

***Horngrren's Accounting,11e (Miller-Nobles)***  
**Chapter 2 Recording Business Transactions**

Learning Objective 2-1

- 1) Which is a true statement regarding the accounting equation?
- A) The equation can be stated as assets minus liabilities equals equity.
  - B) The equation consists of three parts: assets, liabilities, and net income.
  - C) The equation is an optional tool for accountants to use.
  - D) The equation does not need to balance during a specific period.

Answer: A

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : What is an Account? (H1)

- 2) A payment of an expense in advance is called a prepaid expense.

Answer: TRUE

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Assets

- 3) An accounts receivable requires the business to pay cash in the future.

Answer: FALSE

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Assets

- 4) The account title used for recording the payment of rent in advance for an office building is \_\_\_\_\_.

- A) Prepaid Rent
- B) Rent Payable
- C) Rent Revenue
- D) Rent Expense

Answer: A

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Assets

5) Which of the following is an asset account?

- A) Wages Payable
- B) Notes Payable
- C) Unearned Revenue
- D) Accounts Receivable

Answer: D

Diff: 1

LO: 2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Assets

6) A customer's promise to pay in the future for services or goods sold is called a(n) \_\_\_\_\_.

- A) Accounts Receivable
- B) Accounts Payable
- C) Unearned Revenue
- D) Notes Payable

Answer: A

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Assets

7) Which of the following is an asset account?

- A) Salaries Expense
- B) Accounts Payable
- C) Service Revenue
- D) Prepaid Expense

Answer: D

Diff: 1

LO: 2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Assets

8) Which of the following is an asset account?

- A) Cash
- B) Notes Payable
- C) Dividends
- D) Unearned Revenue

Answer: A

Diff: 2

LO: 2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Assets

9) Provide an explanation for each of the following asset accounts.

| Account Name        | Explanation |
|---------------------|-------------|
| Accounts Receivable |             |
| Prepaid Expense     |             |
| Notes Receivable    |             |

Answer:

| Account Name        | Explanation   |
|---------------------|---|
| Accounts Receivable | A customer's promise to pay in the future for services or goods sold. Often described as "On Account."  |
| Prepaid Expense     | A payment of an expense in advance. It is considered an asset because the prepayment provides a benefit in the future.  |
| Notes Receivable    | A written promise that a customer will pay a fixed amount of money and interest by a certain date in the future. Often more formal than an Accounts Receivable. |

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Assets

10) Liabilities are economic resources that are expected to benefit the business in the future.

Answer: FALSE

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Liabilities

11) A payable involves a future receipt of cash.

Answer: FALSE

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Liabilities

12) Unearned revenue is a liability account.

Answer: TRUE

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Liabilities

13) \_\_\_\_\_ represents a debt owed for renting a building currently.

A) Prepaid Rent

B) Rent Payable

C) Rent Revenue

D) Rent Expense

Answer: B

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Liabilities

14) Which of the following is a liability account?

A) Accounts Receivable

B) Cash

C) Building

D) Notes Payable

Answer: D

Diff: 1

LO: 2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Liabilities

15) Which of the following is a liability account?

A) Accounts Payable

B) Prepaid Expense

C) Salaries Expense

D) Service Revenue

Answer: A

Diff: 1

LO: 2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Liabilities

16) A liability created when a business collects cash from customers in advance of providing services or delivering goods is called a(n) \_\_\_\_\_.

- A) notes receivable
- B) unearned revenue
- C) accrued liability
- D) service revenue

Answer: B

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Liabilities

17) Which of the following is a liability account?

- A) Service Revenue
- B) Building
- C) Accounts Receivable
- D) Unearned Revenue

Answer: D

Diff: 1

LO: 2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Liabilities

18) Provide an explanation for each of the follow liability accounts.

| Account Name      | Explanation |
|-------------------|-------------|
| Accounts Payable  |             |
| Accrued Liability |             |
| Unearned Revenue  |             |

Answer:

| Account Name      | Explanation  |
|-------------------|--|
| Accounts Payable  | A promise made by the business to pay a debt in the future. Arises from a credit purchase.   |
| Accrued Liability | An amount owed but not paid.   |
| Unearned Revenue  | Occurs when a company receives cash from a customer but has not provided the product or service. The promise to provide services or deliver goods in the future. |

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Liabilities

19) The owner's claim to the assets of a business is called equity or owner's equity.

Answer: TRUE

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Equity

20) Owner's withdrawals and expenses increase equity.

Answer: FALSE

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Equity

21) Revenues and contributions of the owner in the business increase equity.

Answer: TRUE

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Equity

22) Nuptial Services Company paid the rent for the current month in cash. Which of the following accounts will be used to record the transaction?

A) Prepaid Rent

B) Rent Payable

C) Rent Revenue

D) Rent Expense

Answer: D

Diff: 1

LO: 2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Equity

23) Amounts earned from delivering goods or services to customers are called \_\_\_\_\_.

A) notes receivable

B) unearned revenues

C) equity

D) revenues

Answer: D

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Equity

24) The Owner's Capital account is a separate account in the \_\_\_\_\_ category of the accounting equation.

A) equity

B) asset

C) liability

D) revenue

Answer: A

Diff: 2

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Equity

25) A chart of accounts is a detailed record of the changes in a particular asset, liability, or equity account during a specified period.

Answer: FALSE

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Chart of Accounts

26) A chart of accounts is a list of all of a company's accounts with their account numbers.

Answer: TRUE

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Chart of Accounts

27) Which of the following is provided in a typical chart of accounts?

A) Account balance

B) Account number

C) Dates of transactions

D) Transaction amounts

Answer: B

Diff: 1

LO: 2-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Chart of Accounts

28) A listing of all accounts in numerical order is called a(n) \_\_\_\_\_.

A) Ledger

B) Journal

C) Income statement

D) Chart of accounts

Answer: D

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Chart of Accounts

29) Companies use a ledger to show all of the increases and decreases in each account along with their balances.

Answer: TRUE

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Ledger



30) A chart of accounts provides more detail than a ledger.

Answer: FALSE

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Ledger

31) Which of the following is the record holding all the accounts, the changes in those accounts, and their balances?

A) Source document

B) Journal

C) Ledger

D) Trial balance

Answer: C

Diff: 1

LO: 2-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Ledger

## Learning Objective 2-2

1) The system of accounting in which every transaction affects at least two accounts is called the double-entry system.

Answer: TRUE

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : What is Double-Entry Accounting? (H1)

2) Debit refers to the right side of the T-account, and credit refers to the left side.

Answer: FALSE

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The T-Account

3) A T-account is a summary device with credits posted on the left side of the vertical line.

Answer: FALSE

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The T-Account

4) A shortened form of the ledger is called a \_\_\_\_\_.

- A) trial balance
- B) balance sheet
- C) chart of accounts
- D) T-account

Answer: D

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The T-Account

5) An asset account is increased by a debit.

Answer: TRUE

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Increases and Decreases in the Accounts

6) A liability account is increased by a debit.

Answer: FALSE

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Increases and Decreases in the Accounts

7) A debit always means a decrease, and a credit always means an increase.

Answer: FALSE

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Increases and Decreases in the Accounts

8) Which of the following accounts decreases with a debit?

- A) Accounts Receivable
- B) Notes Payable
- C) Cash
- D) Rent Expense

Answer: B

Diff: 1

LO: 2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Increases and Decreases in the Accounts

9) "All debits are increases and all credits are decreases." Is this a correct statement? Explain your answer.

Answer: This is not a correct statement. The double entry-system of accounting is a system of accounting in which every transaction affects at least two accounts. As transactions are analyzed and recorded, the rules of debits and credits keep the accounting equation in balance. Assets, expenses and dividends are increased with a debit and decreased with a credit. Liabilities, revenues, and common stock are increased with a credit and decreased with a debit.

Diff: 2

LO: 2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Increases and Decreases in the Accounts

10) The Owner's Capital account is increased by a debit.

Answer: FALSE

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Expanding the Rules of Debit and Credit

11) The Owner's Withdrawals account is increased by a debit.

Answer: TRUE

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Expanding the Rules of Debit and Credit

12) All asset accounts and equity accounts increase with a debit.

Answer: FALSE

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Expanding the Rules of Debit and Credit

13) The balances in the liability and revenue accounts are increased with a credit.

Answer: TRUE

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Expanding the Rules of Debit and Credit

14) Which of the following accounts increases with a credit?

- A) Cash
- B) Owner, Capital
- C) Accounts Receivable
- D) Prepaid Expense

Answer: B

Diff: 1

LO: 2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Expanding the Rules of Debit and Credit

15) Which of the following accounts decreases with a credit?

- A) Cash
- B) Owner, Capital
- C) Accounts Payable
- D) Notes Payable

Answer: A

Diff: 1

LO: 2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Expanding the Rules of Debit and Credit

16) Which of the following accounts increases with a debit?

- A) Cash
- B) Interest Payable
- C) Accounts Payable
- D) Owner, Capital

Answer: A

Diff: 1

LO: 2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Expanding the Rules of Debit and Credit

17) Which one of the following account groups will decrease with a debit?

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

Answer: C

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Expanding the Rules of Debit and Credit

18) Which of the following statements is true of expenses?

- A) Expenses increase equity, so an expense account's normal balance is a credit balance.
- B) Expenses decrease equity, so an expense account's normal balance is a credit balance.
- C) Expenses increase equity, so an expense account's normal balance is a debit balance.
- D) Expenses decrease equity, so an expense account's normal balance is a debit balance.

Answer: D

Diff: 2

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Expanding the Rules of Debit and Credit

19) An account that normally has a debit balance may occasionally have a credit balance.

Answer: TRUE

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Normal Balance of an Account

20) The normal balance of an account is the increase side of the account.

Answer: TRUE

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Normal Balance of an Account

21) Which one of the following account groups normally has a credit balance?

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

Answer: C

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Normal Balance of an Account

22) Which one of the following account groups normally has a debit balance?

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

Answer: A

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Normal Balance of an Account

23) Accounts Receivable is a(n) \_\_\_\_\_ account and has a normal \_\_\_\_\_ balance.

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

Answer: B

Diff: 2

LO: 2-2

AACSB: Analytical thinking

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Normal Balance of an Account

24) Accounts Payable is a(n) \_\_\_\_\_ account and has a normal \_\_\_\_\_ balance.

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

Answer: C

Diff: 2

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Normal Balance of an Account

25) Cash is a(n) \_\_\_\_\_ account and has a normal \_\_\_\_\_ balance.

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

Answer: A

Diff: 2

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Normal Balance of an Account

26) Which of the following statements is true of the Owner's Capital account?

- A) It is an equity account that has a normal credit balance.
- B) It is a liability account that has a normal credit balance.
- C) It is a liability account that has a normal debit balance.
- D) It is an equity account that has a normal debit balance.

Answer: A

Diff: 2

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Normal Balance of an Account

27) For Office Supplies, the category of account and its normal balance is \_\_\_\_\_.

- A) liabilities and a debit balance
- B) assets and a debit balance
- C) liabilities and a credit balance
- D) assets and a credit balance

Answer: B

Diff: 2

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Normal Balance of an Account

28) The Salaries Payable account is a(n) \_\_\_\_\_.

- A) liability account with a normal debit balance
- B) asset account with a normal debit balance
- C) liability account with a normal credit balance
- D) asset account with a normal credit balance

Answer: C

Diff: 2

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Normal Balance of an Account

29) For Expenses, the category of account and its normal balance is \_\_\_\_\_.

- A) equity and a credit balance
- B) assets and a debit balance
- C) assets and a credit balance
- D) equity and a debit balance

Answer: D

Diff: 2

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Normal Balance of an Account

30) For Revenues, the category of account and its normal balance is \_\_\_\_\_.

- A) equity and a credit balance
- B) assets and a debit balance
- C) assets and a credit balance
- D) equity and a debit balance

Answer: A

Diff: 2

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Normal Balance of an Account

31) For Owner's Capital, the category of account and its normal balance is \_\_\_\_\_.

- A) equity and a credit balance
- B) assets and a debit balance
- C) equity and a debit balance
- D) assets and a credit balance

Answer: A

Diff: 2

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Normal Balance of an Account

32) Owner's Withdrawals is a(n) \_\_\_\_\_ account that has a normal \_\_\_\_\_ balance.

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

Answer: B

Diff: 2

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Normal Balance of an Account

33) Which of the following statements is true of revenues?

- A) Revenues decrease equity, so a revenue account's normal balance is a credit balance.
- B) Revenues decrease equity, so a revenue account's normal balance is a debit balance.
- C) Revenues increase equity, so a revenue account's normal balance is a debit balance.
- D) Revenues increase equity, so a revenue account's normal balance is a credit balance.

Answer: D

Diff: 2

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Normal Balance of an Account

34) The T-account is a summary device that is shaped like a capital T with debits posted on the right side of the vertical line and credits posted on the left side of the vertical line.

Answer: FALSE

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Determining the Balance of a T-Account



35) The T-account is a summary device that is shaped like a capital T with debits posted on the left side of the vertical line and credits posted on the right side of the vertical line.

Answer: TRUE

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Determining the Balance of a T-Account

36) In reviewing the T-account for Accounts Receivable, you find that the beginning balance is zero, the total increases are \$4,900 and the total decreases are \$2,400. This means that the ending balance of the account is a credit balance of \$2,500.

Answer: FALSE

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Determining the Balance of a T-Account

37) In reviewing the T-account for Accounts Payable, you find that the beginning balance is zero, the total increases are \$7,400 and the total decreases are \$4,900. This means that the ending balance of the account is a credit balance of \$2,500.

Answer: TRUE

Diff: 1

LO: 2-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Determining the Balance of a T-Account

38) The Accounts Receivable account of Rosewood Company has the following postings:

| <b>Accounts Receivable</b> |       |
|----------------------------|-------|
| 23,000                     | 6,000 |
| 4,000                      |       |

Calculate the ending balance of the account.

A) \$33,000 debit

B) \$27,000 debit

C) \$6,000 credit

D) \$21,000 debit

Answer: D

Diff: 2

LO: 2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Determining the Balance of a T-Account

39) The Accounts Payable account of Golden Company has the following postings:

| <b>Accounts Payable</b> |        |
|-------------------------|--------|
| 18,000                  | 28,000 |
| 6,000                   | 12,000 |

Calculate the ending balance of the account.

- A) \$12,000 credit
- B) \$16,000 debit
- C) \$16,000 credit
- D) \$6,000 debit

Answer: C

Diff: 2

LO: 2-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Determining the Balance of a T-Account

### Learning Objective 2-3

1) Source documents provide the evidence and data for accounting transactions.

Answer: TRUE

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Source Documents - The Origin of the Transactions

2) Which of the following is a source document that provides the evidence and data for accounting transactions?

- A) Journal
- B) Sales invoice
- C) Ledger
- D) Trial balance

Answer: B

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Source Documents - The Origin of the Transactions

3) Debits in the journal are always posted as debits in the ledger.

Answer: TRUE

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Journalizing and Posting Transactions

4) The process of transferring data from the ledger to the journal is called posting.

Answer: FALSE

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Journalizing and Posting Transactions

5) A compound journal entry has more than two accounts, but the total dollar value of the debits still must equal total dollar value of the credits.

Answer: TRUE

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Journalizing and Posting Transactions

6) When a business makes a cash payment, the Cash account is debited.

Answer: FALSE

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Journalizing and Posting Transactions

7) When a business collects cash, the Cash account is debited.

Answer: TRUE

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Journalizing and Posting Transactions

8) When a business records an accrued utility liability, the Utilities Expense account is credited.

Answer: FALSE

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Journalizing and Posting Transactions

9) When a business records the earning of service revenue, the Service Revenue account is credited.

Answer: TRUE

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Journalizing and Posting Transactions

10) Transactions are first record in a \_\_\_\_\_.

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

Answer: C

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Journalizing and Posting Transactions

11) Journalizing a transaction involves \_\_\_\_\_.

- A) calculating the balance in an account using journal entries
- B) posting the account balances in the chart of accounts
- C) preparing a summary of account balances
- D) recording the data only in the journal

Answer: D

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Journalizing and Posting Transactions

12) Posting a transaction means \_\_\_\_\_.

- A) calculating the balance in an account
- B) transferring data from the journal to the ledger
- C) preparing a summary of account balances
- D) finding the account number in the chart of accounts

Answer: B

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Journalizing and Posting Transactions

13) After initially recording a transaction, the data is then transferred to the \_\_\_\_\_.

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

Answer: B

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Journalizing and Posting Transactions

14) The accounting process of transferring a transaction from the journal to the ledger is called \_\_\_\_\_.

- A) journalizing
- B) posting
- C) compounding
- D) sourcing

Answer: B

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Journalizing and Posting Transactions

15) The first step in the journalizing and posting process is to \_\_\_\_\_.

- A) post the journal entry to the ledger
- B) identify the accounts involved and the account type
- C) decide whether each account increases or decreases
- D) record the transaction in the journal

Answer: B

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Journalizing and Posting Transactions

16) Which of the following is the order of steps to journalize an entry?

- A) Identify the accounts and the account type → Decide whether each account increases or decreases, then apply the rules of debits and credits → Record the transaction
- B) Identify the accounts and the account type → Record the transaction → Decide whether each account increases or decreases, then apply the rules of debits and credits
- C) Record the transaction → Identify the accounts and the account type → Decide whether each account increases or decreases, then apply the rules of debits and credits
- D) Decide whether each account increases or decreases, then apply the rules of debits and credits → Identify the accounts and the account type → Record the transaction

Answer: A

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Journalizing and Posting Transactions

17) Which of the following is the final step in the journalizing and posting process?

- A) Posting the accounts to the ledger.
- B) Identifying each account affected and its type.
- C) Determining whether the accounting equation is in balance.
- D) Determining whether each account has increased or decreased.

Answer: C

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Journalizing and Posting Transactions

18) Which of the following sequences is the normal sequence of flow of accounting data?

- A) Ledger → Journal → Source document
- B) Journal → Source document → Ledger
- C) Source document → Journal → Ledger
- D) Source document → Ledger → Journal

Answer: C

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Journalizing and Posting Transactions

19) A business renders services to a client and issues a sales invoice. The amount will be collected from the customer at a later time. Which of the following is true at the time the invoice is issued?

- A) Equity will decrease.
- B) Total liabilities will increase.
- C) Total assets will decrease.
- D) Net income will increase.

Answer: D

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

20) Stewart Candle Company received a cash contribution of \$40,000 from the owner of the business. Which of the following accounts will be debited?

- A) Accounts Receivable
- B) Cash
- C) Stewart, Capital
- D) Accounts Payable

Answer: B

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

21) Whitney Chemicals Company received cash contribution of \$40,000 from the owner of the business. Which of the following accounts will be credited?

- A) Accounts Receivable
- B) Cash
- C) Owner, Capital
- D) Accounts Payable

Answer: C

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

22) A business purchases equipment for \$8,000 cash. Which of the following accounts is debited?

- A) Cash
- B) Accounts Payable
- C) Owner, Capital
- D) Equipment

Answer: D

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

23) A business purchases equipment for \$8,000 cash. Which of the following accounts is credited?

- A) Cash
- B) Accounts Payable
- C) Owner, Capital
- D) Equipment

Answer: A

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

24) A business makes a cash payment of \$12,000 to a supplier for supplies purchased two weeks earlier. Which of the following accounts is debited?

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

Answer: B

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

25) A business makes a cash payment of \$12,000 to a creditor. Which of the following accounts is credited?

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

Answer: A

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

26) A business renders services to a customer for \$26,000 on account. Which of the following accounts is debited?

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

Answer: B

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions



27) A business renders services to a customer for \$26,000 on account. Which of the following accounts is credited?

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

Answer: C

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

28) A business renders services for \$26,000 and collects cash from the customer. Which of the following accounts will be debited?

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

Answer: A

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

29) A business prepays four months' office rent. Which of the following accounts is debited?

- A) Rent Expense
- B) Cash
- C) Prepaid Rent
- D) Unearned Rent

Answer: C

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

30) A business receives \$40,000 for services that it will perform over the next four months. Which of the following accounts is credited?

- A) Cash
- B) Accounts Payable
- C) Service Revenue
- D) Unearned Revenue

Answer: D

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

31) Beetles Company recorded the following journal entry on March 2, 2016.

|                  |        |        |
|------------------|--------|--------|
| Cash             | 10,500 |        |
| Unearned Revenue |        | 10,500 |

From the journal entry above, identify the transaction on March 2, 2016.

- A) Beetles purchased goods worth \$10,500 and signed a one-year note for the same.
- B) Beetles sold goods for \$10,500 cash.
- C) Beetles received \$10,500 for services to be performed in a later period.
- D) Beetles paid \$10,500 for services to be received at a later date.

Answer: C

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

32) A business pays \$500 cash for office supplies. Which of the following accounts is debited?

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

Answer: C

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

33) A business pays \$500 cash for office supplies. Which of the following accounts is credited?

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

Answer: A

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

34) A business purchases \$500 of office supplies on account. Which of the following accounts is debited?

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

Answer: C

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

35) A business purchases \$500 of office supplies on account. Which of the following accounts is credited?

- A) Cash
- B) Accounts Payable
- C) Office Supplies
- D) Service Revenue

Answer: B

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

36) A business makes a cash payment to a supplier for office supplies that were purchased earlier on account. Which of the following accounts is debited?

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

Answer: B

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

37) A business makes a cash payment to a supplier on account for office supplies that were purchased earlier. Which of the following accounts is credited?

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

Answer: A

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

38) A business collects cash from a customer for services that were performed one month earlier. Which of the following accounts is debited?

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

Answer: A

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

39) A business collects cash from a customer for services that were performed one month earlier. Which of the following accounts is credited?

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

Answer: B

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

40) A business borrows cash by signing a note payable. Which of the following accounts is debited?

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

Answer: D

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

41) A business borrows cash by signing a note payable. Which of the following accounts is credited?

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

Answer: A

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

42) A business repays the amount borrowed on a note with cash. Which of the following accounts is debited?

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

Answer: C

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

43) A business repays the amount borrowed on a note with cash. Which of the following accounts is credited?

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

Answer: B

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

44) A business makes a payment in cash for advertising expense. Which of the following accounts is debited?

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

Answer: D

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

45) A business makes a payment in cash for advertising expense. Which of the following accounts is credited?

- A) Notes Payable
- B) Accounts Receivable
- C) Cash
- D) Advertising Expense

Answer: C

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

46) The owner withdrew cash from the business. Which of the following accounts is debited?

- A) Cash
- B) Owner, Withdrawals
- C) Accounts Payable
- D) Common Stock

Answer: B

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

47) The owner withdrew cash from the business. Which of the following accounts is credited?

- A) Common Stock
- B) Dividends
- C) Cash
- D) Accounts Payable

Answer: C

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

48) An accounting entry that is characterized by having multiple debits and/or multiple credits is called a \_\_\_\_\_ entry.

- A) balanced
- B) posted
- C) chart of accounts
- D) compound journal

Answer: D

Diff: 2

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Journalizing and Posting Transactions

49) A business makes a payment of \$1,400 on a note payable. Which of the following journal entries would be recorded?

- A) Cash is credited and Notes Payable is debited for \$1,400.
- B) Notes Payable is credited and Cash is debited for \$1,400.
- C) Cash is credited and Financing Expense is debited for \$1,400.
- D) Cash is debited and Financing Revenue is credited for \$1,400.

Answer: A

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

50) A business purchases equipment by paying \$6,081 in cash and issuing a note payable of \$12,291. Which of the following occurs?

- A) Cash is credited for \$6,081, Equipment is credited for \$18,372, and Notes Payable is debited for \$12,291.
- B) Cash is credited for \$6,081, Equipment is debited for \$18,372, and Notes Payable is credited for \$12,291.
- C) Cash is debited for \$6,081, Equipment is debited for \$12,291, and Notes Payable is credited for \$18,372.
- D) Cash is debited for \$6,081, Equipment is credited for \$12,291, and Notes Payable is debited for \$6,210.

Answer: B

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions



51) Which of the following journal entries would be recorded if a business purchased \$800 of office supplies on account?

A)

|                  |     |     |
|------------------|-----|-----|
| Accounts Payable | 800 |     |
| Office Supplies  |     | 800 |

B)

|                  |     |     |
|------------------|-----|-----|
| Office Supplies  | 800 |     |
| Accounts Payable |     | 800 |

C)

|                 |     |     |
|-----------------|-----|-----|
| Office Supplies | 800 |     |
| Cash            |     | 800 |

D)

|                 |     |     |
|-----------------|-----|-----|
| Cash            | 800 |     |
| Office Supplies |     | 800 |

Answer: B

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

52) Which of the following journal entries would be recorded if a business renders service and receives cash of \$900 from the customer?

A)

|                 |     |     |
|-----------------|-----|-----|
| Service Revenue | 900 |     |
| Cash            |     | 900 |

B)

|                  |     |     |
|------------------|-----|-----|
| Service Revenue  | 900 |     |
| Accounts Payable |     | 900 |

C)

|                 |     |     |
|-----------------|-----|-----|
| Cash            | 900 |     |
| Service Revenue |     | 900 |

D)

|                     |     |     |
|---------------------|-----|-----|
| Service Revenue     | 900 |     |
| Accounts Receivable |     | 900 |

Answer: C

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

53) Which of the following journal entries would be recorded if a business purchased office supplies on account in a previous accounting period and now makes a cash payment of \$750 to the supplier to settle the account?

A)

|                  |     |     |
|------------------|-----|-----|
| Cash             | 750 |     |
| Accounts Payable |     | 750 |

B)

|                  |     |     |
|------------------|-----|-----|
| Accounts Payable | 750 |     |
| Cash             |     | 750 |

C)

|                 |     |     |
|-----------------|-----|-----|
| Cash            | 750 |     |
| Office Supplies |     | 750 |

D)

|                  |     |     |
|------------------|-----|-----|
| Accounts Payable | 750 |     |
| Office Supplies  |     | 750 |

Answer: B

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

54) Which of the following journal entries would be recorded if Christy Jones Company received a \$3,000 cash contribution from the owner?

A)

|                   |       |       |
|-------------------|-------|-------|
| Cash              | 3,000 |       |
| C. Jones, Capital |       | 3,000 |

B)

|                  |       |       |
|------------------|-------|-------|
| Accounts Payable | 3,000 |       |
| Cash             |       | 3,000 |

C)

|                   |       |       |
|-------------------|-------|-------|
| C. Jones, Capital | 3,000 |       |
| Cash              |       | 3,000 |

D)

|                   |       |       |
|-------------------|-------|-------|
| C. Jones, Capital | 3,000 |       |
| Accounts Payable  |       | 3,000 |

Answer: A

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

55) A business purchased land for \$250,000 cash. Record the transaction in the journal.

Answer:

|                                 |         |         |
|---------------------------------|---------|---------|
| Land                            | 250,000 |         |
| Cash                            |         | 250,000 |
| <i>Purchased land for cash.</i> |         |         |

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

56) A business renders services to its customer for \$50,000 on account. Record the transaction in the journal.

Answer:

|                                       |        |        |
|---------------------------------------|--------|--------|
| Accounts Receivable                   | 50,000 |        |
| Service Revenue                       |        | 50,000 |
| <i>Performed services on account.</i> |        |        |

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

57) A business paid salaries of \$6,000 in cash. Record the transaction in the journal.

Answer:

|                       |       |       |
|-----------------------|-------|-------|
| Salaries Expense      | 6,000 |       |
| Cash                  |       | 6,000 |
| <i>Paid salaries.</i> |       |       |

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

58) For each transaction, identify which account is debited and which account is credited. Use proper account titles.

| <b>Transaction</b>   | <b>Debit</b> | <b>Credit</b> |
|--|--------------|---------------|
| Received cash on account from a customer                             |              |               |
| Paid cash to the owner as a withdrawal                               |              |               |
| Purchased office supplies on account                                 |              |               |
| Received cash from customers for services to be performed next month |              |               |
| Paid employee's salary   |              |               |

Answer:

| <b>Transaction</b>   | <b>Debit</b>       | <b>Credit</b>       |
|--|--------------------|---------------------|
| Received cash on account from a customer                             | Cash               | Accounts Receivable |
| Paid cash to the owner as a withdrawal                               | Owner, Withdrawals | Cash                |
| Purchased office supplies on account                                 | Office Supplies    | Accounts Payable    |
| Received cash from customers for services to be performed next month | Cash               | Unearned Revenue    |
| Paid employee's salary   | Salaries Expense   | Cash                |

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

59) For each transaction, identify which account is debited and which account is credited. Use proper account titles.

| Transaction   | Debit | Credit |
|---|-------|--------|
| Received a bill for utilities to be paid next month                     |       |        |
| Performed services on account   |       |        |
| Paid cash for a 12-month insurance policy, coverage starting next month |       |        |
| Paid rent for the current month   |       |        |
| Borrowed cash from the bank for business use; a note was signed         |       |        |

Answer:

| Transaction   | Debit              | Credit            |
|---|--------------------|-------------------|
| Received a bill for utilities to be paid next month                     | Utilities Expense  | Utilities Payable |
| Performed services on account   | Account Receivable | Service Revenue   |
| Paid cash for a 12-month insurance policy, coverage starting next month | Prepaid Insurance  | Cash              |
| Paid rent for the current month   | Rent Expense       | Cash              |
| Borrowed cash from the bank for business use; a note was signed         | Cash               | Notes Payable     |

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Journalizing and Posting Transactions

60) After posting the journal entries from the journal to the ledger, the accounting equation should be in balance.

Answer: TRUE

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Ledger Accounts After Posting

61) A business purchases \$3,500 of office supplies for cash. Which of the following sets of ledger accounts reflects the posting of this transaction?

A)

|                        |                         |
|------------------------|-------------------------|
| <b>Office Supplies</b> | <b>Accounts Payable</b> |
| 3,500                  | 3,500                   |

B)

|                        |             |
|------------------------|-------------|
| <b>Office Supplies</b> | <b>Cash</b> |
| 3,500                  | 3,500       |

C)

|                        |                         |
|------------------------|-------------------------|
| <b>Office Supplies</b> | <b>Accounts Payable</b> |
| 3,500                  | 3,500                   |

D)

|                        |             |
|------------------------|-------------|
| <b>Office Supplies</b> | <b>Cash</b> |
| 3,500                  | 3,500       |

Answer: D

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : The Ledger Accounts After Posting

62) The following transactions for the month of March have been journalized and posted to the proper accounts.

Mar. 1 The business received a \$9,000 cash contribution from the owner.

Mar. 2 Paid the first month's rent of \$900.

Mar. 3 Purchased equipment by paying \$4,000 cash and executing a note payable for \$5,000.

Mar. 4 Purchased office supplies for \$710 cash.

Mar. 5 Billed a client for \$9,000 of design services completed.

Mar. 6 Received \$7,600 on account for the services previously recorded.

What is the balance in Cash?

A) \$11,890

B) \$10,990

C) \$14,990

D) \$12,600

Answer: B

Explanation: B) Cash is increased by the March 1 transaction of \$9,000 and the March 6 amount of \$7,600 and decreased by the March 2 payment of \$900, March 3 payment of \$4,000, and March 4 payment of \$710 for a final cash balance of \$10,990.

Diff: 3

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : The Ledger Accounts After Posting



63) Sharon Foods Company reported the following transactions for September 2017.

- a) The business received a \$21,000 cash contribution from the owner. It was credited to Sharon, Capital.
- b) The business purchased office equipment for \$9,000 for which \$4,000 cash was paid and the balance was put on a note payable.
- c) Paid insurance expense of \$1,500 cash.
- d) Paid the September utility bill for \$800 cash.
- e) Paid \$1,600 cash for September rent.
- f) The business had sales of \$12,000 in September. Of these sales, 40% were cash sales, and the balance was credit sales.
- g) The business paid \$8,000 cash for office furniture.

What are the total liabilities at the end of September, 2017?

- A) \$12,000
- B) \$1,500
- C) \$5,000
- D) \$9,000

Answer: C

Explanation: C) Liability = Note payable =  $\$9,000 - \$4,000 = \$5,000$

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : The Ledger Accounts After Posting

64) The following transactions for the month of March have been journalized and posted to the proper accounts.

- Mar. 1 The business received a \$9,000 cash contribution from the owner.
- Mar. 2 Paid the first month's rent of \$600.
- Mar. 3 Purchased equipment by paying \$4,000 cash and executing a note payable for \$5,000.
- Mar. 4 Purchased office supplies for \$600 cash.
- Mar. 5 Billed a client for \$10,000 of design services completed.
- Mar. 6 Received \$8,000 on account for the services previously recorded.

What is the balance in Accounts Receivable?

- A) \$8,000
- B) \$2,000
- C) \$5,000
- D) \$10,000

Answer: B

Explanation: B) Accounts Receivable is increased (debited) by the March 5 amount of \$10,000 and decreased (credited) by the March 6 amount of \$8,000.

Diff: 3

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : The Ledger Accounts After Posting

65) The following transactions for March have been journalized and posted to the proper accounts.

- Mar. 1 The business received a \$10,000 cash contribution from the owner.
- Mar. 2 Paid the first month's rent of \$800.
- Mar. 3 Purchased equipment by paying \$4,000 cash and executing a note payable for \$6,000.
- Mar. 4 Purchased office supplies for \$500 cash.
- Mar. 5 Billed a client for \$14,000 of design services completed.
- Mar. 6 Received \$6,000 on account for the services previously recorded.

What is the ending balance in the Service Revenue account?

- A) \$16,000
- B) \$10,000
- C) \$14,000
- D) \$6,000

Answer: C

Explanation: C)

**Service Revenue**

|        |        |
|--------|--------|
| 14,000 | Mar. 5 |
| 14,000 | Bal.   |

Diff: 3

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : The Ledger Accounts After Posting

66) A business has the following transactions:

- \* The business receives \$15,000 cash and issues common stock to stockholders.
- \* The business purchases \$600 of office supplies on account.
- \* The business purchases \$3,000 of furniture on account.
- \* The business renders services to various clients totaling \$15,000 on account.
- \* The business pays \$1,500 for salaries expense and \$4,500 for rent expense.
- \* The business pays \$800 to a supplier for the office supplies purchased earlier.
- \* The business collects \$4,000 from one of its clients for services rendered earlier in the month.

At the end of the month, all journal entries are posted to the ledger. Accounts Receivable will appear as which of the following?

A) **Accounts Receivable**

|  |       |        |      |
|--|-------|--------|------|
|  | 4,000 | 15,000 |      |
|  |       | 11,000 | Bal. |

B) **Accounts Receivable**

|      |        |  |  |
|------|--------|--|--|
|      | 15,000 |  |  |
| Bal. | 15,000 |  |  |

C) **Accounts Receivable**

|      |        |       |  |
|------|--------|-------|--|
|      | 15,000 | 4,000 |  |
| Bal. | 11,000 |       |  |

D) **Accounts Receivable**

|  |        |        |      |
|--|--------|--------|------|
|  | 15,000 | 4,000  |      |
|  |        | 11,000 | Bal. |

Answer: C

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : The Ledger Accounts After Posting

67) A business has the following transactions:

- \* The business received \$16,000 cash and issued common stock to stockholders.
- \* The business purchases \$600 of office supplies on account.
- \* The business purchases \$3,000 of furniture on account.
- \* The business renders services to various clients totaling \$10,000 on account.
- \* The business pays out \$1,500 for salaries expense and \$3,500 for rent expense.
- \* The business pays \$800 to supplier for the office supplies purchased earlier.
- \* The business collects \$4,000 from one of its clients for services rendered earlier in the month.

At the end of the month, all journal entries are posted to the ledger. Accounts Payable will appear as which of the following?

A) **Accounts Payable**

|     |       |      |
|-----|-------|------|
| 800 | 600   |      |
|     | 3,000 |      |
|     | 2,800 | Bal. |

B) **Accounts Payable**

|  |        |      |
|--|--------|------|
|  | 600    |      |
|  | 3,000  |      |
|  | 10,000 | Bal. |

C) **Accounts Payable**

|            |     |  |
|------------|-----|--|
| 600        |     |  |
| 3,000      |     |  |
|            | 800 |  |
| Bal. 2,800 |     |  |

D) **Accounts Payable**

|  |       |      |
|--|-------|------|
|  | 600   |      |
|  | 3,000 |      |
|  | 800   |      |
|  | 4,400 | Bal. |

Answer: B

Diff: 2

LO: 2-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : The Ledger Accounts After Posting

68) When using a four-column account, the posting reference column allows the user of the financial data to trace the amounts in the journal back to the ledger.

Answer: FALSE

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Four-Column Account: An Alternative to the T-Account

69) In a computerized environment, the posting process is completed automatically when the user enters the journal entry.

Answer: TRUE

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Four-Column Account: An Alternative to the T-Account

70) A posting reference column is used \_\_\_\_\_.

A) while preparing the trial balance using the ledger

B) when the information is transferred from the journal to the ledger

C) when the information is transferred from the ledger to the post-closing trial balance

D) while preparing the balance sheet using the trial balance

Answer: B

Diff: 1

LO: 2-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Four-Column Account: An Alternative to the T-Account

## Learning Objective 2-4

1) The trial balance is also known as the balance sheet.

Answer: FALSE

Diff: 1

LO: 2-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : What is the Trial Balance (H1)

2) The trial balance verifies the equality of debits and credits at a point in time.

Answer: TRUE

Diff: 1

LO: 2-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : What is the Trial Balance (H1)

3) A trial balance is the list of only a company's debit accounts along with their account numbers at a point in time.

Answer: FALSE

Diff: 1

LO: 2-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : What is the Trial Balance (H1)

4) A trial balance is a list of all of the accounts of a company with their balances at a point in time.

Answer: TRUE

Diff: 1

LO: 2-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : What is the Trial Balance (H1)

5) In a trial balance, total debits must always equal total credits.

Answer: TRUE

Diff: 1

LO: 2-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : What is the Trial Balance (H1)

6) The trial balance is an internal document used only by employees of the company.

Answer: TRUE

Diff: 1

LO: 2-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : What is the Trial Balance (H1)

7) A trial balance summarizes the ledger by listing all the accounts with their balances at a point in time.

Answer: TRUE

Diff: 1

LO: 2-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : What is the Trial Balance (H1)

8) The trial balance reports the balances of assets, liabilities, and equity.

Answer: TRUE

Diff: 1

LO: 2-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : What is the Trial Balance (H1)

9) Which of the following is used by both internal and external users?

- A) Chart of Accounts
- B) Trial Balance
- C) Balance Sheet
- D) Costing Reports

Answer: C

Diff: 1

LO: 2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : What is the Trial Balance (H1)

10) Which of the following statements is true of a trial balance?

- A) A trial balance has the same format as a balance sheet.
- B) A trial balance presents data in debit and credit format.
- C) A trial balance shows the total amounts of assets and liabilities, but not equity.
- D) A trial balance is prepared after the balance sheet.

Answer: B

Diff: 1

LO: 2-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : What is the Trial Balance (H1)

11) Which of the following sequences states the order in which accounts are listed on a trial balance?

- A) Equity → Assets → Liabilities
- B) Liabilities → Assets → Equity
- C) Assets → Equity → Liabilities
- D) Assets → Liabilities → Equity

Answer: D

Diff: 1

LO: 2-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : What is the Trial Balance (H1)

12) Which of the following statements is true of a trial balance?

- A) A trial balance is the first step in the accounting cycle.
- B) A trial balance is also known as a balance sheet.
- C) A trial balance is a list of all accounts with their balances.
- D) A trial balance is also known as the chart of accounts.

Answer: C

Diff: 1

LO: 2-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : What is the Trial Balance (H1)



13) The following are the current month's balances for Toys Galore before preparing the trial balance.

|                      |         |
|----------------------|---------|
| Accounts Payable     | \$5,000 |
| Revenue              | 3,000   |
| Cash                 | 5,000   |
| Expenses             | 18,500  |
| Furniture            | 11,000  |
| Accounts Receivable  | 11,000  |
| R. Schwartz, Capital | ?       |
| Notes Payable        | 6,500   |

What amount should be shown for R. Schwartz, Capital on the trial balance?

- A) \$56,000
- B) \$31,000
- C) \$11,500
- D) \$27,000

Answer: B

Explanation: B) In a trial balance, the total of debits must match the total of credits. Therefore, the balance of the Capital account can be determined by totaling the debit and the credit balances and calculating the balancing amount.

|                      | <b>Debit</b>    | <b>Credit</b>   |
|----------------------|-----------------|-----------------|
| Cash                 | \$5,000         |                 |
| Accounts Receivable  | 11,000          |                 |
| Furniture            | 11,000          |                 |
| Accounts Payable     |                 | \$5,000         |
| Notes Payable        |                 | 6,500           |
| R. Schwartz, Capital |                 | ?               |
| Revenues             |                 | 3,000           |
| Expenses             | <u>18,500</u>   |                 |
| <b>Total</b>         | <u>\$45,500</u> | <u>\$14,500</u> |

Owner, Capital = \$45,500 - \$14,500 = \$31,000

Diff: 2

LO: 2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : What is the Trial Balance (H1)

14) The following are the current month's balances for Jackson Company.

|                     |         |
|---------------------|---------|
| Accounts Payable    | \$8,000 |
| Revenue             | 12,000  |
| Cash                | 4,000   |
| Expenses            | 1,600   |
| Furniture           | 12,000  |
| Accounts Receivable | 14,000  |
| B. Jackson, Capital | 9,250   |
| Notes Payable       | 4,500   |

Calculate the total amount of credits for the trial balance.

- A) \$24,500
- B) \$21,750
- C) \$25,750
- D) \$33,750

Answer: D

Explanation: D)

|                      |                 |
|----------------------|-----------------|
| Accounts Payable     | \$8,000         |
| Revenue              | 12,000          |
| B. Jackson, Capital  | 9,250           |
| Notes Payable        | <u>4,500</u>    |
| Total credit amounts | <u>\$33,750</u> |

Diff: 2

LO: 2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : What is the Trial Balance (H1)

15) The following are the current month's balances for Global Enterprises.

|                     |          |
|---------------------|----------|
| Accounts Payable    | \$10,000 |
| Revenue             | 8,000    |
| Cash                | 6,000    |
| Expenses            | 1,600    |
| Furniture           | 11,000   |
| Accounts Receivable | 15,000   |
| Owner, Capital      | 7,250    |
| Notes Payable       | 6,500    |

What is the total amount of debits for the trial balance?

A) \$26,000

B) \$27,600

C) \$32,000

D) \$33,600

Answer: D

Explanation: D)

|                     |                 |
|---------------------|-----------------|
| Cash                | \$6,000         |
| Expenses            | 1,600           |
| Furniture           | 11,000          |
| Accounts Receivable | <u>15,000</u>   |
| Total debits        | <u>\$33,600</u> |

Diff: 2

LO: 2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : What is the Trial Balance (H1)

16) The following transactions have been journalized and posted to the proper accounts. Prepare a trial balance at the end of the first month using the following details:

- a) Received a \$15,000 cash contribution from the owner.
- b) Paid the first month's rent with \$800 cash.
- c) Purchased equipment by paying \$4,000 cash and executing a note payable for \$4,000.
- d) Purchased office supplies for \$200 cash. The supplies remain at the end of the month.
- e) Billed clients for a total of \$7,000 for design services rendered.
- f) Received \$1,000 cash from clients for services rendered above.

Answer:

| Account Title       | Debit                  | Credit                 |
|---------------------|------------------------|------------------------|
| Cash                | \$11,000               |                        |
| Accounts Receivable | 6,000                  |                        |
| Office Supplies     | 200                    |                        |
| Equipment           | 8,000                  |                        |
| Notes Payable       |                        | \$4,000                |
| Owner, Capital      |                        | 15,000                 |
| Service Revenue     |                        | 7,000                  |
| Rent Expense        | <u>800</u>             |                        |
| <b>Total</b>        | <b><u>\$26,000</u></b> | <b><u>\$26,000</u></b> |

Explanation:

Note:

Cash balance is calculated as:

|                            |                        |
|----------------------------|------------------------|
| Owner's contribution       | \$15,000               |
| Rent paid                  | (800)                  |
| Cash paid for equipment    | (4,000)                |
| Office supplies purchased  | (200)                  |
| Cash received from clients | <u>1,000</u>           |
| Cash balance               | <b><u>\$11,000</u></b> |

Diff: 3

LO: 2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : What is the Trial Balance (H1)

17) Melody Instruments Company sells musical instruments. On December 31, 2017, after its first month of business, Melody Instruments had the following balances in its accounts, listed alphabetically.

|                        |         |
|------------------------|---------|
| Accounts Receivable    | \$5,000 |
| Accounts Payable       | 15,000  |
| Advertising Expense    | 2,000   |
| Building               | 16,500  |
| Cash                   | ?       |
| L. Melody, Capital     | 50,000  |
| L. Melody, Withdrawals | 1,200   |
| Equipment              | 2,000   |
| Land                   | 70,000  |
| Notes Payable          | 60,000  |
| Office Supplies        | 3,400   |
|                        |         |
| Salaries Expense       | 4,000   |
| Service Revenue        | 72,000  |
| Utilities Expense      | 4,100   |

Determine the balance in the cash account and prepare the trial balance.

Answer: In the given problem, the cash balance is the difference between the debit and credit columns of the Trial Balance.

Melody Instruments Company  
 Trial Balance  
 December 31, 2017

| Account Title          | Debit            | Credit           |
|------------------------|------------------|------------------|
| Cash                   | \$88,800         |                  |
| Accounts Receivable    | 5,000            |                  |
| Office Supplies        | 3,400            |                  |
| Equipment              | 2,000            |                  |
| Building               | 16,500           |                  |
| Land                   | 70,000           |                  |
| Accounts Payable       |                  | \$15,000         |
| Notes Payable          |                  | 60,000           |
| L. Melody, Capital     |                  | 50,000           |
| L. Melody, Withdrawals | 1,200            |                  |
| Service Revenue        |                  | 72,000           |
| Utilities Expense      | 4,100            |                  |
| Salaries Expense       | 4,000            |                  |
| Advertising Expense    | <u>2,000</u>     |                  |
| Total                  | <u>\$197,000</u> | <u>\$197,000</u> |

Cash balance = \$197,000 - \$108,200 = \$88,800

Diff: 3

LO: 2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : What is the Trial Balance (H1)

18) At the end of a month, a business shows the following balances in its ledger.

|                  |                     |                 |              |
|------------------|---------------------|-----------------|--------------|
| Cash             | Accounts Receivable | Office Supplies | Land         |
| 5,000            | 1,200               | 200             | 20,000       |
|                  |                     |                 |              |
| Accounts Payable | Owner, Capital      | Service Revenue | Rent Expense |
| 1,300            | 1,000               | 35,000          | 4,500        |
|                  |                     |                 |              |
| Salaries Expense | Utilities Expense   |                 |              |
| 6,000            | 900                 |                 |              |
|                  |                     |                 |              |

Use this data to prepare a trial balance.

Answer: Trial Balance  
Last Day of the Month

| Account Title       | Debit           | Credit          |
|---------------------|-----------------|-----------------|
| Cash                | \$5,000         |                 |
| Accounts Receivable | 1,200           |                 |
| Office Supplies     | 200             |                 |
| Land                | 20,000          |                 |
| Accounts Payable    |                 | \$1,300         |
| Owner, Capital      |                 | 1,000           |
| Service Revenue     |                 | 35,500          |
| Rent Expense        | 4,500           |                 |
| Salaries Expense    | 6,000           |                 |
| Utility Expense     | 900             |                 |
| <b>Total</b>        | <u>\$37,800</u> | <u>\$37,800</u> |

Diff: 2

LO: 2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : What is the Trial Balance (H1)

19) Data from a trial balance is used to prepare the income statement, statement of owner's equity, and the balance sheet.

Answer: TRUE

Diff: 1

LO: 2-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Preparing Financial Statements from the Trial Balance

20) The trial balance is one of the three basic financial statements that are issued to external users of the business.

Answer: FALSE

Diff: 1

LO: 2-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Preparing Financial Statements from the Trial Balance

21) Which of the following is a financial statement that presents a business's accounting equation?

A) Chart of Accounts

B) Trial Balance

C) Income Statement

D) Balance Sheet

Answer: D

Diff: 1

LO: 2-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Preparing Financial Statements from the Trial Balance

22) When is a trial balance usually prepared?

A) after each entry is journalized

B) before the financial statements are prepared

C) after the financial statements are prepared

D) at the beginning of an accounting period

Answer: B

Diff: 1

LO: 2-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Preparing Financial Statements from the Trial Balance



23) The following are the current month's balances for Adams Marketing Company.

|                     |         |
|---------------------|---------|
| Accounts Payable    | \$8,000 |
| Revenue             | 11,000  |
| Cash                | 7,000   |
| Expenses            | 1,500   |
| Furniture           | 10,000  |
| Accounts Receivable | 16,000  |
| Adams, Capital      | 8,250   |
| Notes Payable       | 5,500   |

What is the net income for Adams Marketing for the current month?

A) \$11,000

B) \$9,500

C) \$12,500

D) \$18,000

Answer: B

Explanation: B)

Revenue           \$11,000

Expenses           (1,500)

Net Income        \$9,500

Diff: 1

LO: 2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Preparing Financial Statements from the Trial Balance

24) Balancing errors can be detected by computing the difference between total debits and total credits on the trial balance.

Answer: TRUE

Diff: 1

LO: 2-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Correcting Trial Balance Errors

25) If the total debits equal the total credits on the trial balance, the individual account balances will be error free.

Answer: FALSE

Diff: 1

LO: 2-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Correcting Trial Balance Errors

26) A journal entry for a \$70 payment for rent expense was posted as a debit to Salaries Expense and a credit to Cash. Which of the following statements correctly states the effect of the error on the trial balance?

- A) The sum of the credits will equal the sum of the debits.
- B) The sum of the debits will exceed the sum of the credits by \$70.
- C) The sum of the debits will exceed the sum of the credits by \$140.
- D) The sum of the credits will exceed the sum of the debits by \$140.

Answer: A

Diff: 2

LO: 2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Correcting Trial Balance Errors

27) A journal entry for a \$270 payment to purchase office supplies was erroneously recorded as a debit to Office Supplies for \$520 and a credit to Cash for \$270. Which of the following statements correctly states the effect of the error on the trial balance?

- A) The sum of the credits will exceed the sum of the debits by \$250.
- B) The sum of the debits will exceed the sum of the credits by \$270.
- C) The sum of the debits will exceed the sum of the credits by \$250.
- D) The sum of the debits will exceed the sum of the credits by \$520.

Answer: C

Diff: 2

LO: 2-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Correcting Trial Balance Errors

## Learning Objective 2-5

1) The debt ratio shows the proportion of assets financed with debt.

Answer: TRUE

Diff: 1

LO: 2-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

2) Grace Paper Company has a debt ratio of 25%, which means that 75% of the assets are financed by creditors.

Answer: FALSE

Diff: 1

LO: 2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

3) The higher the debt ratio, the lower the risk.

Answer: FALSE

Diff: 1

LO: 2-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

4) Which of the following is the correct formula to calculate the debt ratio?

A) Debt ratio = Total liabilities  $\times$  Total assets

B) Debt ratio = Total liabilities + Total assets

C) Debt ratio = Total liabilities - Total assets

D) Debt ratio = Total liabilities / Total assets

Answer: D

Diff: 1

LO: 2-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

5) The percentage of assets that are financed with liabilities can be calculated using the \_\_\_\_\_.

A) accounting equation

B) debt ratio

C) journal

D) ledger

Answer: B

Diff: 1

LO: 2-5

AACSB: Interpersonal relations and teamwork

AICPA Functional: Measurement

PE Question Type: Concept

H2 : How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

6) The ability of a company to repay its liabilities can be determined from its \_\_\_\_\_.

A) bankers

B) creditors

C) debt ratio

D) journal

Answer: C

Diff: 1

LO: 2-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

7) Mitchell Florists reported assets of \$1,400 and equity of \$350. What is its debt ratio? (Round your percentage answer to two decimal places.)

- A) 75.00%
- B) 25.00%
- C) 100.00%
- D) 80.00%

Answer: A

Explanation: A) Total liabilities = \$1,400 - \$350 = \$1,050

Debt ratio = Total liabilities / Total assets

Debt ratio = \$1,050 / \$1,400 = 0.75 or 75.00%

Diff: 1

LO: 2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

8) Camile Plastics Company had the following total assets, liabilities, and equity as of December 31.

|             |           |
|-------------|-----------|
| Assets      | \$430,000 |
| Liabilities | 133,000   |
| Equity      | 297,000   |

What is the company's debt ratio as of December 31? (Round your percentage answer to two decimal places.)

- A) 30.93%
- B) 69.07%
- C) 100.00%
- D) 44.78%

Answer: A

Explanation: A) Debt ratio = Total liabilities / Total assets

Debt ratio = \$133,000 / \$430,000 = 0.3093 or 30.93%

Diff: 1

LO: 2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

9) Which of the following factors is assessed using the debt ratio?

- A) expenses
- B) revenues
- C) risk
- D) income

Answer: C

Diff: 1

LO: 2-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)

10) Calculate the debt ratio using the following trial balance of Harmony Instruments Company as of December 31, 2017.

Harmony Instruments, Inc.  
Trial Balance  
December 31, 2017

| Account Title           | Debit            | Credit           |
|-------------------------|------------------|------------------|
| Cash                    | \$88,800         |                  |
| Accounts Receivable     | 5,000            |                  |
| Office Supplies         | 3,400            |                  |
| Equipment               | 2,000            |                  |
| Building                | 16,500           |                  |
| Land                    | 70,000           |                  |
| Accounts Payable        |                  | \$15,000         |
| Notes Payable           |                  | 60,000           |
| H. Harmony, Capital     |                  | 50,000           |
| H. Harmony, Withdrawals | 1,200            |                  |
| Service Revenue         |                  | 72,000           |
| Utilities Expense       | 4,100            |                  |
| Salaries Expense        | 4,000            |                  |
| Advertising Expense     | <u>2,000</u>     |                  |
| Total                   | <u>\$197,000</u> | <u>\$197,000</u> |

Answer:

|                   |                 |
|-------------------|-----------------|
| Accounts Payable  | \$15,000        |
| Notes Payable     | <u>60,000</u>   |
| Total Liabilities | <u>\$75,000</u> |

|                     |                  |
|---------------------|------------------|
| Accounts Receivable | \$5,000          |
| Building            | 16,500           |
| Cash                | 88,800           |
| Equipment           | 2,000            |
| Land                | 70,000           |
| Office Supplies     | <u>3,400</u>     |
| Total assets        | <u>\$185,700</u> |

Debt ratio = Total liabilities / Total assets

Debt ratio = \$75,000 / \$185,700 = 0.40 or 40%

Diff: 3

LO: 2-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : How Do You Use the Debt Ratio to Evaluate Business Performance? (H1)