current and noncurrent.

Answer: TRUE
Explanation: Assets and liabilities are classified as current and noncurrent. Stockholders' equity accounts are not classified as current or noncurrent.
Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

20) The trial balance is a financial statement that reports the assets, liabilities, and equity of a business at a point in time.

Answer: FALSE
Explanation: The trial balance is an internal accounting report that lists the balances in all the ledger accounts at a point in time. It shows whether debit balance accounts equal the credit balance accounts. A balance sheet is a financial statement that reports the assets, liabilities, and equity of a business at a point in time.
Difficulty: 1 Easy
Topic: The Debit/Credit Framework; Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.; 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

21) The acquisition of inventory in an exchange for a company's stock would increase the current ratio of the company.

Answer: TRUE
Explanation: The current ratio is current assets divided by current liabilities. Inventory is classified as a current asset and since it increases in this transaction, it would increase the current ratio.
Difficulty: 2 Medium
Topic: Assessing the Ability to Pay
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

22) The current ratio can be used to evaluate a company's ability to pay liabilities in the short term, and in general, a higher ratio means better ability to pay.

Answer: TRUE
Explanation: The current ratio is current assets divided by current liabilities. A higher ratio means better ability to pay.
Difficulty: 2 Medium
Topic: Assessing the Ability to Pay
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

23) Owners of a company:
A) hold promissory notes as evidence of their ownership claim.
B) are entitled to repayment of their investment.
C) have a claim that is secondary to creditor's claims.
D) have a claim equal to the amount of liabilities a company owes.

Answer: C
Explanation: Owners have a claim on company assets that is secondary to creditor's claims. Promissory notes are the legal documents that describe the details of a loan; stock certificates are evidence of ownership claims. A business is obligated to repay debt financing, but is not obligated to repay equity financing. Creditors have a claim on company assets equal to the amount of liabilities that the company owes.
Difficulty: 3 Hard
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

24) If a company borrows money from a bank and signs an agreement to repay the loan several years from now, in which account would the company report the amount borrowed?
A) Common Stock
B) Accounts Payable
C) Notes Payable (long-term)
D) Retained Earnings

Answer: C
Explanation: Debt financing refers to money obtained through loans. A formal loan with the bank is reported as Notes Payable (long-term).
Difficulty: 2 Medium
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

25) The Sweet Smell of Success Fragrance Company borrowed $60,000 from the bank to be paid back in five years and used all of the money to purchase land for a new store. Sweet Smell's balance sheet would show this as:
A) $60,000 under Land and $60,000 under Notes Payable (long-term).
B) $60,000 under Depreciation Expense and $60,000 under Notes Payable (long-term).
C) $60,000 under Land and $60,000 under Notes Receivable (long-term).
D) $60,000 under Other Assets and $60,000 under Other Liabilities.

Answer: A
Explanation: The purchase of land is recorded in the Land account and a noncurrent bank loan is recorded as Notes Payable (long-term).
Difficulty: 2 Medium
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

26) Typical steps needed before a business can start selling goods and/or services to customers include:
A) financing and investing activities.
B) only financing activities.
C) only investing activities.
D) only operating activities.

Answer: A
Explanation: After obtaining initial financing, a company will start investing in assets that will be used after the business opens.
Difficulty: 1 Easy
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

27) Who has first claim to a business's assets should the company go out of business?
A) Creditors
B) Stockholders
C) Customers
D) Management

Answer: A
Explanation: Creditors have a claim to a company's assets equal to the amount of liabilities that the company owes.
Difficulty: 1 Easy
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

28) The creditors' claims to a company's resources are represented by:
A) common stock.
B) total stockholder's equity.
C) total liabilities.
D) retained earnings.

Answer: C
Explanation: Creditors have a claim to a company's assets equal to the amount of liabilities that the company owes.
Difficulty: 1 Easy
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

29) A difference between debt financing and equity financing is that:
A) debt financing must be repaid, while repayment of equity financing is not required.
B) equity financing must be repaid, while repayment of debt financing is not required.
C) only debt financing can be used to purchase assets.
D) only equity financing can be used to purchase assets.

Answer: A
Explanation: Two sources of financing are available to businesses: equity and debt. Equity refers to financing a business through owners' contributions and reinvestments of profit. Debt refers to financing the business through loans. A business is obligated to repay debt financing, but it is not obligated to repay its equity financing.
Difficulty: 1 Easy
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

30) Debt financing is financing obtained from:
A) stockholders.
B) creditors.
C) selling goods or services on credit.
D) both creditors and stockholders.

Answer: B
Explanation: Two sources of financing are available to businesses: equity and debt. Equity refers to financing a business through owners' contributions and reinvestments of profit. Debt refers to financing the business through loans. A business is obligated to repay debt financing, but it is not obligated to repay its equity financing.
Difficulty: 1 Easy
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

31) Equity financing is financing obtained from:
A) creditors.
B) stockholders.
C) selling goods or services on credit.
D) both creditors and stockholders.

Answer: B
Explanation: Two sources of financing are available to businesses: equity and debt. Equity refers to financing a business through owners' contributions and reinvestments of profit. Debt refers to financing the business through loans. A business is obligated to repay debt financing, but it is not obligated to repay its equity financing.
Difficulty: 1 Easy
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

32) The cost principle is used:
A) to refer to the two sources of financing available to businesses.
B) to measure the amount used to record assets on the date of the transaction.
C) by small businesses, but not by large businesses.
D) to measure internal events, but not external exchanges.

Answer: B
Explanation: The cost principle states that assets and liabilities should be initially recorded at their original cost to the company.
Difficulty: 1 Easy
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

33) Transactions include which two types of events?
A) Direct events, indirect events
B) Monetary events, production events
C) External exchanges, internal events
D) Past events, future events

Answer: C
Explanation: Transactions include two types of events: external exchanges and internal events.
Difficulty: 1 Easy
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

34) Which of the following is an accounting transaction?
A) A manager hires an employee.
B) A manager orders supplies.
C) A manager signs a promissory note and receives cash.
D) A manager agrees to deliver their product in three weeks.

Answer: C
Explanation: An accounting transaction occurs when there is an exchange involving assets, liabilities and/or stockholders' equity. An exchange of a promissory note for cash qualifies as an exchange. An exchange of only promises is not an accounting transaction.
Difficulty: 2 Medium
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

35) Your company places an order for inventory with suppliers for delivery in two weeks.
A) This is an internal event and it does not affect the balance sheet.
B) This is an activity that does not affect the balance sheet.
C) This is an internal event that affects the balance sheet.
D) This is an external exchange and it affects the balance sheet.

Answer: B
Explanation: External exchanges are exchanges involving assets, liabilities, and/or stockholders' equity between the company and someone else. An order has been placed; but the promise to pay will not occur until the supplies are delivered. An exchange of only promises is not an accounting transaction. Since no exchange has occurred, this activity would not be recorded as a transaction.
Difficulty: 2 Medium
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

36) The characteristic shared by all liabilities is that they:
A) provide a future economic benefit.
B) result in an inflow of resources to the company.
C) always end in the word "payable."
D) obligate the company to do something in the future.

Answer: D
Explanation: Liabilities are debts and other obligations that must be paid or settled in the future. Not all liabilities have the word "payable" in their names.
Difficulty: 2 Medium
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

37) Which of the following is a financing activity?
A) The business receives land and gives a check for $1,000.
B) The business receives $1,000 cash and in exchange gives a promissory note.
C) The business promises to hire an employee on the 15th of the month.
D) The business orders supplies and promises to pay for them at the end of the month.

Answer: B
Explanation: Financing activities involve debt transactions with lenders (e.g., Notes Payable) or equity transactions with investors (e.g., Common Stock). Receiving cash in exchange for a promissory note is a financing activity.
Difficulty: 2 Medium
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

38) Which of the following would not be recorded as an accounting transaction?
A) Issuing stock to owners in exchange for cash
B) Ordering supplies to be delivered next month
C) Selling inventory to customers in exchange for cash to be received next month
D) Paying the bank for a portion of a note payable

Answer: B
Explanation: A transaction is an event or activity that has a direct and measurable financial effect on the assets, liabilities, or stockholders' equity of a business. Ordering supplies is an activity that is not a transaction because no assets or services were exchanged at the time the order was placed.
Difficulty: 2 Medium
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

39) The Flynn Company started business by obtaining financing through debt financing and equity financing. Which of the following statements is not correct?
A) Equity financing refers to the money obtained through owners' contributions and reinvestments of profit.
B) Debt financing refers to the money obtained through loans.
C) The business is obligated to repay debt financing.
D) The business is obligated to repay equity financing.

Answer: D
Explanation: Equity refers to financing a business through owners' contributions and reinvestments of profit. Debt refers to financing the business through loans. A business is obligated to repay debt financing, but it is not obligated to repay its equity financing.
Difficulty: 1 Easy
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

40) Which of the following is an asset?
A) Common Stock
B) Retained Earnings
C) Notes Receivable
D) Notes Payable

Answer: C
Explanation: Assets are resources presently owned by a business that generate future economic benefits. Notes Receivable is an example of an asset. Common Stock and Retained Earnings are examples of equity accounts, and Notes Payable is a liability.
Difficulty: 1 Easy
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

41) Which of the following transactions for Bill's Fish 'n Chips restaurant would be treated as an accounting transaction?
A) Bill distributed coupons to local hotels for 10% off and requested that the coupons be distributed to hotel guests.
B) Bill spoke to a local high school about the rewards and challenges of being an entrepreneur.
C) Bill signed an agreement with a local fisherman to purchase 20 pounds of halibut each month.
D) Bill purchased a fryer and a dishwasher, which will be paid for next month.

Answer: D
Explanation: A transaction is an event or activity that has a direct and measurable financial effect on the assets, liabilities, or stockholders' equity of a business. A liability (Bill's promise to pay) was exchanged for assets (fryer and dishwasher) and, so, the purchase is a transaction. No exchange took place with regards to the coupons, the speech, or the agreement with the fisherman.
Difficulty: 2 Medium
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

42) ________ are of special importance because they are the only activities that enter the financial accounting system.
A) External exchanges
B) Internal events
C) Documents
D) Transactions

Answer: D
Explanation: Business activities that affect the basic accounting equation (A = L + SE) are called transactions. Transactions are of special importance because they are the only activities that enter the financial accounting system.
Difficulty: 2 Medium
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

43) Which account is affected by recording the buying of goods on credit?
A) Cash
B) Retained Earnings
C) Common Stock
D) Accounts Payable

Answer: D
Explanation: A businesses typically buy goods or services from others on credit, by promising to pay within 30 days of the purchase. Accounts Payable represents the amount owed to suppliers for prior credit purchases (on account).
Difficulty: 2 Medium
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

44) Which of the following is not true regarding the double-entry system?
A) Transactions must be recorded twice to ensure accuracy.
B) Debits must equal credits.
C) Assets must equal liabilities plus stockholders' equity.
D) Both what is received and what is given in exchange must be recorded.

Answer: A
Explanation: Because the accounting system captures both what is received and what is given, it is often referred to as a "double-entry" system. The double-entry system requires that debits = credits and that A = L + SE
Difficulty: 1 Easy
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

45) Every transaction involves a(n):
A) receiving and giving something of value.
B) increase in assets.
C) increase in stockholder's equity.
D) exchange of promises.

Answer: A
Explanation: The company always receives something and gives something. This is a basic feature of all business activities. A business enters into an exchange either to earn a profit immediately or to obtain resources that will allow it to earn a profit later. This is the fundamental idea of business: to create value through exchange. Any exchange that affects the company's assets, liabilities, or stockholders' equity must be captured in and reported by the accounting system.
Difficulty: 2 Medium
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

46) Which events are recorded in the accounting system?
A) External exchanges only
B) Internal events only
C) Both external exchanges and internal events
D) Transactions are not recorded in the accounting system

Answer: C
Explanation: Transactions include two types of events. External exchanges are exchanges involving assets, liabilities, and/or stockholders' equity between the company and someone else. Internal events do not involve exchanges with others outside the business, but rather occur within the company itself. Both are recoded in the accounting system. Some important activities that occur will not be captured by the accounting system because they are not transactions.
Difficulty: 1 Easy
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

47) Doug's Doodle Shop, specializing in dog supplies, signs a contract with a pet groomer. Next month, the groomer will begin leasing a portion of Doug's store and provide grooming services. The signing of the contract:
A) has no effect on the accounting equation.
B) increases assets.
C) increases liabilities.
D) decreases stockholders' equity.

Answer: A
Explanation: An exchange of only promises is not an accounting transaction.
Difficulty: 2 Medium
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

48) Spin Co. has $52,000 in its Cash account, $20,000 in its Inventory account, and $12,000 in its Notes Payable (short-term) account. If Spin's only other account is Common Stock, what is the balance of that account?
A) $20,000.
B) $84,000.
C) $60,000.
D) $44,000.

Answer: C
Explanation: Assets = Liabilities + Stockholders' Equity
Stockholders' Equity = Assets − Liabilities
= ($52,000 + $20,000) − $12,000 = $60,000
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

49) Amounts invested and reinvested by a company's owners is called:
A) stockholders' equity in a corporation.
B) assets, or the resources presently owned by a business that generate future economic benefits.
C) a trial balance, proving that all amounts are accounted for.
D) liabilities, or the amounts presently owed by a business.

Answer: A
Explanation: Stockholders' equity is the amount invested and reinvested in a company by its stockholders.
Difficulty: 1 Easy
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

50) Typical cash flows from investing activities include:
A) payments to purchase property and equipment.
B) repayment of loans.
C) proceeds from issuing notes payable.
D) receipts from cash sales.

Answer: A
Explanation: Investing activities include buying or selling noncurrent assets, such as property and equipment.
Difficulty: 2 Medium
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

51) The requirement that transactions be recorded at their exchange price at the transaction date is called the:
A) conservatism exception.
B) separate entity assumption.
C) cost principle.
D) monetary unit assumption.

Answer: C
Explanation: The cost principle states that assets and liabilities should be initially recorded at their original cost to the company. Following the cost principle, assets and liabilities are first recorded at cost, which is their cash-equivalent value on the date of the transaction.
Difficulty: 1 Easy
Topic: Building a Balance Sheet from Business Activities; Balance Sheet
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

52) Candy Cane opened an ice cream store on June 1 and hired an accounting intern to help her establish the business. The intern has identified the following transactions. Which of these transactions is not an accounting transaction?
A) Purchased $3,400 of milk and cream from a local dairy
B) Signed a contract to deliver $1,200 of ice cream for a July 4th party
C) Paid June rent of $2,300
D) Borrowed money from the bank by signing a promissory note for $5,000

Answer: B
Explanation: External exchanges are exchanges involving assets, liabilities, and/or stockholders' equity between the company and someone else. An exchange of only promises is not an accounting transaction. Since no exchange has occurred when the contract is signed, this activity would not be recorded as a transaction.
Difficulty: 1 Easy
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

53) Candy Cane's ice cream shop, which opened in June, is a local hit. In July, Candy Cane hired a new employee at a rate of $1,200 per month to start work at the beginning of August. In July, Candy Cane should record:
A) nothing, because an exchange of promises is not a transaction.
B) a $1,200 increase to Prepaid Wages and a $1,200 decrease to Cash.
C) a $1,200 increase to Wage Expense and a $1,200 decrease to Cash.
D) a $1,200 increase in Wages Payable and a $1,200 increase in Wages Expense.

Answer: A
Explanation: An exchange of only promises is not an accounting transaction.
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

54) A ________ is a list of account titles with corresponding reference numbers used by companies so that transaction items are consistently named.
A) chart of accounts
B) trial balance
C) classified balance sheet
D) ledger

Answer: A
Explanation: A chart of accounts is a summary of all account names (and corresponding account numbers) used to record financial results in the accounting system.
Difficulty: 1 Easy
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

55) What does a business typically receive when it issues stock to owners?
A) Promissory note
B) Stock certificate
C) Equipment
D) Cash

Answer: D
Explanation: Remember to answer from the company's point of view, not the investor's perspective. The company typically receives cash when it issues stock to owners. (The owners, not the company, receive stock certificates.)
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

56) When a business issues stock, what does it give to its owners?
A) Note Payable
B) Common Stock
C) Retained Earnings
D) Cash

Answer: B
Explanation: The company typically receives cash when it issues Common Stock (represented by stock certificates) to owners.
Difficulty: 1 Easy
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

57) Transactions are entered into a(n) ________ each day they occur.
A) journal
B) ledger
C) trial balance
D) classified balance sheet

Answer: A
Explanation: Transactions are analyzed and their financial statement effects are entered into journals each day they occur.
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

58) A(n) ________ is a collection of records that summarizes the effects of multiple transactions whereas a(n) ________ is a record of each day's transactions.
A) ledger; journal
B) journal; ledger
C) trial balance; journal
D) trial balance; ledger

Answer: A
Explanation: A journal is a record of each day's transactions. A ledger summarizes the effect of transactions that affect one account.
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

59) Account titles in the chart of accounts are:
A) general purpose and do not indicate the nature of the account.
B) consistent with those used by other companies.
C) linked to account numbers.
D) the names mandated for use by the FASB.

Answer: C
Explanation: As part of transaction analysis, a name is given to each item exchanged. Accountants refer to these names as account titles (or names). To ensure account titles are used consistently, every company establishes a chart of accounts—a list that designates a name and reference number that the company will use when accounting for each item it exchanges. The chart of accounts is tailored to each company's business, so although some account titles are common across all companies, others may be unique to a particular company.
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

60) Every transaction:
A) increases one account and decreases another account.
B) has at least two effects on the basic accounting equation.
C) affects only balance sheet accounts or only income statement accounts.
D) is analyzed from the standpoint of the business owners.

Answer: B
Explanation: Every transaction has at least two effects on the basic accounting equation (at least one debit and one credit). A transaction can result in two accounts increasing, two accounts decreasing, or one account increasing and one account decreasing. A transaction may affect two balance sheet accounts, two income statement accounts, or one of each. Every transaction is analyzed from the standpoint of the business, not the owners.
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

61) Charlie Co. owes $800,000 to Tilly, Inc. from whom Charlie buys its inventory. Which account would Charlie use to report the amount owed?
A) Cash
B) Accounts Payable
C) Notes Payable
D) Accounts Receivable

Answer: B
Explanation: Accounts Payable is used to report amounts owed to suppliers for goods or services bought on credit (or on account).
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

62) Bolt Enterprises receives $100,000 cash from its customers on account. Bolt uses the cash to pay off $100,000 on a bank loan, the net result is that:
A) assets would increase by $100,000 while liabilities would decrease by $100,000.
B) liabilities would decrease by $100,000 while stockholders' equity would increase by $100,000.
C) assets would decrease by $100,000 and liabilities would decrease by $100,000.
D) liabilities would decrease by $100,000 and stockholders' equity would decrease by $100,000.

Answer: C
Explanation: Receiving cash of $100,000 from customers in payment of their accounts will cause one asset (Cash) to increase and another asset (Accounts Receivable) to decrease. There is no change in the amount of total assets. Using the $100,000 of cash received to pay off a bank loan will cause an asset (Cash) to decrease and a liability (Notes Payable) to decrease. Considering both transactions, assets (Accounts Receivable) decrease by $100,000 and liabilities (Notes Payable) decrease by $100,000.
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

63) What is the minimum number of accounts that must be involved in any transaction?
A) One
B) Two
C) Three
D) There is no minimum.

Answer: B
Explanation: Every transaction has at least two effects on the basic accounting equation.
Difficulty: 1 Easy
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

64) Amounts owed to suppliers for goods purchased on credit are called:
A) Common Stock.
B) Retained Earnings.
C) Accounts Payable.
D) Inventory.

Answer: C
Explanation: Accounts Payable is used to report amounts owed to suppliers for goods or services bought on credit (or on account).
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

65) In part, a transaction affects the accounting equation by decreasing a liability. There is no effect on assets. Which of the following statements is correct with regards to this transaction?
A) If other liabilities are unchanged, stockholders' equity must be decreasing.
B) If other liabilities are unchanged, stockholders' equity must be increasing.
C) If stockholders' equity is unchanged, another liability must be decreasing.
D) If stockholders' equity is unchanged, other liabilities must be unchanged.

Answer: B
Explanation: Change in assets = change in liabilities + change in stockholders' equity. If liabilities decrease and there is no change in assets, then either another liability must increase or stockholders' equity must increase.
Difficulty: 1 Easy
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

66) Sue Shells, Inc. pays back $200,000 on a loan it had obtained earlier from a bank.
A) Assets decrease by $200,000; liabilities and stockholders' equity are both unchanged.
B) Assets decrease by $200,000, liabilities decrease by $200,000, and stockholders' equity is unchanged.
C) Assets decrease by $200,000 and liabilities increase by $200,000.
D) Assets decrease by $200,000, liabilities are unchanged, and stockholders' equity decreases by $200,000.

Answer: B
Explanation: This transaction will cause assets (Cash) to decrease and liabilities (Notes Payable) to decrease.
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

67) Sue Shells, Inc. issues $400,000 in new stock. It later uses the cash received to purchase land. What accounts are affected by these two transactions?
A) Common Stock, Cash, and Land.
B) Common Stock, Cash, and Investments.
C) Cash, Common Stock, and Investments, and Land.
D) Common Stock, and Land.

Answer: A
Explanation: Issuing stock for cash means that Cash and Common Stock are affected. Using the cash to purchase land means that Cash and Land are affected.
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

68) A business can obtain financing by issuing stock or borrowing from third parties, such as banks. What are the balance sheet effects of issuing stock to obtain cash?
A) No effect on assets; Decrease liabilities; Increase stockholders' equity
B) Increase assets; Increase liabilities; Increase stockholders' equity
C) Increase assets; No effect on liabilities; Increase stockholders' equity
D) Increase assets; Increase liabilities; No effect on stockholders' equity

Answer: C
Explanation: Issuing stock in exchange for cash increases assets (Cash) and increases stockholders' equity (Common Stock).
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

69) What will be the effect on the balance sheet of issuing shares of common stock in exchange for cash?
A) An increase in Retained Earnings
B) A decrease in Common Stock
C) A decrease in Retained Earnings
D) An increase in Common Stock

Answer: D
Explanation: Issuing shares of common stock in exchange for cash will increase Cash, an asset account, and increase Common Stock, a stockholders' equity account.
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

70) Kirby, Inc. borrows $16 million from its bank. It then uses this money to buy equipment. How do these two transactions affect the company's accounting equation?
A) Assets and liabilities both increase by $16 million.
B) Assets increase by $8 million and liabilities decrease by $8 million.
C) Assets increase by $16 million, liabilities increase by $8 million, and stockholders' equity increases by $8 million.
D) Assets remain unchanged and liabilities increase by $16 million.

Answer: A
Explanation: The first transaction increases assets (Cash) and liabilities (Notes Payable). The second transaction increases assets (Equipment) and decreases an asset (Cash). The Cash account is increased and decreased by equal amounts. As such, taken together, these two transactions increase assets (Equipment) and increase liabilities (Notes Payable).
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

71) A company receives $100,000 cash from investors in exchange for stock. Several weeks later, the company buys a $250,000 machine using all of the cash from the stock issue and signing a promissory note for the remainder. The accounts involved in these two transactions are:
A) Cash; Equipment; Noncurrent Investments; and Accounts Payable.
B) Cash; Noncurrent Investments; Common Stock; and Notes Payable.
C) Cash; Equipment; Common Stock; and Notes Payable.
D) Equipment; Notes Payable; and Retained Earnings.

Answer: C
Explanation: Receiving cash in exchange for common stock affects the Cash and Common Stock accounts. Buying a machine using cash for part of the purchase amount and borrowing the rest affects the Equipment, Cash, and Notes Payable accounts.
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

72) During the current year, Sue Shells, Inc.'s total liabilities decreased by $50,000 and stockholders' equity increased by $10,000. By what amount and in what direction did Sue's total assets change during the same time period?
A) $40,000 increase
B) $40,000 decrease
C) $60,000 increase
D) $60,000 decrease

Answer: B
Explanation: Change in assets = Change in liabilities + Change in stockholders' equity
= ($50,000) + $10,000 = ($40,000)
Difficulty: 1 Easy
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

73) A company issues $20 million in new stock. The company later uses this money to acquire a building. What is the effect of these two transactions on the company's accounts?
A) Buildings increases and Common Stock increases.
B) Buildings increases and Common Stock decreases.
C) Cash increases, Buildings increases, and Common Stock increases.
D) Cash decreases, Buildings increases, and Common Stock decreases.

Answer: A
Explanation: Receiving cash from the issuance of stock increases both Cash and Common Stock. Using the cash to acquire a building causes the Cash account to decrease and the Buildings account to increase. The Cash account is increased and decreased by equal amounts. As such, taken together, these two transactions increase the Buildings account and increase the Common Stock account.
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

74) Park & Company was recently formed with a $25,000 investment in the company by stockholders in exchange for common stock. The company then borrowed $10,000 from a local bank, purchased $5,000 of supplies on account, and also purchased $25,000 of equipment by paying $10,000 in cash and signing a promissory note for the balance. Based on these transactions, the company's total assets are:
A) $35,000.
B) $45,000.
C) $50,000.
D) $55,000.

Answer: D
Explanation: Cash of $25,000 from stock issuance + Cash of $10,000 borrowed from bank + Supplies purchased in the amount of $5,000 + Equipment purchased in the amount of $25,000 − Cash paid for equipment of $10,000 = $55,000
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

75) Danny Company purchased supplies using cash. What is the effect on Danny's balance sheet?
A) No effect on total assets; decrease total liabilities; increase total stockholders' equity
B) Increase total assets; increase total liabilities; increase total stockholders' equity
C) Decrease total assets; no effect on total liabilities; increase total stockholders' equity
D) No effect on total assets; no effect on total liabilities; no effect on total stockholders' equity

Answer: D
Explanation: The purchase of supplies using cash decreases Cash, an asset account, and increases Supplies, another asset account; as a result, total assets are unchanged. This transaction does not affect liabilities or stockholders' equity.
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

76) The Noble Corp. installs $75,000 of equipment, paying $25,000 cash and promising to pay the remaining $50,000 in 6 months. What is the impact to this transaction on the accounting equation?
A) Total assets are increased by $50,000.
B) Current assets are increased by $50,000.
C) Total assets are increased by $75,000.
D) Current assets are increased by $75,000.

Answer: A
Explanation: The payment of cash of $25,000 reduces current assets by $25,000. The acquisition of equipment of $75,000 increases noncurrent assets by $75,000. Thus, total assets are increased by $50,000.
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

77) If land is purchased for cash:
A) total assets will increase.
B) total assets will decrease.
C) total assets will remain the same.
D) stockholders' equity will increase.

Answer: C
Explanation: If land is purchased for cash, land will increase by the same amount that cash will decrease. Thus, total assets will remain the same.
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

78) What is the effect on the balance sheet if a company purchases $100 of supplies using cash?
A) Total assets will remain the same.
B) Total assets will decrease.
C) Liabilities will decrease.
D) Total assets will increase.

Answer: A
Explanation: Supplies increases and Cash decreases. Both are asset accounts, so total assets remain the same.
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

79) Puffin, Inc. purchased land costing $54,000 by paying cash of $13,500 and signing a 90-day note for the balance. The entry to record this transaction would:
A) increase total assets.
B) decrease total liabilities.
C) decrease Common Stock.
D) increase total assets and decrease total liabilities.

Answer: A
Explanation: The entry to record this transaction would increase Land by $54,000, decrease Cash by $13,500, and increase Notes Payable by $40,500 (or $54,000 − $13,500).
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

80) On January 1, Kirk Corporation had total assets of $425,000. During the month, the following activities occurred:

Kirk Corporation acquired equipment costing $3,000, promising to pay cash for it in 60 days.
Kirk Corporation purchased $1,750 of supplies for cash.
Kirk Corporation sold land, which it had acquired 2 years ago. The land had cost $7,500 and it was sold for $7,500 cash.
Kirk Corporation signed an agreement to rent additional storage space next month at a charge of $500 per month.

What is the amount of total assets of Kirk Corporation at the end of the month?
A) $429,750
B) $428,000
C) $418,750
D) $420,000

Answer: B
Explanation: Beginning total assets of $425,000 + Equipment purchased of $3,000 + Supplies purchased of $1,750 − Cash paid for supplies $1,750 + Cash received from sale of land of $7,500 − Land sold of $7,500 = $428,000
Signing a rental agreement is not an accounting transaction since there was no exchange involving assets, liabilities, and/or stockholders' equity between the company and someone else.
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

81) When accounts receivable are collected:
A) stockholders' equity increases.
B) total assets increase.
C) total assets decrease.
D) the amount of total assets is unchanged.

Answer: D
Explanation: Collecting from customers on account increases the asset, Cash, and decreases the asset, Accounts Receivable; as such, the transaction does not change total assets.
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

82) A company was formed with $300,000 cash contributed by its owners in exchange for common stock. The company borrowed $150,000 from a bank. The company purchased $50,000 of inventory and paid cash for it. The company also purchased $350,000 of equipment by paying $50,000 in cash and issuing a note for the remainder.

What is the amount of the total assets to be reported on the balance sheet?
A) $750,000
B) $800,000
C) $450,000
D) $400,000

Answer: A
Explanation: Cash from owners of $300,000 + Cash from borrowing of $150,000 + Inventory purchased for $50,000 − Cash paid for inventory of $50,000 + Equipment purchased for $350,000 − Cash paid for equipment of $50,000 = $750,000
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

83) A company was formed with $300,000 cash contributed by its owners in exchange for common stock. The company borrowed $150,000 from a bank. The company purchased $50,000 of inventory and paid cash for it. The company also purchased $350,000 of equipment by paying $50,000 in cash and issuing a note for the remainder.

What is the amount of the total liabilities to be reported on the balance sheet?
A) $300,000
B) $0
C) $450,000
D) $400,000

Answer: C
Explanation: Note issued from borrowing of $150,000 + Note issued to purchase equipment of $300,000 = $450,000
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

84) Assets totaled $24,250 and liabilities totaled $8,500 at the beginning of the year. During the year, assets decreased by $3,500 and liabilities increased by $2,800.

What is the amount of the change in stockholders' equity during the year?
A) $5,750 increase
B) $700 decrease
C) $6,300 decrease
D) $550 increase

Answer: C
Explanation: Change in assets = Change in liabilities + Change in stockholders' equity
Change in stockholders' equity = Change in assets − Change in liabilities
= ($3,500) − $2,800 = ($6,300)
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

85) Assets totaled $24,250 and liabilities totaled $8,500 at the beginning of the year. During the year, assets decreased by $3,500 and liabilities increased by $2,800.

What is the amount of stockholders' equity at the end of the year?
A) $9,450
B) $15,750
C) $15,050
D) $14,450

Answer: A
Explanation: Assets = Liabilities + Stockholders' Equity
Stockholders' Equity = Assets − Liabilities
Beginning of year:
= $24,250 − $8,500 = $15,750
Change in assets = Change in liabilities + Change in stockholders' equity
Change in stockholders' equity = Change in assets − Change in liabilities
= ($3,500) − $2,800 = ($6,300)
Ending stockholders' equity = $15,750 − $6,300 = $9,450
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

86) During its first year of operations, a company entered into the following transactions:

Borrowed $20,000 from the bank by signing a promissory note.
Issued stock to owners for $40,000.
Purchased $4,000 of supplies on account.
Paid $1,600 to suppliers as payment on account for the supplies purchased.

What is the amount of total assets at the end of the year?
A) $64,000
B) $22,400
C) $60,000
D) $62,400

Answer: D
Explanation: Total assets = Cash from borrowing of $20,000 + Cash from issuing stock of $40,000 + Supplies purchased $4,000 − Cash paid to suppliers of $1,600 = $62,400
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

87) During its first year of operations, a company entered into the following transactions:

Borrowed $20,000 from the bank by signing a promissory note.
Issued stock to owners for $40,000.
Purchased $4,000 of supplies on account.
Paid $1,600 to suppliers as payment on account for the supplies purchased.

What is the amount of total liabilities at the end of the year?
A) $24,000
B) $62,400
C) $64,000
D) $22,400

Answer: D
Explanation: Total liabilities = Notes payable to the bank of $20,000 + Accounts payable to supplier of $4,000 − $1,600 paid to supplier = $22,400
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

88) The Smith Corp. began business this year and entered into the following transactions during the year. The company issued common stock in exchange for cash of $80,000 from stockholders, borrowed $40,000 from a bank, bought $12,000 of inventory on account, and purchased $32,000 of equipment by paying $12,000 in cash and issuing a note for the remainder. What is the amount of total assets to be reported on the balance sheet at the end of the year?
A) $104,000
B) $120,000
C) $128,000
D) $152,000

Answer: D
Explanation: This company's assets include Cash, Inventory, and Equipment. (These transactions also affect its liabilities, including Notes Payable and Accounts Payable, and its stockholders' equity, including Common Stock. The impact of these transactions on its liabilities and stockholders' equity is not set forth below.)
Total assets = Cash received from stockholders of $80,000 + Inventory purchase of $12,000 + Equipment purchase of $32,000 + Cash received from bank borrowing of $40,000 − Cash used to purchase equipment of $12,000 = $152,000
Difficulty: 3 Hard
Topic: The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

89) Meridian Furniture had the transactions for the month that are summarized below.

Purchased \$3,600 in supplies with cash.
Issued 400 shares of stock for \$45 per share.
Ordered supplies at a cost of \$8,000.
Paid a utility bill for \$1,000.

If the Cash account had a beginning balance of \$20,000, what was the balance at the end of the month?
A) \$22,600
B) \$25,400
C) \$33,400
D) \$40,600

Answer: C
Explanation: The impact of the transactions on the Cash account is as follows:

Purchased \$3,600 in supplies with cash − decrease Cash by \$3,600
Issued 400 shares of stock for \$45 per share − increase Cash by \$18,000
Ordered supplies at a cost of \$8,000 − not a transaction (nothing was exchanged)
Paid a utility bill for \$1,000 − decrease Cash by \$1,000

Ending Cash balance = Beginning Cash balance + Total increases − Total decreases
= \$20,000 − \$3,600 + \$18,000 − \$1,000 = \$33,400
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

90) Which of the following requires a credit?
A) Decreases in liabilities
B) Decreases in stockholders' equity
C) Increases to assets
D) Increases to liabilities

Answer: D
Explanation: Assets are increased by debits and decreased by credits. Liabilities and Stockholders' equity are increased by credits and decreased by debits.
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

91) In addition to requiring that the accounting equation remain in balance, the double-entry system also requires that:
A) the number of asset accounts must equal the number of liability and stockholder's equity accounts.
B) for any transaction, only two accounts are affected.
C) for any transaction, both sides of the accounting equation are affected.
D) the total dollar amount of debits must equal the total dollar amount of credits.

Answer: D
Explanation: The double-entry system also requires that debits equal credits.
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

92) Which of the following statements regarding debits and credits is always correct?
A) Debits decrease accounts while credits increase them.
B) The total value of all debits recorded in the ledger must equal the total value of all credits recorded in the ledger.
C) The total value of all debits to a particular account must equal the total value of all credits to that account.
D) The normal balance for an account is the side on which it decreases.

Answer: B
Explanation: The total value of all debits recorded in the ledger must equal the total value of all credits recorded in the ledger. Debits may increase or decrease an account, depending on the type of account. If an account has equal amounts of debits and credits, the account would then have a zero balance. The normal balance for an account is the side on which it increases.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

93) Accounts Payable had a balance of $9,100 at the beginning of the month. During the month, three debits in the amounts of $2,350, $5,650, and $7,400 were posted to Accounts Payable, and three credits in the amounts of $1,800, $4,750, and $6,350 were posted to Accounts Payable. What is the ending balance of the Accounts Payable account?
A) $6,600
B) $2,500
C) $11,600
D) $24,500

Answer: A
Explanation: Accounts Payable, a liability account, has a normal credit balance. The beginning credit balance of $9,100 − Debits of ($2,350 + $5,650 + $7,400) + Credits of ($1,800 + $4,750 + $6,350) = Ending credit balance of $6,600.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

94) How do debits appear in a T-account?
A) They are listed on the left side for asset accounts, but listed on the right side for liabilities and stockholders' equity accounts.
B) They are always listed on the right side of the account.
C) They are always listed on the left side of the account.
D) They are listed on the right side for asset accounts, but listed on the left side for liabilities and stockholders' equity accounts.

Answer: C
Explanation: The terms (and abbreviations) debit (dr) and credit (cr) just mean left and right.
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

95) Within the debit/credit framework, the best interpretation of the word "credit" is:
A) left side of an account.
B) increase side of an account.
C) right side of an account.
D) decrease side of an account.

Answer: C
Explanation: The terms (and abbreviations) debit (dr) and credit (cr) just mean left and right.
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

96) The Accounts Payable account:
A) has a normal credit balance.
B) is increased by a debit.
C) is an asset.
D) is increased when a company receives cash from customers.

Answer: A
Explanation: Accounts Payable is a liability account. All liability accounts have a normal credit balance and are increased by credits.
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

97) The Accounts Receivable account:
A) has a normal credit balance.
B) is increased by a debit.
C) is a liability.
D) is increased when a company receives cash from its customers.

Answer: B
Explanation: Accounts Receivable is an asset account. All asset accounts have a normal debit balance and are increased by debits.
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

98)

Cash

Beginning Balance	371,700		
(a)	44,100	(c)	18,000
(b)	114,900	(d)	17,400
		(e)	22,200
		(f)	36,000
		(g)	33,600

What is the ending balance of the Cash account?
A) $657,900
B) $339,900
C) $85,500
D) $403,500

Answer: D
Explanation: Beginning debit balance of $371,700 + $44,100 + $114,900 − $18,000 − $17,400 − $22,200 − $36,000 − $33,600 = Ending balance of $403,500
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

99)

Cash			
Beginning Balance	371,700		
(a)	44,100	(c)	18,000
(b)	114,900	(d)	17,400
		(e)	22,200
		(f)	36,000
		(g)	33,600

In the T-account above:
A) (a) and (b) are credits.
B) (c) through (g) are debits.
C) if the sum of (a) and (b) is less than the sum of (c) through (g), the Cash account balance will increase.
D) (a) and (b) are increases.

Answer: D
Explanation: Cash is an asset account and assets are increased by debits (on the left-side of the account) and decreased by credits (on the right-side of the account). Entries (a) and (b) are debits; the rest are credits. If the sum of (a) and (b) is more than the sum of (c) through (g), the Cash account balance will increase.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

100) A debit would make which of the following accounts increase?
A) Common Stock
B) Inventory
C) Notes Payable
D) Retained Earnings

Answer: B
Explanation: Use debits for increases in assets (and for decreases in liabilities and stockholders' equity accounts). Use credits for increases in liabilities and stockholders' equity accounts (and for decreases in assets). Inventory is an asset account and, as such, it increases with a debit. The other accounts are on the right side of the accounting equation and increase with credits.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

101) Cash had a beginning balance of $206,700. During the month, Cash was credited for $48,000 and debited for $54,900. At the end of the month, the balance is:
A) $213,600 credit.
B) $213,600 debit.
C) $199,800 debit.
D) $199,800 credit.

Answer: B
Explanation: Cash, an asset account, has a normal debit balance.
Beginning debit balance of $206,700 + debit of $54,900 − credit of $48,000 = Ending debit balance of $213,600
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

102) Which of the following statements about normal account balances is correct?
A) Assets have debit balances and liabilities have credit balances.
B) Assets and liabilities have credit balances.
C) Assets have credit balances and liabilities have debit balances.
D) Assets and liabilities have debit balances.

Answer: A
Explanation: Assets normally end with a debit balance (because debits to assets normally exceed credits) and liabilities and stockholders' equity accounts normally end with credit balances (credits exceed debits).
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

103) For both accounts and amounts, the standard formatting for a journal entry lists:
A) credits first and then debits, both aligned to the left.
B) credits first and then debits, indented underneath.
C) debits first and then credits, both aligned to the right.
D) debits first and then credits, indented to the right underneath.

Answer: D
Explanation: Debits appear first (on top). Credits are shown below the debits and are indented to the right (both the words and the amounts).
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

104) The standard formatting for a journal entry lists the dollar amounts for:
A) credits underneath and to the right of the dollar amounts for debits.
B) debits and credits aligned equally to the right.
C) debits underneath and to the right of the dollar amounts for credits.
D) debits and credits aligned equally to the left.

Answer: A
Explanation: Debits appear first (on top). Credits are shown below the debits and are indented to the right (both the words and the amounts).
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

105) Which of the following statements about the debit/credit framework is correct?
A) Stockholders' Equity = Assets + Liabilities.
B) The total value of credits in all accounts must always equal the total value of debits in all accounts.
C) The normal balance for an account is the side on which it decreases.
D) A decrease in Common Stock would be recorded with a credit.

Answer: B
Explanation: The double-entry system requires that debits = credits. The accounting equation is: Assets = Liabilities + Stockholders' Equity (or Stockholders' Equity = Assets − Liabilities). Assets normally end with a debit balance (because debits to assets normally exceed credits) and liabilities and stockholders' equity accounts normally end with credit balances (credits exceed debits). An increase (rather than a decrease) in Common Stock would be recorded with a credit.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

106) The normal balance of any account is the:
A) left side.
B) right side.
C) side which increases that account.
D) side which decreases that account.

Answer: C
Explanation: The side that increases an account is the normal balance of the account.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

107) A company started the year with a normal balance of $136,000 in the Inventory account. During the year, debits totaling $90,000 and credits totaling $110,000 were posted to the Inventory account. Which of the following statements about the Inventory account is correct?
A) The normal balance of the Inventory account is a credit balance.
B) After these amounts are posted, the balance in the Inventory account is a credit balance of $116,000.
C) The Inventory account is decreased by debits.
D) The debits and credits posted to the Inventory account caused it to decrease by $20,000.

Answer: D
Explanation: Inventory is an asset account and, as such, it has a normal debit balance. The Inventory account is increased with debits and decreased with credits. Beginning debit balance of $136,000 + debits totaling $90,000 − credits totaling $110,000 = Ending debit balance of $116,000. As a result, the Inventory account balance decreased by $20,000 during the year.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

108) Which of the following statements about the debit/credit framework is correct?
A) All asset accounts have a normal debit balance with the exception of cash, which has a normal credit balance.
B) The Common Stock account is increased by debits.
C) When payment is made on a liability such as accounts payable, the liability account is decreased with a debit.
D) The total amount of asset accounts must equal the total amount of liability accounts minus the total amount of stockholders' equity accounts.

Answer: C
Explanation: Accounts Payable, a liability account, is decreased with a debit. All asset accounts, including cash, have a normal debit balance. Common Stock is a stockholders' equity account and, as such, is increased by credits. The accounting equation is assets equal liabilities plus (rather than minus) stockholders' equity.
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

109) A company purchased equipment for use in the business at a cost of $36,000, one-fourth was paid in cash, and the company signed a note for the balance. The journal entry to record this transaction will include a:
A) debit to Notes Payable of $27,000.
B) debit to Cash of $36,000.
C) credit to Notes Payable of $27,000.
D) debit to Equipment of $9,000.

Answer: C
Explanation: The journal entry will debit Equipment for $36,000, credit Cash for $9,000, and credit Notes Payable for $27,000.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

110) Which account would be decreased with a credit?
A) Retained Earnings
B) Accounts Receivable
C) Common Stock
D) Notes Payable

Answer: B
Explanation: Use debits for increases in assets (and for decreases in liabilities and stockholders' equity accounts). Use credits for increases in liabilities and stockholders' equity accounts (and for decreases in assets). Accounts Receivable is an asset and, as such, would be decreased with a credit. Retained Earnings and Common Stock are stockholders' equity accounts and Notes Payable is a liability account. Liabilities and stockholders' equity accounts are increased with credits.
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

111) Which account would be increased with a debit?
A) Supplies
B) Accounts Payable
C) Common Stock
D) Retained Earnings

Answer: A
Explanation: Use debits for increases in assets (and for decreases in liabilities and stockholders' equity accounts). Use credits for increases in liabilities and stockholders' equity accounts (and for decreases in assets). Supplies is an asset and, as such, would be increased with a debit. Retained Earnings and Common Stock are stockholders' equity accounts and Accounts Payable is a liability account. Liabilities and stockholders' equity accounts are decreased with debits.
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

112) Shaylee, Inc. borrowed $62,000 from a bank, depositing those funds in its bank account and signing a formal agreement to repay the loan in two years. What is the correct journal entry for this transaction?
A) Debit notes payable and credit cash for $62,000
B) Debit notes payable and debit cash for $62,000
C) Credit notes payable and credit cash for $62,000
D) Debit cash and credit notes payable for $62,000

Answer: D
Explanation: Since cash (asset) is increased, it must be debited. Since notes payable (liability) is being increased, it must be credited.
Difficulty: 3 Hard
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

113) A company borrows money from a bank. The journal entry to record the transaction would include a:
A) credit to Notes Payable and debit to Common Stock.
B) debit to Cash and a credit to Notes Payable.
C) debit to Cash and a credit to Common Stock.
D) credit to Cash and a debit to Notes Payable.

Answer: B
Explanation: The asset, Cash, is increased with a debit and the liability, Notes Payable, is increased with a credit.
Difficulty: 3 Hard
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

114) If a company pays back money borrowed from a bank, which of the following would be included in the journal entry to record this transaction?
A) Credit Notes Payable and debit Common Stock
B) Debit Cash and credit Notes Payable
C) Debit Cash and credit Common Stock
D) Credit Cash and debit Notes Payable

Answer: D
Explanation: Notes Payable, a liability account, decreases with a debit and Cash, an asset account, decreases with a credit.
Difficulty: 3 Hard
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

115) Carol Co. has total debits in its cash T-account of $155,000 and total credits of $120,000. The balance in the cash T-account is a:
A) debit of $155,000.
B) debit of $35,000.
C) credit of $120,000.
D) credit of $35,000.

Answer: B
Explanation: In this case, since the debits exceed the credits by $35,000, there is a debit balance of $35,000.
Difficulty: 3 Hard
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

116) Forrest Industries has the following information in regard to its Cash account for the month of August. The account had a normal balance of $62,500 on August 1. During August, it had three debit entries totaling $250,000. The balance in the Cash account on August 31 was $112,500. What was the total of the credit entries to the Cash account during the month of August?
A) $50,000
B) $112,500
C) $200,000
D) $300,000

Answer: C
Explanation: The equation for the Cash account, which normally has a debit balance, is as follows.
Ending debit balance = Beginning debit balance + Total debit entries − Total credit entries
Total credit entries = Beginning debit balance + Total debit entries − Ending debit balance
= $62,500 + $250,000 − $112,500 = $200,000
Difficulty: 3 Hard
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

117) Which of the following statements about the debit/credit framework is correct?
A) Asset and liability accounts have a normal debit balance.
B) To debit an account means to increase it.
C) Common Stock has a normal credit balance.
D) To credit an account means to decrease it.

Answer: C
Explanation: Use debits for increases in assets (and for decreases in liabilities and stockholders' equity accounts). Use credits for increases in liabilities and stockholders' equity accounts (and for decreases in assets). The normal balance for an account is the side on which it increases. Common Stock is a stockholders' equity account and has a normal credit balance.
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

118) Which of the following statements about transaction analysis is correct?
A) Transactions are analyzed from the standpoint of the owners.
B) All business activities are considered to be accounting transactions.
C) The transaction amount is determined for each exchange based on the cost of the items given and received.
D) A business needs journal entries only to show how transactions affect the balance sheet.

Answer: C
Explanation: Each exchange is analyzed to determine a dollar amount that represents the value of items given and received. Transactions are analyzed from the standpoint of the business (rather than its owners). Business activities that do not include the exchange of assets or services at the time of the activity are not considered transactions. Journal entries indicate the effects of each day's transactions in a debits-equal-credits format on all of the accounts affected (not just the balance sheet accounts).
Difficulty: 1 Easy
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

119) Which of the following statements about liabilities is not correct?
A) Liabilities are amounts owed by a business.
B) Liability accounts have a normal credit balances.
C) Financing activities may affect the amount of liabilities.
D) Examples of liabilities include Notes Payable, Common Stock, and Income Tax Payable.

Answer: D
Explanation: Notes Payable and Income Tax Payable are liability accounts; however, Common Stock is a component of stockholders' equity; it is not a liability account.
Difficulty: 1 Easy
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

120) Each account is assigned a number; this listing of all accounts is called a:
A) trial balance.
B) journal.
C) ledger.
D) chart of accounts.

Answer: D
Explanation: A chart of accounts is a summary of all account names (and corresponding account numbers) used to record financial results in the accounting system.
Difficulty: 1 Easy
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

121) Baldwin Company purchased equipment for $420,000 and planned to use it when the company expanded one of its product lines. However, six months later, the company changed its plans and sold the equipment to Stick, Inc. for $420,000. Stick signed a note for $420,000 that is due in 60 days. The journal entry prepared by Baldwin Company to record the sale of the equipment would include which of the following?
A) Credit to Note Receivable
B) Debit to Cash
C) Credit to Equipment
D) Debit to Accounts Payable

Answer: C
Explanation: The journal entry to record the sale of the equipment would include a debit to Notes Receivable and a credit to Equipment for $420,000.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework; Analyzing Transactions
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

122) B. Darin Company issued common stock to investors and received $50,000. Which of the following statements about this transaction is correct?
A) This is an example of a cash inflow from an investing activity.
B) The journal entry to record this transaction will include a credit to Cash.
C) This is an example of a cash outflow from a financing activity.
D) The journal entry to record this transaction will include a credit to Common Stock.

Answer: D
Explanation: The journal entry to record this transaction would include a debit to Cash and a credit to Common Stock. This transaction is an example of a cash inflow from a financing activity.
Difficulty: 2 Medium
Topic: Building a Balance Sheet from Business Activities
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

123) Transactions are first entered in the:
A) ledger.
B) journal.
C) T-accounts.
D) chart of accounts.

Answer: B
Explanation: Transactions are analyzed and their financial effects are entered into journals each day they occur. Later, these journal entries are summarized in ledger accounts that keep track of the financial effects on each account. The simplified version of a ledger account is called a T-account.
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

124) T-accounts represent a simplified version of the:
A) ledger.
B) journal.
C) trial balance.
D) financial statements.

Answer: A
Explanation: Transactions are analyzed and their financial effects are entered into journals each day they occur. Later, these journal entries are summarized in ledger accounts that keep track of the financial effects on each account. The simplified version of a ledger account is called a T-account.
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

125) A ledger is used to:
A) show increases and decreases in individual accounts, as well as the ending balance.
B) report the results of operations to stockholders, creditors, and managers.
C) prove that debits equal credits.
D) make a balance sheet unnecessary.

Answer: A
Explanation: Transactions are analyzed and their financial effects are entered into journals each day they occur. Later, these journal entries are summarized in ledger accounts that keep track of the financial effects on each account.
Difficulty: 1 Easy
Topic: The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

126) When a company purchases an asset but only pays for a portion of it and owes the remainder, which of the following is true?
A) The asset is debited for the amount paid plus the amount owed.
B) The asset is debited for the amount paid. The amount owed will be debited to the asset once paid.
C) The asset is credited for the amount paid plus the amount owed.
D) The asset is credited for the amount paid. The amount owed will be debited to the asset once paid.

Answer: A
Explanation: A businesses typically buy goods or services from others on credit, by promising to pay within 30 days of the purchase. Accounts Payable represents the amount owed to suppliers for prior credit purchases (on account). In this transaction, the asset account, which increases, would be debited and Accounts Payable, a liability account, which also increases, would be credited.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

127) The journal entry to record the purchase of supplies on account includes a credit to:
A) Cash.
B) Accounts Payable.
C) Supplies.
D) Accounts Receivable.

Answer: B
Explanation: In this transaction, Supplies, an asset account, which increases, would be debited and Accounts Payable, a liability account, which also increases, would be credited.
Difficulty: 3 Hard
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

128) On September 5, Heidi Co., purchases $87,000 of supplies; payment is not required until October 4. What action should be taken by Heidi on September 5?
A) No journal entry is required; this transaction should not be recorded until the payment is made.
B) A journal entry that includes a credit to Accounts Payable should be prepared.
C) A journal entry that includes a debit to Accounts Payable should be prepared.
D) A journal entry that includes a debit to Prepaid Expenses should be prepared.

Answer: B
Explanation: A transaction has taken place; supplies were received in exchange for a promise to pay. On September 5, the date of the transaction, a journal entry should be prepared that includes a debit to Supplies and a credit to Accounts Payable for $87,000.
Difficulty: 2 Medium
Topic: Analyzing Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

129) A company uses $100,000 in cash to pay off $100,000 in notes payable. This would result in a:
A) $100,000 debit to Notes Payable and a $100,000 credit to Cash.
B) $100,000 credit to Cash and a $100,000 credit to Notes Payable.
C) $100,000 debit to Cash and a $100,000 credit to Notes Payable.
D) $100,000 debit to Cash and a $100,000 debit to Notes Payable.

Answer: A
Explanation: Both accounts decrease. Cash is an asset account and Notes Payable is a liability account. The journal entry would include a debit to Notes Payable and a credit to Cash and for $100,000.
Difficulty: 2 Medium
Topic: Analyzing Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

130) Purrfect Pets, Inc., makes a $10,000 payment on account. This would result in a:
A) $10,000 credit to Cash and a $10,000 credit to Accounts Payable.
B) $10,000 debit to Cash and a $10,000 debit to Accounts Payable.
C) $10,000 debit to Accounts Payable and a $10,000 credit to Cash.
D) $10,000 debit to Cash and a $10,000 credit to Accounts Payable.

Answer: C
Explanation: Both accounts decrease. Cash is an asset account and Accounts Payable is a liability account. The journal entry would include a debit to Accounts Payable and a credit to Cash and for $10,000.
Difficulty: 2 Medium
Topic: Analyzing Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

131) Slug, Inc. purchases equipment for $1,200,000 million paying $180,000 in cash and issuing $1,020,000 in promissory notes. When the journal entry is posted to the related accounts:
A) $1,200,000 will be credited and $180,000 will be debited to asset accounts; $1,020,000 will be debited to liability accounts.
B) $1,200,000 will be debited to asset accounts; $1,020,000 will be credited to liability accounts.
C) $1,200,000 will be debited and $180,000 will be credited to asset accounts; $1,020,000 will be credited to liability accounts.
D) $1,200,000 will be credited to asset accounts; $1,200,000 will be debited to liability accounts.

Answer: C
Explanation: Equipment, an asset, will increase with a debit for $1,200,000. Cash, an asset, will decrease with a credit for $180,000. Notes Payable, a liability, will increase with a credit for $1,020,000.
Difficulty: 3 Hard
Topic: Analyzing Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

132) Consider the following journal entry:

Software	18,000	
Cash		7,200
Note Payable		10,800

Which of the following explanations best describes this journal entry?
A) The company buys $18,000 of software, pays cash of $7,200, and signs a note for $10,800.
B) The company receives $7,200 in cash and $10,800 in notes payable in exchange for selling $18,000 of software.
C) The company buys $18,000 of software, pays $7,200 cash, and promises to cancel a debt owed to the company in the amount of $10,800.
D) The company sells $18,000 of software, receives $7,200 in cash, and pays off $10,800 it owes on the software.

Answer: A
Explanation: The debit to the Software account increases that asset account, so $18,000 of software was purchased. The credit to the Cash account decreases that asset account, so $7,200 cash was paid. The credit to Notes Payable increases that liability account, so a note for $10,800 was signed.
Difficulty: 2 Medium
Topic: Analyzing Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

133) Which of the following is a report for internal use only?
A) Balance sheet
B) Statement of financial position
C) Trial balance
D) Classified balance sheet

Answer: C
Explanation: A trial balance is an internal report only. A trial balance checks on the equality of debits and credits. It is not a way to ensure that all journal entries have been posted since if a journal entry is not posted, debits could still equal credits. It is also not a way to ensure that no mistakes have been made. If a mistake was made, but was posted using equal debits and credits, the trial balance would still be in balance. A balance sheet (or classified balance sheet if subcategories are used) is also called a statement of financial position and is used by investors and creditors.
Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

134) Which of the following would cause a trial balance to be out of balance?
A) A transaction was recorded twice.
B) A transaction was not recorded.
C) A transaction was posted to the wrong accounts.
D) Only the credit portion of a transaction was recorded.

Answer: D
Explanation: A trial balance is an internal report that lists all accounts and their balances to check on the equality of total recorded debits and total recorded credits. If only the credit of a transaction was recorded, the trial balance would not be in balance. The other errors listed (recording a transaction twice, not recording a transaction, or posting the transaction to the wrong accounts) would result in a trial balance that would still be in balance even though various account balances would be misstated.
Difficulty: 1 Easy
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

135) Assume a company only entered into financing and investing activities and has prepared its journal entries and posted them to T-accounts. How would the related account balances be listed on its trial balance?
A) Credits first, followed by debits
B) Debits first, followed by credits
C) Alphabetically
D) In descending order by dollar amount

Answer: B
Explanation: This company's trial balance would list its asset accounts, which have debit balances, and then its liability and stockholders' equity accounts, which have credit balances.
Difficulty: 1 Easy
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

136) All of the following would be classified as current on a classified balance sheet except:
A) Common Stock.
B) Cash.
C) Accounts Payable.
D) Supplies.

Answer: A
Explanation: Common Stock is a stockholders' equity account and is not classified as current or noncurrent. Cash and Supplies are current assets. Accounts Payable is a current liability.
Difficulty: 1 Easy
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

137) Broadway, Inc.'s trial balance was in balance at the end of the period and showed the following accounts:

Account	Balance
Accounts Payable	$ 30,600
Cash	62,100
Common Stock	30,000
Equipment	13,500
Land	45,000
Notes Payable	60,000

What is the balance of the credit column on Broadway's trial balance?
A) $241,200
B) $120,600
C) $90,600
D) $90,000

Answer: B
Explanation: Total credits = Accounts Payable $30,600 + Common Stock $30,000 + Notes Payable $60,000 = $120,600
Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

138) The following account balances were listed on the trial balance of Edgar Company at the end of the period:

Account	Balance
Accounts Payable	$ 30,600
Cash	48,900
Common Stock	30,000
Equipment	13,500
Land	45,000
Notes Payable	60,000

The company's trial balance is not in balance and the company's accountant has determined that the error is in the cash account. What is the correct balance in the cash account?
A) $57,900
B) $31,500
C) $2,100
D) $62,100

Answer: D
Explanation: Total credits = Accounts Payable $30,600 + Common Stock $30,000 + Notes Payable $60,000 = $120,600
Total debits = Cash (unknown) + Equipment $13,500 + Land $45,000
Total debits must also equal $120,600
$120,600 = Cash (unknown) + Equipment $13,500 + Land $45,000
Cash = $120,600 − Equipment $13,500 − Land $45,000 = $62,100
Difficulty: 3 Hard
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

139) In a classified balance sheet, assets and liabilities are classified according to whether they are current or noncurrent. Which of the following statements is not correct about current assets?
A) They will be acquired within one year.
B) They will be converted to cash within one year.
C) They will be sold within one year.
D) They will be used up within one year.

Answer: A
Explanation: Current assets will be used up or converted into cash within 12 months of the balance sheet date.
Difficulty: 1 Easy
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

140) With a classified balance sheet, current assets are usually listed:
A) in alphabetical order.
B) in the order of when the assets were acquired.
C) from the largest to smallest dollar amount.
D) in the order of liquidity.

Answer: D
Explanation: Companies list assets in order of liquidity (how soon they will be used up or turned into cash).
Difficulty: 1 Easy
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

141) Which one of the following is not a current asset?
A) Cash
B) Supplies
C) Equipment
D) Prepaid Insurance

Answer: C
Explanation: Cash, Supplies, and Prepaid Insurance are current assets because they will be used up or converted to cash within 12 months of the date of the balance sheet. Equipment is classified as a noncurrent asset because it will be used over a number of years.
Difficulty: 1 Easy
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

142) Which of the following would be listed as a current liability?
A) Cash
B) Notes Payable (due in two years)
C) Supplies
D) Accounts Payable

Answer: D
Explanation: Current liabilities are debts and other obligations that will be paid or fulfilled within 12 months of the balance sheet date. Accounts Payable is the only current liability. Cash and Supplies are assets. Since the Notes Payable are due in two years, they are a noncurrent liability.
Difficulty: 1 Easy
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

143) A noncurrent liability is one that the company:
A) has owed for over one year.
B) has owed for over five years.
C) will not pay within 12 months.
D) will not pay within five years.

Answer: C
Explanation: Current liabilities are debts and obligations that will be paid, settled, or fulfilled within 12 months of the balance sheet date. Noncurrent (or long-term) liabilities are those that do not meet the definition of current.
Difficulty: 1 Easy
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

144) A current asset is one that the company:
A) has owned for over one year.
B) has owned for over five years.
C) will use up or convert into cash in less than 12 months.
D) has updated to reflect its current value.

Answer: C
Explanation: Current assets are assets that will be used up or converted into cash within 12 months of the balance sheet date.
Difficulty: 1 Easy
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

145) At the start of the first year of operations, Retained Earnings would be:
A) equal to zero.
B) equal to Common Stock.
C) equal to stockholders' equity.
D) equal to the Net Income.

Answer: A
Explanation: Retained Earnings is the amount of earnings accumulated from prior years that have not been distributed as dividends. At the start of the first year of operations, there would be a zero balance in Retained Earnings.
Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

146) Current liabilities are expected to be:
A) converted to cash within one year.
B) fulfilled within one year.
C) used in the business within one year.
D) acquired within one year.

Answer: B
Explanation: Current liabilities are debts and obligations that will be paid, settled, or fulfilled within 12 months of the balance sheet date.
Difficulty: 1 Easy
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

147) Assets are listed on a classified balance sheet:
A) in alphabetical order.
B) from the largest dollar amount to the lowest dollar amount.
C) beginning with noncurrent assets and ending with current assets.
D) beginning with current assets and starting with Cash.

Answer: D
Explanation: Companies list assets in order of liquidity (how soon they will be used up or turned into cash) and liabilities in order of maturity (how soon they will be paid in cash or fulfilled by providing a service). A classified balance sheet lists current assets first starting with Cash.
Difficulty: 1 Easy
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

148) Which of the following would not be classified as a current asset?
A) Cash
B) Accounts Payable
C) Supplies
D) Inventory

Answer: B
Explanation: Current assets are assets that will be used up or converted into cash within 12 months of the balance sheet date. Examples include Cash, Supplies and Inventory. Accounts Payable is a current liability.
Difficulty: 1 Easy
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

149) Which of the following would be classified as a noncurrent liability on the balance sheet at December 31, Year 1?
A) An accounts payable due on January 30, Year 2
B) A notes payable due November 30, Year 2
C) A note receivable that matures on April 30, Year 3
D) A notes payable due January 15, Year 3

Answer: D
Explanation: Current liabilities are debts and obligations that will be paid, settled, or fulfilled within 12 months of the balance sheet date. Noncurrent (or long-term) liabilities do not meet the definition of current liabilities. A notes payable that is due January 15, Year 3 would be classified as a noncurrent liability on the balance sheet at December 31, Year 1 since it is due after 12 months of the balance sheet date.
Difficulty: 1 Easy
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

150) Constable Co. reported the following information at December 31, Year 1:

Accounts Payable	$ 6,750
Accounts Receivable	14,025
Cash	35,235
Common Stock	135,000
Equipment	74,250
Inventory	46,800
Notes Payable due December 31, Year 3	3,750
Retained Earnings, December 31, Year 1	21,135
Wages Payable	3,675

What is the amount of current assets on the classified balance sheet?
A) $170,310
B) $96,060
C) $49,260
D) $123,255

Answer: B
Explanation: Current assets = Cash + Accounts Receivable + Inventory
= $35,235 + $14,025 + $46,800 = $96,060
Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

151) Constable Co. reported the following information at December 31, Year 1:

Accounts Payable	$ 6,750
Accounts Receivable	14,025
Cash	35,235
Common Stock	135,000
Equipment	74,250
Inventory	46,800
Notes Payable due December 31, Year 3	3,750
Retained Earnings, December 31, Year 1	21,135
Wages Payable	3,675

What is the amount of current liabilities on the classified balance sheet?
A) $14,175
B) $10,425
C) $170,310
D) $6,750

Answer: B
Explanation: Current liabilities = Accounts Payable + Wages Payable
= $6,750 + $3,675 = $10,425
Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

152) Constable Co. reported the following information at December 31, Year 1:

Accounts Payable	$ 6,750
Accounts Receivable	14,025
Cash	35,235
Common Stock	135,000
Equipment	74,250
Inventory	46,800
Notes Payable due December 31, Year 3	3,750
Retained Earnings, December 31, Year 1	21,135
Wages Payable	3,675

What is the total of the credit balance accounts?
A) $166,560
B) $156,135
C) $170,310
D) $162,885

Answer: C
Explanation: Liabilities and stockholders' equity are the credit balance accounts.
Liabilities = Accounts Payable + Wages Payable + Notes Payable
= $6,750 + $3,675 + $3,750 = $14,175
Stockholders' equity = Common Stock + Retained Earnings
= $135,000 + 21,135 = $156,135
Liabilities + Stockholders' equity = $14,175 + $156,135 = $170,310
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

153) Which of the following statements about the balance sheet is correct?
A) A classified balance sheet is one that contains privileged information.
B) Current liabilities are debts and other obligations that will be paid or fulfilled within 12 months of the balance sheet date.
C) All companies use the chart of account names defined by the Financial Accounting Standards Board (FASB).
D) A balance sheet is prepared for a period of time.

Answer: B
Explanation: A classified balance sheet is a balance sheet that shows a subtotal for current assets and current liabilities. Current liabilities are debts and obligations that will be paid, settled, or fulfilled within 12 months of the balance sheet date. Although some account titles are common across all companies, each chart of accounts is tailored to each company's business. A balance sheet is prepared as of a specific date (rather than for a period of time).
Difficulty: 2 Medium
Topic: Analyzing Transactions; Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

154) Which of the following statements about the balance sheet is correct?
A) An item on a balance sheet that is labeled as "payable" is a liability of that company.
B) Assets are listed on the balance sheet in alphabetical order.
C) The balance sheet balances when assets plus liabilities equal stockholders' equity.
D) The balance sheet proves that asset debits = liability credits.

Answer: A
Explanation: Payables are liabilities or obligations of the company. Companies list assets in order of liquidity (how soon they will be used up or turned into cash). The balance sheet balances when assets equal liabilities plus stockholders' equity (rather than assets plus liabilities equal stockholders' equity or asset debits equal liability credits).
Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet; Analyzing Transactions
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

155) Which of the following statements regarding posting and classification is correct?
A) Posting journal entries involves copying the dollar amounts from the ledger into the journal.
B) If a $100 debit is erroneously posted to an account as a $100 credit, the accounts will be out of balance by $100.
C) If a $5,000 credit to a stockholders' equity account is misclassified as a $5,000 credit to a liability, the accounting equation will still balance.
D) If a purchase of supplies on account for $100 is recorded with a debit to Supplies of $10 and a credit to Accounts Payable for $10, the accounting equation will not balance.

Answer: C
Explanation: If a $5,000 credit to a stockholders' equity account is misclassified as a $5,000 credit to a liability, the accounting equation will still balance because liabilities and stockholders' equity are on the same side of the accounting equation. After journal entries have been recorded, their dollar amounts are copied ("posted") to each ledger account affected by the transaction (rather than from the ledger to the journal). If an error in posting is made so that a $100 debit is entered as a credit to an account, the accounts will be out of balance by $200 (rather than $100). If a transaction is recorded with a debit to Supplies of $10 and a credit to Accounts Payable for $10, the accounting equation will still balance.
Difficulty: 3 Hard
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

156)

PURRFECT PETS, INC.
Balance Sheet
at June 30, Year 1

Assets		Liabilities	
Cash	$ 732,600	Accounts Payable	$ 349,200
Accounts Receivable	419,200	Notes Payable due June 30, Year 3	268,900
Supplies	58,400	Total Liabilities	618,100
Equipment	118,500		
Other Assets	69,400	Stockholders' Equity	
		Common Stock	662,100
		Retained Earnings	117,900
		Total Stockholders' Equity	780,000
Total Assets	$ 1,398,100	Total Liabilities & Stockholders' Equity	$ 1,398,100

Which line items would be classified as noncurrent on a classified balance sheet?
A) Cash; Supplies; Accounts Payable
B) Equipment; Other Assets; Notes Payable
C) Supplies; Equipment; Notes Payable
D) Accounts Receivable; Equipment; Other Assets

Answer: B
Explanation: Current assets are assets that will be used up or converted into cash within 12 months of the balance sheet date. Current liabilities are debts and obligations that will be paid, settled, or fulfilled within 12 months of the balance sheet date. Noncurrent (or long-term) assets and liabilities do not meet the definition of current. Noncurrent assets include Equipment and Other Assets. Noncurrent liabilities include Notes Payable due in two years.
Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

157)

PURRFECT PETS, INC.
Balance Sheet
at June 30, Year 1

Assets		Liabilities	
Cash	$ 732,600	Accounts Payable	$ 349,200
Accounts Receivable	419,200	Notes Payable due June 30, Year 3	268,900
Supplies	58,400	Total Liabilities	618,100
Equipment	118,500		
Other Assets	69,400	Stockholders' Equity	
		Common Stock	662,100
		Retained Earnings	117,900
		Total Stockholders' Equity	780,000
Total Assets	$ 1,398,100	Total Liabilities & Stockholders' Equity	$ 1,398,100

How much financing did the stockholders of Purrfect Pets, Inc., directly contribute to the company?
A) $117,900
B) $662,100
C) $780,000
D) $1,398,100

Answer: B
Explanation: Stockholders' equity includes Common Stock, which is the amount contributed by owners of $662,100.
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

158) Which of the following sequences indicates the correct order of steps in the accounting cycle?
A) Post to ledger, prepare journal entries, prepare trial balance, and prepare financial statements.
B) Post to ledger, prepare journal entries, prepare financial statements, and prepare trial balance.
C) Prepare journal entries, post to ledger, prepare trial balance, and prepare financial statements.
D) Prepare journal entries, post to ledger, prepare financial statements, and prepare trial balance.

Answer: C
Explanation: After transactions are analyzed, journal entries are prepared to record those transactions in the journal. Then, they are posted to the ledger. After a trial balance is prepared using the ledger balances, the financial statements are prepared.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

159) T-account:

	Accounts Receivable	
Beg. Bal.	187,500	
	104,900	18,000
	63,900	5,400
		14,700
		19,200

Partial list of account balances at the end of the year:

Cash	$ 28,000
Accounts Receivable	Unknown
Equipment	35,600
Accounts Payable	5,900

The amount of total current assets that will be reported on the company's balance sheet at the end of the year is:
A) $362,600.
B) $368,500.
C) $139,500.
D) $327,000.

Answer: D
Explanation: Total current assets = Cash + Accounts Receivable
Accounts Receivable is an asset; it is increased with debits (right-side of T-account) and decreased with credits (right-side of T-account)
Ending Accounts Receivable balance = Beginning debit balance of $187,500 + $104,900 + $63,900 − $18,000 − $5,400 − $14,700 − $19,200 = $299,000
Total Current Assets = $28,000 + $299,000 = $327,000.
Difficulty: 3 Hard
Topic: The Debit/Credit Framework; Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.; 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

160) T-account:

Accounts Receivable		
Beg. Bal.	187,500	
	104,900	18,000
	63,900	5,400
		14,700
		19,200

Partial list of account balances at the end of the year:

Cash	$ 28,000
Accounts Receivable	Unknown
Equipment	35,600
Accounts Payable	5,900

Which of the following is an accurate description of the economic events involving Accounts Receivable as documented in the T-account above?
A) Sales to customers on account exceeded the payments received from customers on account.
B) Payments received from customers on account exceeded the sales made to customers on account.
C) The company paid off its debt more than it incurred new debt.
D) The company incurred more debt than it paid off.

Answer: A
Explanation: Accounts Receivable is an asset; it is increased with debits (right-side of T-account) and decreased with credits (right-side of T-account)
Ending Accounts Receivable balance = Beginning debit balance of $187,500 + $104,900 + $63,900 − $18,000 − $5,400 − $14,700 − $19,200 = $299,000
The debits represent increases as a result of sales to customers on account. The credits represent decreases as a result of customer payments on account. The account balance increased from $187,500 to $299,000, which means the debits exceeded the credits. Sales to customers on account (the debits) exceeded the payments received from customers on account (the credits).
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

161) Which of the following statements about transaction analysis is not correct?
A) A transaction is an exchange or event that has a direct and measurable financial effect.
B) Every transaction has at least two effects.
C) Cash is the account credited when a bank loan is repaid.
D) Notes Payable is the account debited when money is borrowed from a bank using a promissory note.

Answer: D
Explanation: When money is borrowed from a bank using a promissory note, the related journal entry includes a debit to Cash and a credit to Notes Payable.
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

162) What does the current ratio measure?
A) The relative proportion of current versus noncurrent assets
B) Whether current assets are sufficient to pay current liabilities
C) The speed which current assets can be converted to cash
D) Whether cash is sufficient to pay current liabilities

Answer: B
Explanation: The current ratio, which is calculated by dividing current assets by current liabilities, tells you whether current assets are sufficient to pay current liabilities. A higher ratio means better ability to pay.
Difficulty: 1 Easy
Topic: Assessing the Ability to Pay
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

163) The current ratio:
A) is a measure of a firm's ability to pay its current liabilities.
B) equals current liabilities divided by current assets.
C) equals total assets divided by total liabilities.
D) is a measure of profitability.

Answer: A
Explanation: The current ratio equals current assets divided by current liabilities. It is used to determine whether a firm has sufficient cash or other current assets on hand to pay the liabilities that are due in the near future.
Difficulty: 1 Easy
Topic: Assessing the Ability to Pay
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

164) Which of the following statements about the concepts underlying the balance sheet is correct?
A) A company bought land for $5 million dollars 10 years ago. The land is now worth $15 million. The company should increase the book value of this asset on its balance sheet to reflect its current value.
B) All events affecting the current value of a company are reported on the balance sheet.
C) According to the cost principle, assets are valued at their replacement cost.
D) If an asset's value increases, the increase in value is generally not recorded under GAAP.

Answer: D
Explanation: Following the cost principle, assets and liabilities are first recorded at cost, which is their cash-equivalent value on the date of the transaction. Later, if an asset's value increases, the increase is generally not recorded under GAAP (unless it is a particular type of financial investment).
Difficulty: 2 Medium
Topic: Balance Sheet
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

165) In Year 2, the Denim Company bought an acre of land that cost $15,000. In Year 5, another company purchased a nearby acre of land for $28,000 and a different company purchased another nearby acre of land for $26,000. As a result, an appraiser estimated that the acre owned by Denim had increased in value to $27,000. If Denim prepares a balance sheet at the end of Year 5, the acre of land that it owns should be reported at:
A) $15,000.
B) $28,000.
C) $27,000.
D) the average of all of the amounts.

Answer: A
Explanation: Following the cost principle, assets and liabilities are first recorded at cost, which is their cash-equivalent value on the date of the transaction. Later, if an asset's value increases, the increase is generally not recorded under GAAP (unless it is a particular type of financial investment). Denim's balance sheet should report its land at the original cost of $15,000.
Difficulty: 2 Medium
Topic: Balance Sheet
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

166) How will a company's current ratio be affected by the purchase of equipment for cash?
A) The current ratio will increase because current assets increase.
B) The current ratio will decrease because current liabilities increase.
C) The current ratio will decrease because current assets decrease.
D) The current ratio will remain unchanged.

Answer: C
Explanation: The transaction will increase Equipment, a noncurrent asset, and decrease Cash, a current asset. The current ratio is computed by dividing current assets by current liabilities. Since the numerator will decrease, the current ratio will decrease.
Difficulty: 2 Medium
Topic: Assessing the Ability to Pay
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

167) How will a company's current ratio be affected when the company receives $20,000 from owners and issues common stock to them?
A) The current ratio will increase because current assets increase.
B) The current ratio will increase because current liabilities decrease.
C) There will be no change in the company's current ratio.
D) The current ratio will decrease because current liabilities increase.

Answer: A
Explanation: The transaction will increase Cash, a current asset, and increase, Common Stock, a stockholders' equity account. The current ratio is computed by dividing current assets by current liabilities. Since the numerator will increase, the current ratio will increase.
Difficulty: 2 Medium
Topic: Assessing the Ability to Pay
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

168) Your company's president donates a large amount of her own money to charity and receives significant publicity that includes the company's name. How would the benefits of this publicity appear on the balance sheet?
A) It would appear as a current asset.
B) It would appear as Common Stock.
C) It would appear as a noncurrent asset.
D) It would not appear on the balance sheet.

Answer: D
Explanation: This activity is not a transaction because no assets or services were exchanged by the business. No asset would be recorded. In addition, recall that an asset is an economic resource presently controlled by the company; it has measurable value and is expected to benefit the company by producing cash inflows or reducing cash outflows in the future. This situation does not meet the definition of an asset.
Difficulty: 2 Medium
Topic: Balance Sheet
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

169) Which of the following would a company be most likely to overstate if the company was trying to mislead potential creditors as to its ability to pay debts as they become due?
A) Accounts Receivable
B) Notes Payable
C) Salaries Expense
D) Accounts Payable

Answer: A
Explanation: If the company is trying to mislead creditors, it would want to overstate its current ratio. A higher current ratio means better ability to pay. The current ratio is computed by dividing current assets by current liabilities. A higher current ratio would result if the company overstated its current assets, which include Accounts Receivable.
Difficulty: 3 Hard
Topic: Assessing the Ability to Pay
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Bloom's: Evaluate
AACSB: Analytical Thinking; Ethics
Accessibility: Keyboard Navigation

170) Which concept should be applied when reporting a piece of land that was bought for $50,000 five years ago, and which would probably now sell for $80,000?
A) The cost principle
B) The accounting equation
C) The separate entity concept
D) The monetary concept

Answer: A
Explanation: Following the cost principle, assets and liabilities are first recorded at cost, which is their cash-equivalent value on the date of the transaction. Later, if an asset's value increases, the increase is generally not recorded under GAAP (unless it is a particular type of financial investment).
Difficulty: 2 Medium
Topic: Balance Sheet
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

171) The classified balance sheet for a company reported current assets of $811,925, total liabilities of $399,770, Common Stock of $500,000, and Retained Earnings of $65,130. The current ratio was 2.5.

What is the total amount of noncurrent assets?
A) $246,795
B) $412,155
C) $324,770
D) $152,975.

Answer: D
Explanation: Total Assets = Total Liabilities + Total Stockholders' Equity
= $399,770 + ($500,000 + $65,130) = $964,900
Total Assets = Total current assets + Total noncurrent assets
Total noncurrent assets = Total Assets − Total current assets
= $964,900 − $811,925 = $152,975
Difficulty: 3 Hard
Topic: Analyzing Transactions
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

172) The classified balance sheet for a company reported current assets of $811,925, total liabilities of $399,770, Common Stock of $500,000, and Retained Earnings of $65,130. The current ratio was 2.5.

What is the total amount of current liabilities?
A) $324,770
B) $2,029,813
C) $385,960
D) $399,770

Answer: A
Explanation: Current ratio = Current assets ÷ Current liabilities
Current liabilities = Current assets ÷ Current ratio
= $811,925 ÷ 2.5 = $324,770
Difficulty: 3 Hard
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

173) The classified balance sheet for a company reported current assets of \$811,925, total liabilities of \$399,770, Common Stock of \$500,000, and Retained Earnings of \$65,130. The current ratio was 2.5.

Which of the following statements is not correct?
A) Total Assets are \$964,900.
B) Total Stockholders' equity is \$565,130.
C) Noncurrent liabilities are \$65,130.
D) The amount of current assets is 2.5 times the amount of current liabilities.

Answer: C
Explanation: Total assets = Total liabilities + Total stockholders' equity
= \$399,770 + \$500,000 + \$65,130 = \$964,900 (correct)

Total stockholders' equity = Common Stock + Retained Earnings
= \$500,000 + \$65,130 = \$565,130. (correct)

Noncurrent liabilities = Total liabilities – Current liabilities
= \$399,770– \$324,770 = \$75,000

Current ratio = Current assets ÷ Current liabilities
Current liabilities = Current assets ÷ Current ratio
= \$811,925 ÷ 2.5 = \$324,770 (correct)
Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

174) Which of the following statements about the current ratio is not correct?
A) When making comparisons across companies, it's far easier to express the relationship as a ratio.
B) The current ratio is used to evaluate a company's ability to pay current obligations.
C) Having more current assets than current liabilities will yield a current ratio less than 1.0.
D) A high current ratio suggests good liquidity.

Answer: C
Explanation: The current ratio is calculated by dividing current assets by current liabilities. If current assets exceed current liabilities, the ratio will be greater than (rather than less) than 1.0.
Difficulty: 2 Medium
Topic: Assessing the Ability to Pay
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

175) A company's trial balance included the following account balances:

Accounts Payable	$ 19,207
Accounts Receivable	81,336
Cash	73,324
Income Tax Payable	3,512
Inventory	25,816
Note Payable, due in two years	1,709
Equipment	54,128
Stockholders' Equity	202,808
Supplies	5,512
Wages Payable	12,880

What is the amount of Total Assets on the Balance Sheet?
A) $240,116
B) $214,300
C) $442,924
D) $480,232

Answer: A
Explanation: Total Assets = Cash + Accounts Receivable + Inventory + Supplies + Equipment = $73,324 + $81,336 + $25,816 + $5,512 + $54,128 = $240,116
Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

176) A company's trial balance included the following account balances:

Accounts Payable	$ 19,207
Accounts Receivable	81,336
Cash	73,324
Income Tax Payable	3,512
Inventory	25,816
Note Payable, due in two years	1,709
Equipment	54,128
Stockholders' Equity	202,808
Supplies	5,512
Wages Payable	12,880

What is the amount of Total Liabilities on the Balance Sheet?
A) $240,116
B) $37,308
C) $35,599
D) $20,916

Answer: B
Explanation: Total Liabilities = Accounts Payable + Wages Payable + Income Tax Payable + Note Payable, due in two years
= $19,207 + $12,880 + $3,512 + $1,709 = $37,308
Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

177) A company's trial balance included the following account balances:

Accounts Payable	$ 19,207
Accounts Receivable	81,336
Cash	73,324
Income Tax Payable	3,512
Inventory	25,816
Note Payable, due in two years	1,709
Equipment	54,128
Stockholders' Equity	202,808
Supplies	5,512
Wages Payable	12,880

What is the amount of the current ratio? **(Round your answer to 2 decimal places.)**
A) 8.05
B) 6.44
C) 5.22
D) 1.00

Answer: C
Explanation: Current Assets = Cash + Accounts Receivable + Inventory + Supplies
= $73,324 + $81,336 + $25,816 + $5,512 = $185,988
Current Liabilities = Accounts Payable + Wages Payable + Income Tax Payable
= $19,207 + $12,880 + $3,512 = $35,599
Current ratio = Current Assets ÷ Current Liabilities
= $185,988 ÷ $35,599 = 5.22
Difficulty: 3 Hard
Topic: Assessing the Ability to Pay
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

178) Oats, Inc., has \$14,000 in Cash, \$37,000 in Accounts Receivable, \$2,500 in Supplies, \$52,000 in Accounts Payable and \$12,400 in Wages Payable. If Oats uses Cash to pay off \$8,000 of the Wages Payable, which of the following statements is correct?
A) The company's current ratio will not change since current assets decreased by the same amount that current liabilities decreased.
B) The company will look more favorable to creditors.
C) The company has a greater ability to pay current liabilities.
D) The company's current ratio will decrease.

Answer: D
Explanation: Current ratio = Current assets ÷ Current liabilities
Before the transaction:
(\$14,000 + \$37,000 + \$2,500) ÷ (\$52,000 + \$12,400) = \$53,500 ÷ \$64,400 = 0.83
After the transaction:
(\$6,000 + \$37,000 + \$2,500) ÷ (\$52,000 + \$4,400) = 0.81
The current ratio decreased. A higher ratio means better ability to pay; a lower ratio means lesser ability to pay. In this case, the company would look less (rather than more) favorable to creditors.
Difficulty: 2 Medium
Topic: Assessing the Ability to Pay
Learning Objective: 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

179) Which of the following statements is correct?
A) A current ratio of 1.60 means the company's current assets are probably not sufficient to pay its current liabilities.
B) The separate entity assumption requires that the financial activities of the owners of a company be reported on the company's balance sheet.
C) The cost principle states that recording activities at cost will result in the balance sheet representing the true value of the company.
D) A transaction is recorded if it has a measurable financial effect on the assets, liabilities or stockholders' equity of a business.

Answer: D
Explanation: A transaction is recorded if it has a measurable financial effect on the assets, liabilities or stockholders' equity of a business. A current ratio of 1.60 means the company has $1.60 in current assets for every $1.00 of current liabilities; therefore, current assets are (rather than are not) probably sufficient to pay current liabilities. The separate entity assumption (from Chapter 1) states that transactions of the owners are separate from transactions of the business; as such, the financial activities of the owners of a company would not be reported on the company's balance sheet. Following the cost principle, assets and liabilities are first recorded at cost, which is their cash-equivalent value on the date of the transaction; cost does not approximate true value.
Difficulty: 2 Medium
Topic: Building a Balance Sheet from Business Activities; Assessing the Ability to Pay
Learning Objective: 02-01 Identify financial effects of common business activities that affect the balance sheet.; 02-05 Interpret the balance sheet using the current ratio and an understanding of related concepts.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

180) Which of the following is an example of proper accounting when it comes to reporting values on a company's balance sheet?
A) X Company reported its land at the amount it could be sold for on the balance sheet date, which is higher than the original cost of the land.
B) X Company reported its damaged equipment at an amount lower than it originally cost.
C) X Company reported its inventory at its current market value, which is higher than its original cost.
D) X Company reported its notes receivable at the amount it originally loaned to employees, some of whom have since been laid off.

Answer: B
Explanation: Following the cost principle**,** assets and liabilities are first recorded at cost, which is their cash-equivalent value on the date of the transaction. Later, if an asset's value increases, the increase is generally not recorded under GAAP unless it is a particular type of financial investment (not discussed in this chapter). However, if an asset's value falls, it is generally reported at that lower value. Thus, the amount reported on the balance sheet may not be the asset's current value.
Difficulty: 1 Easy
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

181) Consider the following account balances of Evan McGruder, Inc., as of December 31, Year 3:

Accounts Payable	$ 298,500	Retained Earnings	136,750
Equipment	1,054,000	Notes Payable, due Year 5	858,000
Common Stock	500,000	Accounts Receivable	506,250
Income Tax Payable	9,750	Cash	242,750

Required:

Prepare a classified balance sheet at December 31, Year 3.

Answer:

EVAN MCGRUDER, INC.
Balance Sheetat
DECEMBER 31,Year 3

Assets	
Current Assets	
Cash	$ 242,750
Accounts Receivable	506,250
Total Current Assets	749,000
Equipment	1,054,000
Total Assets	$1,803,000
Liabilities and Stockholders' Equity	
Current Liabilities	
Accounts Payable	$298,500
Income Tax Payable	9,750
Total Current Liabilities	308,250
Notes Payable	858,000
Total Liabilities	1,166,250
Stockholders' Equity	
Common Stock	500,000
Retained Earnings	136,750
Total Stockholders' Equity	636,750
Total Liabilities and Stockholders' Equity	$1,803,000

Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Create
AACSB: Analytical Thinking

182) Selected accounts for Moonbills Corporation appear below.

Required:
For each account, indicate the following:

Part a. In the first column at the right, indicate the nature of each account, using the following abbreviations: Asset – A, Liability – L, Stockholders' Equity – SE.
Part b. In the second column, indicate the normal balance by inserting *dr* (for debit) or *cr* (for credit).

	(Part a) Type of Account	(Part b) Normal Balance
1. Supplies		
2. Notes Payable		
3. Income Tax Payable		
4. Equipment		
5. Accounts Payable		
6. Accounts Receivable		
7. Common Stock		
8. Cash		
9. Retained Earnings		
10. Land		

Answer:

	(Part a) Type of Account	(Part b) Normal Balance
1. Supplies	A	dr
2. Notes Payable	L	cr
3. Income Tax Payable	L	cr
4. Equipment	A	dr
5. Accounts Payable	L	cr
6. Accounts Receivable	A	dr
7. Common Stock	SE	cr
8. Cash	A	dr
9. Retained Earnings	SE	cr
10. Land	A	dr

Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

183) Grizzly Co. enters into the following transactions:

Stockholders contribute $25,000 cash to a company in exchange for common stock.
The company purchases $12,500 of new equipment in exchange for its promise to pay $12,500 at the end of next month.
The company pays $7,500 to suppliers on account.

Required:

Part a. Show the effect of these transactions on the basic accounting equation.

Part b. Prepare the journal entries that would be used to record the transactions.

Answer:
Part a.

Transaction Analysis							
Assets		=	Liabilities		+	Stockholders' Equity	
Cash	+25,000					Common Stock	+ 25,000
Equipment	+12,500		Accounts Payable	+12,500			
Cash	—7,500		Accounts Payable	-7,500			

Part b.

Cash	25,000	
Common Stock		25,000
Equipment	12,500	
Accounts Payable		12,500
Accounts Payable	7,500	
Cash		7,500

Difficulty: 2 Medium
Topic: The Debit/Credit Framework; Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Analyze
AACSB: Analytical Thinking

184) The following is a list of account balances for Pick-A-Pet, Inc., as of June 30, Year 3:

Accounts Payable	$ 349,200
Accounts Receivable	419200
Cash	732600
Common Stock	662,100
Equipment	58,400
Logo and Trademarks	421,600
Notes Payable	268,900
Retained Earnings	470,100
Software	118,500

The company entered into the following transactions during July, Year 3. Stockholders contribute $300,000 cash for additional ownership shares and the company borrows $150,000 in cash from a bank to buy new equipment at a later date. No other transactions took place during July, Year 3.

Required:

Part a. Prepare a classified balance sheet for the company at June 30, Year 3.

Part b. Show the effects of the July transactions on the basic accounting equation.

Part c. Prepare the journal entries that would be used to record the transactions.

Answer:
Part a.

PURRFECT PETS, INC.
Balance Sheet
at June 30,Year 3

Assets	
Current Assets	
Cash	$ 732,600
Accounts Receivable	419,200
Total Current Assets	1,151,800
Equipment	58,400
Software	118,500
Logo and Trademarks	421,600
Total Assets	$1,750,300
Liabilities and Stockholders' Equity	
Current Liabilities	
Accounts Payable	$ 349,200
Total Current Liabilities	349,200
Notes Payable	268,900
Total Liabilities	618,100
Stockholders' Equity	
Common Stock	662,100
Retained Earnings	470,100
Total Stockholders' Equity	1,132,200
Total Liabilities and Stockholders' Equity	$1,750,3001

Part b.

Transaction Analysis							
Assets		=	Liabilities		+	Stockholders' Equity	
Cash	+300,000					Common Stock	+ 300,000
Cash	+150,000		Note Payable	+150,000			

Part c.

Cash	300,000	
Common Stock		300,000
Cash	150,000	
Note Payable		150,000

Difficulty: 3 Hard
Topic: The Debit/Credit Framework; Preparing a Trial Balance and Balance Sheet; Analyzing Transactions
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.; 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Analyze
AACSB: Analytical Thinking

185) During the month, a company enters into the following transactions:

- Borrows $3,200 of cash from the bank by signing a formal agreement to repay the loan in 2 years.

- Buys $4,000 of new equipment on account.

- Pays off $2,400 of accounts payable.

- Pays off $1,200 of notes payable

Required:

Part a. Show the effect of these transactions on the basic accounting equation.

Part b. Prepare the journal entries that would be used to record the transactions.

Answer:
Part a.

Transaction Analysis						
Assets		=	Liabilities		+	Stockholders' Equity
Cash	+3,200		Notes Payable	+3,200		
Equipment	+4,000		Accounts Payable	+4,000		
Cash	—2,400		Accounts Payable	—2,400		
Cash	—1,200		Notes Payable	—1,200		

Part b.

Cash	3,200	
Notes Payable		3,200
Equipment	4,000	
Accounts Payable		4,000
Accounts Payable	2,400	
Cash		2,400
Notes Payable	1,200	
Cash		1,200

Difficulty: 2 Medium
Topic: The Debit/Credit Framework; Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Analyze
AACSB: Analytical Thinking

186) O'Brien Construction had the following business activities:

1. Stockholders invest $50,000 cash in the corporation.
2. CBI purchased $800 of office supplies on credit.
3. CBI purchased office equipment for $14,000, paying $5,000 in cash and signing a 30-day note payable for the remainder.
4. CBI paid $400 cash on account for office supplies purchased in transaction 2.
5. CBI purchased two acres of land for $20,000, signing a 2-year note payable.
6. CBI sold one acre of land at one-half of the total cost of the two acres, receiving the full amount or $10,000 in cash.
7. CBI made a payment of $10,000 on its 2-year note.

Required:

Prepare the journal entries that would be used to record the transactions. (*Reference each journal entry to the transaction number, shown above).*

Answer:

1.	Cash	50,000	
	Common Stock		50,000
2.	Supplies	800	
	Accounts Payable		800
3.	Equipment	14,000	
	Cash		5,000
	Notes Payable		9,000
4.	Accounts Payable	400	
	Cash		400
5.	Land	20,000	
	Notes Payable		20,000
6.	Cash	10,000	
	Land		10,000
7.	Notes Payable	10,000	
	Cash		10,000

Difficulty: 2 Medium
Topic: The Debit/Credit Framework; Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Apply
AACSB: Analytical Thinking

187) The company's total assets are $36,000. The following is a listing of the company's accounts and account balances as of December 31, Year 3. This company doesn't have any other accounts.

Accounts Payable	$ 7,000
Accounts Receivable	8,000
Supplies	1,000
Equipment	22,000
Common Stock	10,000
Cash	Unknown
Retained Earnings	Unknown

Required:

Part a. Determine the balance of the Cash account.

Part b. Determine the balance of the Retained Earnings account.

Answer:
Part a.
Total Assets = Accounts Receivable + Supplies + Equipment + Cash

Cash = Total Assets – Accounts Receivable – Supplies – Equipment

= $36,000 – $8,000 – $1,000 – $22,000 = $5,000

Part b.
Assets = Liabilities + Stockholders' Equity

Assets = Accounts Payable + (Common Stock + Retained Earnings)

$36,000 = $7,000 + ($10,000 + Retained Earnings)

Retained Earnings = $36,000 – $7,000 – $10,000 = $19,000
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Analyze
AACSB: Analytical Thinking

Listed below are components of several transactions. Indicate whether a debit (dr) or credit (cr) would be required to record the component of the transaction.

A) cr
B) dr

188) Increase in Cash.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

189) Increase in Accounts Payable.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

190) Decrease in Notes Payable.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

191) Increase in Inventory.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

192) Increase in Common Stock.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

193) Decrease in Equipment.
Difficulty: 2 Medium
Topic: The Debit/Credit Framework
Learning Objective: 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

Answers: 188) B 189) A 190) B 191) B 192) A 193) A

Match each account name with the category that it would be included under in a classified balance sheet.

A) NCA — Noncurrent Asset
B) CL — Current Liability
C) SE — Stockholders' Equity
D) CA — Current Asset

194) Equipment
Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

195) Common Stock
Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

196) Supplies
Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

197) Retained Earnings
Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

198) Accounts Receivable
Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

199) Accounts Payable
Difficulty: 2 Medium
Topic: Preparing a Trial Balance and Balance Sheet
Learning Objective: 02-04 Prepare a trial balance and a classified balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

Answers: 194) A 195) C 196) D 197) C 198) D 199) B

For each of the following, indicate how the event would most likely be categorized.

A) NT — No Transaction
B) EE — External Exchange
C) IE — Internal Event

200) A company sells $2 million in goods for immediate payment.
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking

201) The company uses up office supplies.
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking

202) The stock market rises 10% and the value of a company's stock increases.
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking

203) A company pays cash to an inventor for the legal rights to produce a new product.
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking

204) Management promises to pay workers an overtime bonus as required by their union contract.
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking

205) A company uses up supplies to manufacture a product.
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking

206) A company receives $1 million in orders but no down payments.
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Understand
AACSB: Analytical Thinking

Answers: 200) B 201) C 202) A 203) B 204) A 205) C 206) A

Match the term with its definition. (There are more definitions than terms.)

A) The abbreviation for an item posted on the left side of a T-account.
B) A balance sheet that has not yet been publicly released.
C) A transaction that is triggered automatically merely by the passage of time.
D) When a company becomes included in the Fortune 500.
E) The account credited when cash is received in exchange for stock issued.
F) The value of a company's public relations campaign.
G) An event that has no effect on the balance sheet and is not recorded in the financial statements.
H) A balance sheet that has assets and liabilities categorized as current vs. noncurrent.
I) Amounts owed to suppliers for goods or services bought on credit.
J) The abbreviation for an item posted on the right side of a T-account.
K) An exchange or event that has a direct impact on a company's financial statements.
L) Liabilities divided by assets.
M) Another name for stockholders' equity or shareholders' equity.
N) A method of recording a transaction in debit/credit format.
O) The expression that assets must equal liabilities plus stockholders' equity.

207) dr
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

208) cr
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

209) Classified Balance Sheet
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

210) Common Stock
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

211) Accounting Equation
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

212) Transaction
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

213) Accounts Payable
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

214) Journal Entry
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Analytical Thinking

Answers: 207) A 208) J 209) H 210) E 211) O 212) K 213) I 214) N

Match the term with its definition. (There are more definitions than terms.)

A) A summary of account names and numbers.
B) A simplified version of an account in the General Ledger.
C) Compares balance sheet items from two different time periods.
D) When a dollar value is assigned to an item recorded in the accounting system.
E) A journal entry that lowers the balance of the account.
F) An amount that is posted on the left side of a T-account or ledger.
G) The concept that a company must keep separate accounts by time period.
H) An amount that is posted on the right side of a T-account or ledger.
I) Assets are initially recorded at the amount paid to acquire them.
J) When journal entries are recorded in the appropriate T-account or ledger.
K) When a company's balance sheet has been verified by an outside auditor.
L) The principle that a company should use the least optimistic measure, when uncertainty exists.
M) The concept that any transaction must have at least two effects on the accounting equation.
N) The mechanism used to record each transaction in the General Journal.

215) Duality Of Effects
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Communications

216) Journal Entry
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Communications

217) Posting
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Communications

218) Debit
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Communications

219) Chart Of Accounts
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Communications

220) T-Account
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Communications

221) Credit
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Communications

222) Cost Principle
Difficulty: 2 Medium
Topic: Step 1: Analyze Transactions; The Debit/Credit Framework
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.; 02-03 Use journal entries and T-accounts to show how transactions affect the balance sheet.
Bloom's: Understand
AACSB: Communications

Answers: 215) M 216) N 217) J 218) F 219) A 220) B 221) H 222) I

223) On January 1, Year 3, Wayfarer Co.'s assets were $240,000 and its stockholders' equity was $112,000. During the year, assets increased $12,000 and liabilities decreased $8,000.

Required:

Determine the amount of stockholders' equity at December 31, Year 3.

Answer:
Beginning of the year:
Assets = Liabilities + Stockholders' Equity
Liabilities = Assets – Stockholders' Equity
= $240,000 – $112,000 = $128,000

End of year:
Assets = Liabilities + Stockholders' Equity
Stockholders' Equity = Assets – Liabilities
= ($240,000 + $12,000) – ($128,000 – $8,000) = $132,000
Difficulty: 2 Medium
Topic: Analyzing Transactions
Learning Objective: 02-02 Apply transaction analysis to accounting transactions.
Bloom's: Analyze
AACSB: Analytical Thinking