Financial Accounting 6th edition Weygandt Test Bank

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CHAPTER 2

THE RECORDING PROCESS

SUMMARY OF QUESTIONS BY STUDY OBJECTIVES AND BLOOM'S TAXONOMY

Item	SO	BT	Item	SO	BT	Item	SO	BT	Item	SO	BT	Item	SO	BT
True-False Statements														
1.	1	K	9.	2	K	17.	3	K	25.	5	K	[sg]33.	4	K
2.	1	K	10.	2	K	18.	3	K	26.	5	C	[sg]34.	5	K
3.	1	K	11.	2	K	19.	4	K	27.	5	K	[sg]35.	6	C
4.	1	K	12.	2	K	20.	4	K	28.	6	K	[sg]36.	7	K
5.	2	K	13.	2	K	21.	4	K	29.	6	K	[sg]37.	7	K
6.	2	K	14.	2	K	22.	4	K	30.	7	K			
7.	2	K	15.	3	K	23.	4	K	[sg]31.	2	K			
8.	2	K	16.	3	K	24.	5	K	[sg]32.	2	K			
Multiple Choice Questions														
38.	1	K	61.	2	K	84.	3	C	107.	4	K	130.	6	K
39.	1	K	62.	2	K	85.	3	K	108.	4	K	131.	6	K
40.	1	K	63.	2	C	86.	3	C	109.	4	C	132.	7	K
41.	1	C	64.	2	C	87.	3	K	110.	4	AN	133.	7	C
42.	1	K	65.	2	K	88.	3	K	111.	5	K	134.	7	K
43.	1	K	66.	2	K	89.	3	K	112.	5	K	135.	7	C
44.	1	K	67.	2	K	90.	3	K	113.	5	K	136.	7	K
45.	2	K	68.	2	K	91.	3	K	114.	5	K	137.	7	K
46.	2	K	69.	2	K	92.	3	C	115.	5	C	138.	7	C
47.	2	K	70.	2	C	93.	3	K	116.	5	K	[sg]139.	1	K
48.	2	K	71.	2	K	94.	3	K	117.	5	K	[st]140.	2	K
49.	2	K	72.	2	K	95.	3	K	118.	5	K	[sg]141.	2	K
50.	2	K	73.	2	K	96.	3	K	119.	6	K	[st]142.	3	K
51.	2	K	74.	2	C	97.	4	K	120.	6	K	[sg]143.	3	K
52.	2	K	75.	2	K	98.	4	K	121.	6	K	[st]144.	4	K
53.	2	K	76.	2	K	99.	4	K	122.	6	K	[sg]145.	4	K
54.	2	C	77.	2	C	100.	4	K	123.	6	K	[sg]146.	4	K
55.	2	C	78.	2	AP	101.	4	K	124.	6	K	[sg]147.	4	C
56.	2	C	79.	2	AP	102.	4	K	125.	6	K	[st]148.	6	K
57.	2	K	80.	2	K	103.	4	K	126.	6	K	[sg]149.	6	K
58.	2	K	81.	3	K	104.	4	C	127.	6	K	[st]150.	7	K
59.	2	K	82.	3	K	105.	4	K	128.	6	K	[sg]151.	7	C
60.	2	K	83.	3	K	106.	4	K	129.	6	K			
Brief Exercises														
152.	2	AP	154.	4	K	156.	4	K	158.	6	AP	160.	7	AP
153.	2	K	155.	4	AP	157.	4	AP	159.	6	AP	161.	7	AP

[sg] This question also appears in the Study Guide.
[st] This question also appears in a self-test at the student companion website.

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SUMMARY OF QUESTIONS BY STUDY OBJECTIVES AND BLOOM'S TAXONOMY

Exercises													
162.	1	C	167.	2	C	172.	3	AP	177.	5	AN	182.	7	AP
163.	1	C	168.	2	C	173.	3	C	178.	6	AN	183.	7	AP
164.	1	C	169.	2	C	174.	4	C	179.	6	AN			
165.	2	C	170.	2	AP	175.	5	AP	180.	6	AN			
166.	2	C	171.	3	C	176.	5	AP	181.	7	AP			
Completion Statements														
184.	1	K	186.	2	K	188.	3	K	190.	4	K	192.	5	K
185.	2	K	187.	2	K	189.	4	K	191.	4	K	193.	7	K

SUMMARY OF STUDY OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Study Objective 1													
1.	TF	4.	TF	40.	MC	43.	MC	162.	Ex	184.	C		
2.	TF	38.	MC	41.	MC	44.	MC	163.	Ex				
3.	TF	39.	MC	42.	MC	139.	MC	164.	Ex				
Study Objective 2													
5.	TF	14.	TF	51.	MC	60.	MC	69.	MC	78.	MC	167.	Ex
6.	TF	31.	TF	52.	MC	61.	MC	70.	MC	79.	MC	168.	Ex
7.	TF	32.	TF	53.	MC	62.	MC	71.	MC	80.	MC	169.	Ex
8.	TF	45.	MC	54.	MC	63.	MC	72.	MC	140.	MC	170.	Ex
9.	TF	46.	MC	55.	MC	64.	MC	73.	MC	141.	MC	185.	C
10.	TF	47.	MC	56.	MC	65.	MC	74.	MC	152.	BE	186.	C
11.	TF	48.	MC	57.	MC	66.	MC	75.	MC	153.	BE	187.	C
12.	TF	49.	MC	58.	MC	67.	MC	76.	MC	165.	Ex		
13.	TF	50.	MC	59.	MC	68.	MC	77.	MC	166.	Ex		
Study Objective 3													
15.	TF	81.	MC	85.	MC	89.	MC	93.	MC	142.	MC	173.	Ex
16.	TF	82.	MC	86.	MC	90.	MC	94.	MC	143.	MC	188.	C
17.	TF	83.	MC	87.	MC	91.	MC	95.	MC	171.	Ex		
18.	TF	84.	MC	88.	MC	92.	MC	96.	MC	172.	Ex		
Study Objective 4													
19.	TF	33.	TF	101.	MC	106.	MC	144.	MC	155.	BE	190.	C
20.	TF	97.	MC	102.	MC	107.	MC	145.	MC	156.	BE	191.	C
21.	TF	98.	MC	103.	MC	108.	MC	146.	MC	157.	BE		
22.	TF	99.	MC	104.	MC	109.	MC	147.	MC	174.	Ex		
23.	TF	100.	MC	105.	MC	110.	MC	154.	BE	189.	C		
Study Objective 5													
24.	TF	27.	TF	112.	MC	115.	MC	118.	MC	177.	Ex		
25.	TF	34.	TF	113.	MC	116.	MC	175.	Ex	192.	C		
26.	TF	111.	MC	114.	MC	117.	MC	176.	Ex				

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SUMMARY OF STUDY OBJECTIVES BY QUESTION TYPE

Study Objective 6												
28.	TF	120.	MC	124.	MC	128.	MC	148.	MC	178.	Ex	
29.	TF	121.	MC	125.	MC	129.	MC	149.	MC	179.	Ex	
35.	TF	122.	MC	126.	MC	130.	MC	158.	BE	180.	Ex	
119.	MC	123.	MC	127.	MC	131.	MC	159.	BE			
Study Objective 7												
30.	TF	132.	MC	135.	MC	138.	MC	160.	BE	182.	Ex	
36.	TF	133.	MC	136.	MC	150.	MC	161.	BE	183.	Ex	
37.	TF	134.	MC	137.	MC	151.	MC	181.	Ex	193.	C	

Note: TF = True-False BE = Brief Exercise C = Completion
MC = Multiple Choice Ex = Exercise

The chapter also contains one set of ten Matching questions and five Short-Answer Essay questions.

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CHAPTER STUDY OBJECTIVES

1. ***Explain what an account is and how it helps in the recording process.*** An account is a record of increases and decreases in specific asset, liability, and stockholders' equity items.

2. ***Define debits and credits and explain their use in recording business transactions.*** The terms debit and credit are synonymous with left and right. Assets, dividends, and expenses are increased by debits and decreased by credits. Liabilities, common stock, retained earnings and revenues are increased by credits and decreased by debits.

3. ***Identify the basic steps in the recording process.*** The basic steps in the recording process are: (a) analyze each transaction for its effects on the accounts, (b) enter the transaction information in a journal, (c) transfer the journal information to the appropriate accounts in the ledger.

4. ***Explain what a journal is and how it helps in the recording process.*** The initial accounting record of a transaction is entered in a journal before the data are entered in the accounts. A journal (a) discloses in one place the complete effects of a transaction, (b) provides a chronological record of transactions, and (c) prevents or locates errors because the debit and credit amounts for each entry can be readily compared.

5. ***Explain what a ledger is and how it helps in the recording process.*** The ledger is the entire group of accounts maintained by a company. The ledger keeps in one place all the information about changes in specific account balances.

6. ***Explain what posting is and how it helps in the recording process.*** Posting is the transfer of journal entries to the ledger accounts. This phase of the recording process accumulates the effects of journalized transactions in the individual accounts.

7. ***Prepare a trial balance and explain its purposes.*** A trial balance is a list of accounts and their balances at a given time. Its primary purpose is to prove the equality of debits and credits after posting. A trial balance also uncovers errors in journalizing and posting and is useful in preparing financial statements.

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TRUE-FALSE STATEMENTS

1. A new account is opened for each transaction entered into by a business firm.

2. The recording process becomes more efficient and informative if all transactions are recorded in one account.

3. When the volume of transactions is large, recording them in tabular form is more efficient than using journals and ledgers.

4. An account is often referred to as a T-account because of the way it is constructed.

5. A debit to an account indicates an increase in that account.

6. If a revenue account is credited, the revenue account is increased.

7. The normal balance of all accounts is a debit.

8. Debit and credit can be interpreted to mean increase and decrease, respectively.

9. The double-entry system of accounting refers to the placement of a double line at the end of a column of figures.

10. A credit balance in a liability account indicates that an error in recording has occurred.

11. The dividends account is a subdivision of the returned earnings account and appears as an expense on the income statement.

12. Revenues are a subdivision of stockholders' equity.

13. Under the double-entry system, revenues must always equal expenses.

14. Transactions are entered in the ledger first and then they are analyzed in terms of their effect on the accounts.

15. Business documents can provide evidence that a transaction has occurred.

16. Each transaction must be analyzed in terms of its effect on the accounts before it can be recorded in a journal.

17. Transactions are entered in the ledger accounts and then transferred to journals.

18. All business transactions must be entered first in the general ledger.

19. A simple journal entry requires only one debit to an account and one credit to an account.

20. A compound journal entry requires several debits to one account and several credits to one account.

21. Transactions are recorded in alphabetic order in a journal.

22. A journal is also known as a book of original entry.

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23. The complete effect of a transaction on the accounts is disclosed in the journal.

24. The account titles used in journalizing transactions need **not** be identical to the account titles in the ledger.

25. The chart of accounts is a special ledger used in accounting systems.

26. A general ledger should be arranged in the order in which accounts are presented in the financial statements, beginning with the balance sheet accounts.

27. The number and types of accounts used by different business enterprises are the same if generally accepted accounting principles are being followed by the enterprises.

28. Posting is the process of proving the equality of debits and credits in the trial balance.

29. After a transaction has been posted, the reference column in the journal should **not** be blank.

30. A trial balance does **not** prove that all transactions have been recorded or that the ledger is correct.

Additional True-False Questions

31. The double-entry system is a logical method for recording transactions and results in equal debits and credits for each transaction.

32. The normal balance of an expense is a credit.

33. The journal provides a chronological record of transactions.

34. The ledger is merely a bookkeeping device and therefore does **not** provide much useful data for management.

35. The chart of accounts is a listing of the accounts and the account numbers which identify their location in the ledger.

36. The primary purpose of a trial balance is to prove the mathematical equality of the debits and credits after posting.

37. The trial balance will **not** balance when incorrect account titles are used in journalizing or posting.

Answers to True-False Statements

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	F	7.	F	13.	F	19.	T	25.	F	31.	T	37.	F
2.	F	8.	F	14.	F	20.	F	26.	T	32.	F		
3.	F	9.	F	15.	T	21.	F	27.	F	33.	T		
4.	T	10.	F	16.	T	22.	T	28.	F	34.	F		
5.	F	11.	F	17.	F	23.	T	29.	T	35.	T		
6.	T	12.	T	18.	F	24.	F	30.	T	36.	T		

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MULTIPLE CHOICE QUESTIONS

38. An account consists of
    a. one part.
    b. two parts.
    c. three parts.
    d. four parts.

39. The left side of an account is
    a. blank.
    b. a description of the account.
    c. the debit side.
    d. the balance of the account.

40. Which one of the following is *not* a part of an account?
    a. Credit side
    b. Trial balance
    c. Debit side
    d. Title

41. An account is a part of the financial information system and is described by all **except** which one of the following?
    a. An account has a debit and credit side.
    b. An account is a source document.
    c. An account may be part of a manual or a computerized accounting system.
    d. An account has a title.

42. The right side of an account
    a. is the correct side.
    b. reflects all transactions for the accounting period.
    c. shows all the balances of the accounts in the system.
    d. is the credit side.

43. An account consists of
    a. a title, a debit balance, and a credit balance.
    b. a title, a left side, and a debit balance.
    c. a title, a debit side, and a credit side.
    d. a title, a right side, and a debit balance.

44. A T-account is
    a. a way of depicting the basic form of an account.
    b. what the computer uses to organize bytes of information.
    c. a special account used instead of a trial balance.
    d. used for accounts that have both a debit and credit balance.

45. Credits
    a. decrease both assets and liabilities.
    b. decrease assets and increase liabilities.
    c. increase both assets and liabilities.
    d. increase assets and decrease liabilities.

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46. A debit to an asset account indicates
    a. an error.
    b. a credit was made to a liability account.
    c. a decrease in the asset.
    d. an increase in the asset.

47. 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.

48. The double-entry system requires that each transaction must be recorded
    a. in at least two different accounts.
    b. in two sets of books.
    c. in a journal and in a ledger.
    d. first as a revenue and then as an expense.

49. A credit is *not* the normal balance for which account listed below?
    a. Common stock account
    b. Revenue account
    c. Liability account
    d. Dividend account

50. Which one of the following represents the expanded basic accounting equation?
    a. Assets = Liabilities + Common Stock + Retained Earnings + Dividends – Revenue – Expenses.
    b. Assets + Dividends + Expenses = Liabilities + Common Stock + Retained Earnings + Revenues.
    c. Assets – Liabilities – Dividends = Common Stock + Retained Earnings + Revenues – Expenses.
    d. Assets = Revenues + Expenses – Liabilities.

51. Which of the following correctly identifies normal balances of accounts?

    a.

Assets	Debit	
Liabilities	Credit	
Stockholders' Equity		Credit
Revenues	Debit	
Expenses	Credit	

    b.

Assets	Debit	
Liabilities	Credit	
Stockholders' Equity		Credit
Revenues	Credit	
Expenses	Credit	

    c.

Assets	Credit	
Liabilities	Debit	
Stockholders' Equity		Debit
Revenues	Credit	
Expenses	Debit	

    d.

Assets	Debit	
Liabilities	Credit	
Stockholders' Equity		Credit
Revenues	Credit	
Expenses	Debit	

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52. The best interpretation of the word credit is the
    a. offset side of an account.
    b. increase side of an account.
    c. right side of an account.
    d. decrease side of an account.

53. In recording an accounting transaction in a double-entry system
    a. the number of debit accounts must equal the number of credit accounts.
    b. there must always be entries made on both sides of the accounting equation.
    c. the amount of the debits must equal the amount of the credits.
    d. there must only be two accounts affected by any transaction.

54. An accounting convention is best described as
    a. an absolute truth.
    b. an accounting custom.
    c. an optional rule.
    d. something that cannot be changed.

55. A debit is *not* the normal balance for which account listed below?
    a. Dividends
    b. Cash
    c. Accounts Receivable
    d. Service Revenue

56. An accountant has debited an asset account for $1,000 and credited a liability account for $500. What can be done to complete the recording of the transaction?
    a. Nothing further must be done.
    b. Debit an stockholders' equity account for $500.
    c. Debit another asset account for $500.
    d. Credit a different asset account for $500.

57. An accountant has debited an asset account for $1,000 and credited a liability account for $500. Which of the following would be an *incorrect* way to complete the recording of the transaction?
    a. Credit an asset account for $500.
    b. Credit another liability account for $500.
    c. Credit an stockholders' equity account for $500.
    d. Debit an stockholders' equity account for $500.

58. Which of the following is *not* true of the terms debit and credit?
    a. They can be abbreviated as Dr. and Cr.
    b. They can be interpreted to mean increase and decrease.
    c. They can be used to describe the balance of an account.
    d. They can be interpreted to mean left and right.

59. An account will have a credit balance if the
    a. credits exceed the debits.
    b. first transaction entered was a credit.
    c. debits exceed the credits.
    d. last transaction entered was a credit.

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60. For the basic accounting equation to stay in balance, each transaction recorded must
    a. affect two or less accounts.
    b. affect two or more accounts.
    c. always affect exactly two accounts.
    d. affect the same number of asset and liability accounts.

61. Which of the following statements is true?
    a. Debits increase assets and increase liabilities.
    b. Credits decrease assets and decrease liabilities.
    c. Credits decrease assets and increase liabilities.
    d. Debits decrease liabilities and decrease assets.

62. Assets normally show
    a. credit balances.
    b. debit balances.
    c. debit and credit balances.
    d. debit or credit balances.

63. An awareness of the normal balances of accounts would help you spot which of the following as an error in recording?
    a. A debit balance in the dividends account
    b. A credit balance in an expense account
    c. A credit balance in a liabilities account
    d. A credit balance in a revenue account

64. If a company has overdrawn its bank balance, then
    a. its cash account will show a debit balance.
    b. its cash account will show a credit balance.
    c. the cash account debits will exceed the cash account credits.
    d. it cannot be detected by observing the balance of the cash account.

65. Which account below is *not* a subdivision of Stockholders' equity?
    a. Dividends
    b. Revenues
    c. Expenses
    d. Liabilities

66. When a company pays dividends
    a. it doesn't have to be cash, it could be another asset.
    b. the dividends account will be increased with a credit.
    c. the retained earnings account will be directly increased with a debit.
    d. the dividends account will be decreased with a debit.

67. The dividends account
    a. appears on the income statement along with the expenses of the business.
    b. must show transactions every accounting period.
    c. is increased with debits and decreased with credits.
    d. is not a proper subdivision of stockholders' equity.

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68. Which of the following statements is *not* true?
    a. Expenses increase stockholders' equity.
    b. Expenses have normal debit balances.
    c. Expenses decrease stockholders' equity.
    d. Expenses are a negative factor in the computation of net income.

69. A credit to a liability account
    a. indicates an increase in the amount owed to creditors.
    b. indicates a decrease in the amount owed to creditors.
    c. is an error.
    d. must be accompanied by a debit to an asset account.

70. In the first month of operations, the total of the debit entries to the cash account amounted to $900 and the total of the credit entries to the cash account amounted to $500. The cash account has a(n)
    a. $500 credit balance.
    b. $800 debit balance.
    c. $400 debit balance.
    d. $400 credit balance.

71. Dawson's Delivery Service purchased equipment for $2,500. The Company paid $500 in cash and signed a note for the balance. Dawson debited the Equipment account, credited Cash and
    a. nothing further must be done.
    b. debited the Dawson, Common stock account for $2,000.
    c. credited another asset account for $500.
    d. credited a liability account for $2,000.

72. Grayton Industries purchased supplies for $1,000. The Company paid $500 in cash and agreed to pay the balance in 30 days. The journal entry to record this transaction would include a debit to an asset account for $1,000, a credit to a liability account for $500. Which of the following would be the correct way to complete the recording of the transaction?
    a. Credit an asset account for $500.
    b. Credit another liability account for $500.
    c. Credit the Retained Earnings account for $500.
    d. Debit the Retained Earnings account for $500.

73. On January 14, Franco Industries purchased supplies of $500 on account. The entry to record the purchase will include
    a. a debit to Supplies and a credit to Accounts Payable.
    b. a debit to Supplies Expense and a credit to Accounts Receivable.
    c. a debit to Supplies and a credit to Cash.
    d. a debit to Accounts Receivable and a credit to Supplies.

74. On June 1, 2008, Delbert Inc. reported a cash balance of $12,000. During June, Delbert made deposits of $3,000 and made disbursements totalling $16,000. What is the cash balance at the end of June?
    a. $1,000 debit balance
    b. $15,000 debit balance
    c. $1,000 credit balance
    d. $4,000 credit balance

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75. At January 1, 2008, Burton Industries reported stockholders' equity of $130,000. During 2008, The Company had a net loss of $30,000 and paid dividends of $20,000. At December 31, 2008, the amount of stockholders' equity is
a. $130,000.
b. $140,000.
c. $100,000.
d. $80,000.

76. Able Company pays its employees twice a month, on the 7th and the 21st. On June 21, Able Company paid employee salaries of $4,000. This transaction would
a. increase Stockholders' equity by $4,000.
b. decrease the balance in Salaries Expense by $4,000.
c. decrease net income for the month by $4,000.
d. be recorded by a $4,000 debit to Salaries Payable and a $4,000 credit to Salaries Expense.

77. In the first month of operations for Pocket Industries, the total of the debit entries to the cash account amounted to $8,000 ($4,000 investment by the owner and revenues of $4,000). The total of the credit entries to the cash account amounted to $5,000 (purchase of equipment $2,000 and payment of expenses $3,000). At the end of the month, the cash account has a(n)
a. $2,000 credit balance.
b. $2,000 debit balance.
c. $3,000 debit balance.
d. $3,000 credit balance.

78 Denton Company showed the following balances at the end of its first year:

Cash	$ 7,000
Prepaid insurance	700
Accounts receivable	3,500
Accounts payable	2,800
Notes payable	4,200
Retained Earnings	1,000
Dividends	700
Common Stock	400
Revenues	21,000
Expenses	17,500

What did Denton Company show as total credits on its trial balance?
a. $30,100
b. $29,400
c. $28,700
d. $30,800

79. Cerner Company showed the following balances at the end of its first year:

Cash	$ 5,000
Prepaid insurance	500
Accounts receivable	2,500
Accounts payable	2,000
Notes payable	3,000
Retained Earnings	600
Dividends	500
Common Stock	400
Revenues	15,000
Expenses	12,500

What did Cerner Company show as total credits on its trial balance?
a. $21,500
b. $21,000
c. $20,500
d. $22,000

80. During February 2008, its first month of operations, the Rutwing Enterprises issued stock in exchange for cash of $25,000. Rutwing had cash revenues of $4,000 and paid expenses of $7,000. Assuming no other transactions impacted the cash account, what is the balance in Cash at February 28?
a. $3,000 credit
b. $22,000 debit
c. $29,000 debit
d. $18,000 credit

81. At January 31, 2008, the balance in Prieto Inc.'s supplies account was $250. During February, Prieto purchased supplies of $300 and used supplies of $400. At the end of February, the balance in the supplies account should be
a. $250 debit.
b. $350 credit.
c. $950 debit.
d. $150 debit.

82. At December 1, 2008, Marco Company's accounts receivable balance was $1,200. During December, Marco had credit revenues of $5,000 and collected accounts receivable of $4,000. At December 31, 2008, the accounts receivable balance is
a. $1,200 debit.
b. $2,200 debit.
c. $6,200 debit.
d. $2,200 credit.

83. At October 1, 2008, Deet Industries had an accounts payable balance of $30,000. During the month, the company made purchases on account of $25,000 and made payments on account of $40,000. At October 31, 2008, the accounts payable balance is
a. $30,000.
b. $10,000.
c. $15,000.
d. $40,000.

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84. During 2008, its first year of operations, Jane's Bakery had revenues of $60,000 and expenses of $33,000. The business paid dividends of $18,000. What is the total of retained earnings at December 31, 2008?
a. $0
b. $18,000 debit
c. $9,000 credit
d. $27,000 credit

85. On July 7, 2008, Reethink Enterprises performed cash services of $1,400. The entry to record this transaction would include
a. a debit to Service Revenue of $1,400.
b. a credit to Accounts Receivable of $1,400.
c. a debit to Cash of $1,400.
d. a credit to Accounts Payable of $1,400.

86. At September 1, 2008, Foli Co. reported retained earnings of $136,000. During the month, Foli generated revenues of $20,000, incurred expenses of $12,000, purchased equipment for $5,000 and paid dividends of $2,000. What is the amount of retained earnings at September 30, 2008?
a. $136,000
b. $8,000
c. $137,000
d. $142,000

87. The final step in the recording process is to
a. analyze each transaction.
b. enter the transaction in a journal.
c. prepare a trial balance.
d. transfer journal information to ledger accounts.

88. The usual sequence of steps in the transaction recording process is:
a. journal → analyze → ledger.
b. analyze → journal → ledger.
c. journal → ledger → analyze.
d. ledger → journal → analyze.

89. In recording business transactions, evidence that an accounting transaction has taken place is obtained from
a. business documents.
b. the Internal Revenue Service.
c. the public relations department.
d. the SEC.

90. After a business transaction has been analyzed and entered in the book of original entry, the next step in the recording process is to transfer the information to
a. the company's bank.
b. stockholders' equity.
c. ledger accounts.
d. financial statements.

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91. The first step in the recording process is to
    a. prepare financial statements.
    b. analyze each transaction for its effect on the accounts.
    c. post to a journal.
    d. prepare a trial balance.

92. Evidence that would **not** help with determining the effects of a transaction on the accounts would be a(n)
    a. cash register sales tape.
    b. bill.
    c. advertising brochure.
    d. check.

93. After transaction information has been recorded in the journal, it is transferred to the
    a. trial balance.
    b. income statement.
    c. book of original entry.
    d. ledger.

94. The usual sequence of steps in the recording process is to analyze each transaction, enter the transaction in the
    a. journal, and transfer the information to the ledger accounts.
    b. ledger, and transfer the information to the journal.
    c. book of accounts, and transfer the information to the journal.
    d. book of original entry, and transfer the information to the journal.

95. The final step in the recording process is to transfer the journal information to the
    a. trial balance.
    b. financial statements.
    c. ledger.
    d. file cabinets.

96. The recording process occurs
    a. once a year.
    b. once a month.
    c. repeatedly during the accounting period.
    d. infrequently in a manual accounting system.

97. A compound journal entry involves
    a. two accounts.
    b. three accounts.
    c. three or more accounts.
    d. four or more accounts.

98. A journal provides
    a. the balances for each account.
    b. information about a transaction in several different places.
    c. a list of all accounts used in the business.
    d. a chronological record of transactions.

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99. When three or more accounts are required in one journal entry, the entry is referred to as a
a. compound entry.
b. triple entry.
c. multiple entry.
d. simple entry.

100. When two accounts are required in one journal entry, the entry is referred to as a
a. balanced entry.
b. simple entry.
c. posting.
d. nominal entry.

101. Another name for journal is
a. listing.
b. book of original entry.
c. book of accounts.
d. book of source documents.

102. The standard format of a journal would **not** include
a. a reference column.
b. an account title column.
c. a T-account.
d. a date column.

103 Transactions in a journal are initially recorded in
a. account number order.
b. dollar amount order.
c. alphabetical order.
d. chronological order.

104 A journal is **not** useful for
a. disclosing in one place the complete effect of a transaction.
b. preparing financial statements.
c. providing a record of transactions.
d. locating and preventing errors.

105 A complete journal entry does *not* show
a. the date of the transaction.
b. the new balance in the accounts affected by the transaction.
c. a brief explanation of the transaction.
d. the accounts and amounts to be debited and credited.

106. The name given to entering transaction data in the journal is
a. chronicling.
b. listing.
c. posting.
d. journalizing.

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107. The standard form of a journal entry has the
   a. debit account entered first and indented.
   b. credit account entered first and indented.
   c. debit account entered first at the extreme left margin.
   d. credit account entered first at the extreme left margin.

108. When journalizing, the reference column is
   a. left blank.
   b. used to reference the source document.
   c. used to reference the journal page.
   d. used to reference the financial statements.

109. On June 1, 2008 Leno Inc. buys a copier machine for her business and finances this purchase with cash and a note. When journalizing this transaction, the company's accountant will
   a. use two journal entries.
   b. make a compound entry.
   c. make a simple entry.
   d. list the credit entries first, which is proper form for this type of transaction.

110. Which of the following journal entries is recorded correctly and in the standard format?

a.	Wages Expense	600	
	Cash		1,500
	Advertising Expense	900	
b.	Wages Expense		600
	Advertising Expense		900
	Cash	1,500	
c.	Cash	1,500	
	Wages Expense		600
	Advertising Expense		900
d.	Wages Expense	600	
	Advertising Expense	900	
	Cash		1,500

111. The ledger should be arranged in
   a. alphabetical order.
   b. chronological order.
   c. dollar amount order.
   d. financial statement order.

112. The entire group of accounts maintained by a company is called the
   a. balance sheet.
   b. general journal.
   c. general ledger.
   d. trial balance.

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113. An accounting record of the balances of all assets, liabilities, and stockholders' equity accounts is called a
a. compound entry.
b. general journal.
c. general ledger.
d. chart of accounts.

114. The usual ordering of accounts in the general ledger is
a. assets, liabilities, common stock, retained earnings, dividends, revenues, and expenses.
b. assets, liabilities, dividendss, common stock, retained earnings, expenses, and revenues.
c. liabilities, assets, common stock, retained earnings, revenues, expenses, and dividendss.
d. common stock, retained earnings assets, liabilities, dividends, expenses, and revenues.

115. Management could determine the amounts due from customers by examining which ledger account?
a. Service Revenue
b. Accounts Payable
c. Accounts Receivable
d. Supplies

116. The ledger accounts should be arranged in
a. chronological order.
b. alphabetical order.
c. financial statement order.
d. order of appearance in the journal.

117. A three column form of account is so named because it has columns for
a. debit, credit, and account name.
b. debit, credit, and reference.
c. debit, credit, and balance.
d. debit, credit, and date.

118. On August 13, 2008, Dudbury Enterprises purchased office equipment for $1,000 and office supplies of $200 on account. Which of the following journal entries is recorded correctly and in the standard format?

a.	Office Equipment	1,000	
	Account Payable		1,200
	Office Supplies	200	
b.	Office Equipment		1,000
	Office Supplies		200
	Accounts Payable	1,200	
c.	Accounts Payable	1,200	
	Office Equipment		1,000
	Office Supplies		200
d.	Office Equipment	1,000	
	Office Supplies	200	
	Accounts Payable.		1,200

119. Tritan Company received a cash advance of $500 from a customer. As a result of this event,
   a. assets increased by $500.
   b. stockholders' equity increased by $500.
   c. liabilities decreased by $500.
   d. both a and b.

120. Anderson Company purchased equipment for $1,800 cash. As a result of this event,
   a. stockholders' equity decreased by $1,800.
   b. total assets increased by $1,800.
   c. total assets remained unchanged.
   d. Both a and b.

121. Franklin Company provided consulting services and billed the client $2,500. As a result of this event,
   a. assets remained unchanged.
   b. assets increased by $2,500.
   c. stockholders' equity increased by $2,500.
   d. Both b and c.

122. The first step in posting involves
   a. entering in the appropriate ledger account the date, journal page, and debit amount shown in the journal.
   b. writing in the journal the account number to which the debit amount was posted.
   c. writing in the journal the account number to which the credit amount was posted.
   d. entering in the appropriate ledger account the date, journal page, and credit amount shown in the journal.

123. A chart of accounts usually starts with
   a. asset accounts.
   b. expense accounts.
   c. liability accounts.
   d. revenue accounts.

124. The procedure of transferring journal entries to the ledger accounts is called
   a. journalizing.
   b. analyzing.
   c. reporting.
   d. posting.

125. A number in the reference column in a general journal indicates
   a. that the entry has been posted to a particular account.
   b. the page number of the journal.
   c. the dollar amount of the transaction.
   d. the date of the transaction.

126. A chart of accounts for a business firm
   a. is a graph.
   b. indicates the amount of profit or loss for the period.
   c. lists the accounts and account numbers that identify their location in the ledger.
   d. shows the balance of each account in the general ledger.

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127. Posting
   a. should be performed in account number order.
   b. accumulates the effects of journalized transactions in the individual accounts.
   c. involves transferring all debits and credits on a journal page to the trial balance.
   d. is accomplished by examining ledger accounts and seeing which ones need updating.

128. After journal entries are posted, the reference column
   a. of the general journal will be blank.
   b. of the general ledger will show journal page numbers.
   c. of the general journal will show "Dr" or "Cr".
   d. of the general ledger will show account numbers.

129. The explanation column of the general ledger
   a. is completed without exception.
   b. is nonexistent.
   c. is used infrequently.
   d. shows account titles.

130. A numbering system for a chart of accounts
   a. is prescribed by GAAP.
   b. is uniform for all businesses.
   c. usually starts with income statement accounts.
   d. usually starts with balance sheet accounts.

131. The first step in designing a computerized accounting system is the creation of the
   a. general ledger.
   b. general journal.
   c. trial balance.
   d. chart of accounts.

132. The steps in preparing a trial balance include all of the following *except*
   a. listing the account titles and their balances.
   b. totaling the debit and credit columns.
   c. proving the equality of the two columns.
   d. transferring journal amounts to ledger accounts.

133. A trial balance may balance even when each of the following occurs *except* when
   a. a transaction is not journalized.
   b. a journal entry is posted twice.
   c. incorrect accounts are used in journalizing.
   d. a transposition error is made.

134. A list of accounts and their balances at a given time is called a(n)
   a. journal.
   b. posting.
   c. trial balance.
   d. income statement.

135. If the sum of the debit column equals the sum of the credit column in a trial balance, it indicates
   a. no errors have been made.
   b. no errors can be discovered.
   c. that all accounts reflect correct balances.
   d. the mathematical equality of the accounting equation.

136. A trial balance is a listing of
   a. transactions in a journal.
   b. the chart of accounts.
   c. general ledger accounts and balances.
   d. the totals from the journal pages.

137. Customarily, a trial balance is prepared
   a. at the end of each day.
   b. after each journal entry is posted.
   c. at the end of an accounting period.
   d. only at the inception of the business.

138. A trial balance would only help in detecting which one of the following errors?
   a. A transaction that is not journalized
   b. A journal entry that is posted twice
   c. Offsetting errors are made in recording the transaction
   d. A transposition error when transferring the debit side of journal entry to the ledger

Additional Multiple Choice Questions

139. An account is an individual accounting record of increases and decreases in specific
   a. liabilities.
   b. assets.
   c. expenses.
   d. assets, liabilities, and stockholders' equity items.

140. A debit is *not* the normal balance for which of the following?
   a. Asset account
   b. Dividends account
   c. Expense account
   d. Common stock account

141. Which of the following rules is *incorrect?*
   a. Credits decrease the dividends account.
   b. Debits increase the common stock account.
   c. Credits increase revenue accounts.
   d. Debits decrease liability accounts.

142. Which of the following statements is **false**?
   a. Revenues increase stockholders' equity.
   b. Revenues have normal credit balances.
   c. Revenues are a positive factor in the computation of net income.
   d. Revenues are increased by debits.

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143. Which of the following is the correct sequence of steps in the recording process?
a. Posting, journalizing, analyzing
b. Journalizing, analyzing, posting
c. Analyzing, posting, journalizing
d. Analyzing, journalizing, posting

144. Which of the following is **false** about a journal?
a. It discloses in one place the complete effects of a transaction.
b. It provides a chronological record of transactions.
c. It helps to prevent or locate errors because debit and credit amounts for each entry can be readily compared.
d. It keeps in one place all the information about changes in specific account balances.

145. Meenen Company purchases equipment for $1,200 and supplies for $400 from Sanders Co. for $1,600 cash. The entry for this transaction will include a
a. debit to Equipment $1,200 and a debit to Supplies Expense $400 for Sanders.
b. credit to Cash for Sanders.
c. credit to Accounts Payable for Meenen.
d. debit to Equipment $1,200 and a debit to Supplies $400 for Meenen.

146. Wiser Inc. paid dividends of $300 cash . The entry for this transaction will include a debit of $300 to
a. Dividends.
b. Retained Earnings.
c. Sales Salary Expense.
d. Salaries Expense.

147. On October 3, Carter Company, received a cash payment for services previously billed to a client. The Company paid his telephone bill, and bought equipment on credit. For the three transactions, at least one of the entries will include a
a. credit to Retained Earnings.
b. credit to Notes Payable.
c. debit to Accounts Receivable.
d. credit to Accounts Payable.

148. Posting of journal entries should be done in
a. account number order.
b. alphabetical order.
c. chronological order.
d. dollar amount order.

149. The chart of accounts is a
a. list of accounts and their balances at a given time.
b. device used to prove the mathematical accuracy of the ledger.
c. listing of the accounts and the account numbers which identify their location in the ledger.
d. required step in the recording process.

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150. Which of the following is **incorrect** regarding a trial balance?
   a. It proves that the debits equal the credits after posting.
   b. It proves that the company has recorded all transactions.
   c. A trial balance uncovers errors in journalizing and posting.
   d. A trial balance is useful in the preparation of financial statements.

151. A trial balance will **not** balance if
   a. a journal entry is posted twice.
   b. a wrong amount is used in journalizing.
   c. incorrect account titles are used in journalizing.
   d. a journal entry is only partially posted.

Answers to Multiple Choice Questions

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
38.	c	55.	d	72.	a	89.	a	106.	d	123.	a	140.	d
39.	c	56.	d	73.	a	90.	c	107.	c	124.	d	141.	b
40.	b	57.	d	74.	c	91.	b	108.	a	125.	a	142.	d
41.	b	58.	b	75.	d	92.	c	109.	b	126.	c	143.	d
42.	d	59.	a	76.	c	93.	d	110.	d	127.	b	144.	d
43.	c	60.	b	77.	c	94.	a	111.	d	128.	b	145.	d
44.	a	61.	c	78.	b	95.	c	112.	c	129.	c	146.	a
45.	b	62.	b	79.	b	96.	c	113.	c	130.	d	147.	d
46.	d	63.	b	80.	b	97.	c	114.	a	131.	d	148.	c
47.	c	64.	b	81.	d	98.	d	115.	c	132.	d	149.	c
48.	a	65.	d	82.	b	99.	a	116.	c	133.	d	150.	b
49.	d	66.	a	83.	c	100.	b	117.	c	134.	c	151.	d
50.	b	67.	c	84.	c	101.	b	118.	d	135.	d		
51.	d	68.	a	85.	c	102.	c	119.	a	136.	c		
52.	c	69.	a	86.	d	103.	d	120.	c	137.	c		
53.	c	70.	c	87.	d	104.	b	121.	d	138.	d		
54.	b	71.	d	88.	b	105.	b	122.	a	139.	d		

BRIEF EXERCISES

BE 152

At June 1, 2008, Groober Industries had an accounts receivable balance of $12,000. During the month, the company performed credit services of $25,000 and collected accounts receivable of $27,000. What is the balance in accounts receivable at June 30, 2008?

Solution 152 (3 min.)

The balance at the end of the month is $10,000, calculated as follows:

Beginning accounts receivable	$12,000
Add: Credit Sales	25,000
Less: Collections	(27,000)

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Ending accounts receivable	$10,000

BE 153

For each of the following accounts indicate the effect of a debit or a credit on the account and the normal balance. Increase (+), Decrease (–).

	Debit	Credit	Normal Balance
1. Salary expense.	_____	_____	_____
2. Accounts receivable.	_____	_____	_____
3. Service revenue.	_____	_____	_____
4. Retained Earnings.	_____	_____	_____
5. Dividends.	_____	_____	_____

Solution 153 (5 min.)

	Debit	Credit	Normal Balance
1. Salary expense.	+	–	Dr
2. Accounts receivable.	+	–	Dr
3. Service revenue.	–	+	Cr
4. Retained Earnings	–	+	Cr
5. Dividends.	+	–	Dr

BE 154

For each of the following transactions of Aggie Inc., identify the account to be debited and the account to be credited.

1. Purchased 18-month insurance policy for cash.
2. Paid weekly payroll.
3. Purchased supplies on account.
4. Received utility bill to be paid at later date.

Solution 154 (4 min.)

Transaction	Debit	Credit
1	Prepaid Insurance	Cash
2	Salaries Expense	Cash
3	Supplies	Accounts Payable
4	Utilities Expense	Utilities Payable

BE 155

Journalize the following business transactions in general journal form. Identify each transaction by number. You may omit explanations of the transaction.

1. The Company issued stock in exchange for $20,000 cash.
2. Hired an employee to be paid $400 per week, starting tomorrow.
3. Paid two years' rent in advance, $7,200.
4. Paid the worker's weekly wage.
5. Recorded revenue earned and received for the week, $1,500.

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Solution 155 (5 min.)

1.	Cash…….	50,000	
	Common Stock		50,000
2.	No entry		
3.	Prepaid Rent	7,200	
	Cash		7,200
4.	Wage Expense	400	
	Cash		400
5.	Cash…….	1,500	
	Service Revenue		1,500

BE 156

Identify the impact on the accounting equation of the following transactions.
1. Purchased 36-month insurance policy for cash.
2. Purchased supplies on account.
3. Received utility bill to be paid at later date.
4. Paid utility bill previously accrued.

Solution 156 (4 min.)

1. Net effect is no change: Increases assets and decreases assets.
2. Increases assets and increases liabilities.
3. Increases liabilities and decreases stockholders' equity.
4. Decreases assets and decreases liabilities

BE 157

Journalize the following transactions for J.C. Tyme Company for June 2008, the company's first month of operations. You may omit explanations for the transactions.
1. Purchased equipment on account for $3,000.
2. Billed customers $5,000 for services performed.
3. Made payment of $1,500 on account for equipment purchased earlier in month.
4. Collected $2,900 on customer accounts.

Solution 157 (4 min.)

1.	Equipment	3,000	
	Accounts Payable		3,000
2.	Accounts Receivable	5,000	
	Service Revenue		5,000

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Solution 157 (cont.)

3.	Accounts Payable	1,500	
	Cash		1,500
4.	Cash	2,900	
	Accounts Receivable		2,900

BE 158

Use the information in BE 157 to answer the following questions.
1. What is the balance in Accounts Payable at June 30, 2008?
2. What is the balance in Accounts Receivable at June 30, 2008?

Solution 158 (6 min.)

1. Accounts Payable at June 30, 2008:

Beginning accounts payable	$ 0
Purchases on account	3,000
Payments on account	(1,500)
Ending accounts payable	$1,500

2. Accounts Receivable at June 30, 2008:

Beginning accounts receivable	$ 0
Billed to customers	5,000
Collections from customers	(2,900)
Ending accounts receivable	$2,100

BE 159

The transactions of the Got It Now Store are recorded in the general journal below. You are to post the journal entries to T-accounts.

General Journal

Date	Account Titles	Debit	Credit
2008			
Aug. 5	Accounts Receivable	2,800	
	Service Revenue		2,800
10	Cash	3,000	
	Service Revenue		3,000
19	Rent Expense	1,000	
	Cash		1,000
25	Cash	1,400	
	Accounts Receivable		1,400

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BE 159 (cont.)

General Ledger

Cash

Accounts Receivable

Service Revenue

Rent Expense

Solution 159 (5 min.)

General Ledger

Cash

8/10	3,000	8/19	1,000
8/25	1,400		
8/31 Bal.	3,400		

Accounts Receivable

8/5	2,800	8/25	1,400
8/31 Bal.	1,400		

Service Revenue

		8/5	2,800
		8/10	3,000
		8/31 Bal.	5,800

Rent Expense

8/19	1,000		
8/31 Bal.	1,000		

BE 160

Prepare a trial balance from the ledger accounts of Quentin Company as of January 31, 2008.

Accounts Payable	$ 500	Rent Expense	$ 500
Accounts Receivable	2,000	Service Revenue	3,000
Cash	1,000	Supplies	200
Common Stock	1,200	Wages Expense	1,000
Dividends	1,000	Retained Earnings	1,000

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Solution 160 (5 min.)

QUENTIN COMPANY
Trial Balance
January 31, 2008

	Debit	Credit
Cash	$1,000	
Accounts Receivable	2,000	
Supplies	200	
Accounts Payable		$ 500
Common Stock		1,200
Dividends	1,000	
Retained Earnings		1,000
Service Revenue		3,000
Rent Expense	500	
Wages Expense	1,000	
	$5,700	$5,700

BE 161

Prepare a corrected trial balance for Miller Company. All accounts should have a normal balance.

MILLER COMPANY
Trial Balance
3/31/08

	Debit	Credit
Cash	$ 25,000	
Accounts Receivable		$30,000
Prepaid Insurance	2,500	
Equipment	60,000	
Accounts Payable		15,000
Unearned Revenue	10,000	
Notes Payable		20,000
Common Stock		24,000
Retained Earnings		30,000
Dividends		1,500
Service Revenue		50,000
Salaries Expense	15,000	
Utilities Expense	5,000	
Rent Expense	10,000	
	$127,500	$170,500

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Solution 161 (6 min.)

MILLER COMPANY
Trial Balance
3/31/08

	Debit	Credit
Cash	$ 25,000	
Accounts Receivable	30,000	
Prepaid Insurance	2,500	
Equipment	60,000	
Accounts Payable		$ 15,000
Unearned Revenue		10,000
Notes Payable		20,000
Common Stock		24,000
Retained Earnings		30,000
Dividends	1,500	
Service Revenue		50,000
Salaries Expense	15,000	
Utilities Expense	5,000	
Rent Expense	10,000	
	$149,000	$149,000

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EXERCISES

Ex. 162

The chart of accounts used by Kwick Copy Company is listed below. You are to indicate the proper accounts to be debited and credited for the following transactions by writing the account number(s) in the appropriate boxes.

CHART OF ACCOUNTS

101	Cash	209	Unearned Revenue
112	Accounts Receivable	301	Common Stock
125	Paper Supplies	306	Dividends
157	Copy Machines	400	Photocopy Revenue
200	Note Payable	610	Advertising Expense
201	Accounts Payable	729	Rent Expense

		Number(s) of account(s) debited	Number(s) of account(s) credited
1.	The Company issues stock in exchange for $90,000 cash.		
2.	Purchased three photocopy machines for $200,000, paying $50,000 cash and signing a 5-year, 10% note for the remainder.		
3.	Purchased $5,000 paper supplies on credit.		
4.	Cash photocopy revenue amounted to $7,000.		
5.	Paid $500 cash for radio advertising.		
6.	Paid $800 on account for paper supplies purchased in transaction 3.		
7.	The Company paid dividends of $1,500.		
8.	Paid $1,200 cash for rent for the current month.		
9.	Received $2,000 cash advance from a customer for future copying.		
10.	Billed a customer for $450 for photocopy work done.		

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Solution 162 (15 min.)

		Number(s) of account(s) debited	Number(s) of account(s) credited
1.	The Company issues stock in exchange for $90,000 cash. business.	101	301
2.	Purchased three photocopy machines for $200,000, paying $50,000 cash and signing a 5-year, 10% note for the remainder.	157	101,200
3.	Purchased $5,000 paper supplies on credit.	125	201
4.	Cash photocopy revenue amounted to $7,000.	101	400
5.	Paid $500 cash for radio advertising.	610	101
6.	Paid $800 on account for paper supplies purchased in transaction 3.	201	101
7.	The Company paid dividends of $1,500.	306	101
8.	Paid $1,200 cash for rent for the current month.	729	101
9.	Received $2,000 cash advance from a customer for future copying.	101	209
10.	Billed a customer for $450 for photocopy work done.	112	400

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Ex. 163

Under a double-entry system, show how the entry in each statement is entered in the ledger by using debit or credit to indicate the increase or decrease in the affected account.

		Debit or Credit
1.	An increase in Salary Expense.	
2.	A decrease in Accounts Payable.	
3.	An increase in Prepaid Insurance.	
4.	An increase in Common Stock.	
5.	A decrease in Office Supplies.	
6.	An increase in Dividends.	
7.	An increase in Service Revenue.	
8.	A decrease in Accounts Receivable.	
9.	An increase in Rent Expense.	
10.	A decrease in Store Equipment.	

Solution 163 (5 min.)

1.	An increase in Salary Expense.	Debit
2.	A decrease in Accounts Payable.	Debit
3.	An increase in Prepaid Insurance.	Debit
4.	An increase in Common Stock.	Credit
5.	A decrease in Office Supplies.	Credit
6.	An increase in Dividends.	Debit
7.	An increase in Service Revenue.	Credit
8.	A decrease in Accounts Receivable.	Credit
9.	An increase in Rent Expense.	Debit
10.	A decrease in Store Equipment.	Credit

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Ex. 164

For the accounts listed below, indicate if the normal balance of the account is a debit or credit.

	Accounts	Normal Balance Debit or Credit
1.	Service Revenue	
2.	Rent Expense	
3.	Accounts Receivable	
4.	Accounts Payable	
5.	Common Stock	
6.	Office Supplies	
7.	Insurance Expense	
8.	Dividends	
9.	Office Building	
10.	Notes Payable	

Solution 164 (5 min.)

	Accounts	Normal Balance Debit or Credit
1.	Service Revenue	Credit
2.	Rent Expense	Debit
3.	Accounts Receivable	Debit
4.	Accounts Payable	Credit
5.	Common Stock	Credit
6.	Office Supplies	Debit
7.	Insurance Expense	Debit
8.	Dividends	Debit
9.	Office Building	Debit
10.	Notes Payable	Credit

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Ex. 165

For each of the following accounts, indicate the effects of (a) a debit and (b) the normal account balance.

1. Notes Payable
2. Prepaid Insurance
3. Salaries Expense
4. Repair Revenue
5. Equipment
6. Retained Earnings

Solution 165 (7 min.)

	Debit Effect	Normal Balance
1. Notes Payable	Decrease	Credit
2. Prepaid Insurance	Increase	Debit
3. Salaries Expense	Increase	Debit
4. Repair Revenue	Decrease	Credit
5. Equipment	Increase	Debit
6. Retained Earnings	Decrease	Credit

Ex. 166

During an accounting period, a business has numerous transactions affecting each of the following accounts. State for each account whether it is likely to have (a) debit entries only, (b) credit entries only, or (c) both debit and credit entries.

_____ (1) Advertising Expense
_____ (2) Service Revenue
_____ (3) Accounts Payable
_____ (4) Accounts Receivable
_____ (5) Retained Earnings
_____ (6) Dividends
_____ (7) Cash
_____ (8) Salaries Expense
_____ (9) Notes Payable
_____ (10) Insurance Expense

Solution 166 (5 min.)

(1) (a)
(2) (b)
(3) (c)
(4) (c)
(5) (b)
(6) (a)
(7) (c)
(8) (a)
(9) (c)
(10) (a)

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Ex. 167

Eight transactions are recorded in the following T-accounts:

CASH			
(1)	35,000	(2)	3,500
(7)	22,500	(3)	1,950
		(4)	2,225
		(6)	8,000
		(8)	4,500

ACCOUNTS RECEIVABLE			
(5)	27,500	(7)	22,500

SUPPLIES			
(3)	1,950		

EQUIPMENT			
(2)	13,500		

COMMON STOCK			
		(1)	35,000

SERVICE REVENUE			
		(5)	27,500

ACCOUNTS PAYABLE			
(6)	8,000	(2)	10,000

DIVIDENDS			
(8)	4,500		

SALARIES EXPENSE			
(4)	2,225		

Indicate for each debit and each credit: (a) whether an asset, liability, common stock, dividends, revenue, or expense account was affected and (b) whether the account was increased (+) or (–) decreased. Answers should be presented in the following chart form:

Transaction No.		Account Debited		Account Credited	
		Type	Effect	Type	Effect
(1)	(Example)	Asset	+	Common Stock	+
(2)					
(3)					
(4)					
(5)					
(6)					
(7)					
(8)					

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Solution 167 (15 min.)

Transaction No.	Account Debited Type	Effect	Account Credited Type	Effect
(1) (Example)	Asset	+	Common Stock	+
(2)	Asset	+	Asset Liability	– +
(3)	Asset	+	Asset	–
(4)	Expense	+	Asset	–
(5)	Asset	+	Revenue	+
(6)	Liability	–	Asset	–
(7)	Asset	+	Asset	–
(8)	Dividends	+	Asset	–

Ex. 168

For each of the following accounts indicate (a) the type of account (Asset, Liability, Stockholders' Equity, Revenue, Expense), (b) the debit and credit effects, and (c) the normal account balance.

Example
0. Cash
   a. Asset account
   b. Debit increases, credit decreases
   c. Normal balance - debit

Accounts	
1. Accounts Payable	5. Service Revenue
2. Accounts Receivable	6. Insurance Expense
3. Common Stock	7. Notes Payable
4. Dividends	8. Equipment

Solution 168 (15 min.)

1. a. Liability Account.
   b. Debit decreases, credit increases.
   c. Normal balance - credit.

2. a. Asset Account.
   b. Debit increases, credit decreases.
   c. Normal balance - debit.

3. a. Stockholders' Equity Account.
   b. Debit decreases, credit increases.
   c. Normal balance - credit.

5. a. Revenue Account.
   b. Debit decreases, credit increases.
   c. Normal balance - credit.

6. a. Expense Account.
   b. Debit increases, credit decreases.
   c. Normal balance - debit.

7. a. Liability Account.
   b. Debit decreases, credit increases.
   c. Normal balance - credit.

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Solution 168 (cont.)

4. a. Stockholders' Equity Account.
   b. Debit increases, credit decreases.
   c. Normal balance - debit.

8. a. Asset Account.
   b. Debit increases, credit decreases.
   c. Normal balance - debit.

Ex. 169

For each transaction given, enter in the tabulation given below a "D" for debit and a "C" for credit to reflect the increases and decreases of the assets, liabilities, and stockholders' equity accounts. In some cases there may be a "D" and a "C" in the same box.

Transactions:

1. The Company issues stock in exchange for cash.
2. Pays insurance in advance for six months.
3. Pays secretary's salary.
4. Purchases office supplies on account.
5. Pays electricity bill.
6. Borrows money from local bank.
7. Makes payment on account.
8. Receives cash due from customers.
9. Provides services on account.
10. The Company pay dividends.

	Transaction #									
	1	2	3	4	5	6	7	8	9	10
Assets										
Liabilities										
Common Stock										
Dividends										
Revenues										
Expenses										

Solution 169 (15 min.)

	Transaction #									
	1	2	3	4	5	6	7	8	9	10
Assets	D	D,C	C	D	C	D	C	D,C	D	C
Liabilities				C		C	D			
Common Stock	C									
Dividends										D
Revenues									C	
Expenses			D		D					

Ex. 170

Journalize the following business transactions in general journal form. Identify each transaction by number. You may omit explanations of the transactions.

1. The Company issues stock in exchange for $35,000.
2. Purchased $400 of office supplies on credit.
3. Purchased office equipment for $8,000, paying $2,000 in cash and signed a 30-day, $6,000, note payable.
4. Real estate commissions billed to clients amount to $4,000.
5. Paid $700 in cash for the current month's rent.
6. Paid $200 cash on account for office supplies purchased in transaction 2.
7. Received a bill for $600 for advertising for the current month.
8. Paid $2,200 cash for office salaries.
9. The Company paid dividends of $1,200.
10. Received a check for $3,000 from a client in payment on account for commissions billed in transaction 4.

Solution 170 (15 min.)

1.	Cash	35,000	
	Common Stock		35,000
2.	Office Supplies	400	
	Accounts Payable		400
3.	Office Equipment	8,000	
	Cash		2,000
	Notes Payable		6,000
4.	Accounts Receivable	4,000	
	Real Estate Commission Revenue		4,000
5.	Rent Expense	700	
	Cash		700
6.	Accounts Payable	200	
	Cash		200
7.	Advertising Expense	600	
	Accounts Payable		600
8.	Office Salaries Expense	2,200	
	Cash		2,200
9.	Dividends	1,200	
	Cash		1,200
10.	Cash	3,000	
	Accounts Receivable		3,000

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Ex. 171

Identify the accounts to be debited and credited for each of the following transactions.

1. The company issued stock in exchange for $10,000.
2. Purchased supplies on account for $1,000.
3. Billed customers $2,000 for services performed.
4. Paid salaries of $900.

Solution 171 (5 min.)

	Account Debited	Account Credited
1.	Cash	Common Stock
2.	Supplies	Accounts Payable
3.	Accounts Receivable	Service Revenue
4.	Salaries Expense	Cash

Ex. 172

Transactions for Ed Petry Company for the month of October are presented below. Journalize each transaction and identify each transaction by number. You may omit journal explanations.

1.Issued stock in exchange for $40,000 cash.
2. Purchased land costing $28,000 for cash.
3. Purchased equipment costing $12,000 for $3,000 cash and the remainder on credit.
4. Purchased supplies on account for $800.
5. Paid $1,000 for a one-year insurance policy.
6. Received $3,000 cash for services performed.
7. Received $4,000 for services previously performed on account.
8. Paid wages to employees for $2,500.
9. Paid dividends of $1,000.

Solution 172 (10 min.)

1.	Cash	40,000	
	Common Stock		40,000
2.	Land	28,000	
	Cash		28,000
3.	Equipment	12,000	
	Cash		3,000
	Accounts Payable		9,000
4.	Supplies	800	
	Accounts Payable		800
5.	Prepaid Insurance	1,000	
	Cash		1,000
6.	Cash	3,000	
	Service Revenue		3,000

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Solution 172 (cont.)

7.	Cash	4,000	
	Accounts Receivable		4,000
8.	Wages Expense	2,500	
	Cash		2,500
9.	Dividends	1,000	
	Cash		1,000

Ex. 173

Match the basic step in the recording process described by each of the following statements.

A. Analyze each transaction
B. Enter each transaction in a journal
C. Transfer journal information to ledger accounts

____ 1. This step is called posting.

____ 2. Business documents are examined to determine the effects of transactions on the accounts.

____ 3. This step is called journalizing.

Solution 173 (2 min.)

1. C 2. A 3. B

Ex. 174

Prepare journal entries for each of the following transactions.

1. Performed services for customers on account $5,000.
2. Purchased $20,000 of equipment on account.
3. Received $3,000 from customers in transaction 1.
4. The Company paid dividends of $1,000.

Solution 174 (5 min.)

1.	Accounts Receivable	5,000	
	Service Revenue		5,000
2.	Equipment	20,000	
	Accounts Payable		20,000
3.	Cash	3,000	
	Accounts Receivable		3,000

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Solution 174 (cont.)

4.	Dividends	1,000	
	Cash		1,000

Ex. 175

Glynn Company is a newly organized business. The list of accounts to be opened in the general ledger is as follows:

Accounts Payable
Accounts Receivable
Accumulated Depreciation
Cash
Depreciation Expense
Equipment
Insurance Expense
Common Stock
Retained Earnings
Dividends
Prepaid Insurance
Prepaid Rent
Rent Expense
Salary Expense
Salaries Payable
Service Revenue
Supplies
Supplies Expense

Instructions

Organize the accounts into the order in which they should appear in the ledger of Glynn Company and assign account numbers. Use the following system to assign account numbers.

100—199	Assets
200—299	Liabilities
300—399	Stockholders' Equity
400—499	Revenues
500—599	Expenses

Solution 175 (15 min.)

There are several possible correct account number assignments. The following is one of the correct solutions.

101- Cash
112- Accounts Receivable
125- Supplies
130- Prepaid Insurance
140- Prepaid Rent
157- Equipment
158- Accumulated Depreciation

201- Accounts Payable
212- Salaries Payable

301- Common Stock

302 Retained Earnings
306- Dividends

400- Service Revenue

510- Salaries Expense
520- Supplies Expense

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530- Rent Expense
540- Insurance Expense
550- Depreciation Expense

Ex. 176

The transactions of Nester Delivery Service are recorded in the general journal below. You are to post the journal entries to the accounts in the general ledger. After all entries have been posted, you are to prepare a trial balance on the form provided.

General Journal J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
2008				
Sept. 1	Cash		20,000	
	Common Stock			20,000
	(Issued stock for cash)			
4	Delivery Trucks		30,000	
	Cash			10,000
	Notes Payable			20,000
	(Paid cash and issued 2-year, 9%, note for delivery trucks)			
8	Rent Expense		1,000	
	Cash			1,000
	(Paid September rent)			
15	Prepaid Insurance		400	
	Cash			400
	(Paid one-year liability insurance)			
18	Cash		2,500	
	Delivery Revenue			2,500
	(Received cash for delivery services)			
20	Salaries Expense		500	
	Cash			500
	(Paid salaries for current period)			
25	Utility Expense		100	
	Accounts Payable			100
	(Received a bill for September utilities)			
30	Dividends		1,500	
	Cash			1,500
	(Paid dividends)			
30	Accounts Receivable		2,000	
	Delivery Revenue			2,000
	(Billed customer for delivery service)			

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Ex. 176 (cont.)

General Ledger

Cash — Account No. 101

Date	Explanation	Ref.	Debit	Credit	Balance

Accounts Receivable — Account No. 112

Date	Explanation	Ref.	Debit	Credit	Balance

Prepaid Insurance — Account No. 130

Date	Explanation	Ref.	Debit	Credit	Balance

Delivery Trucks — Account No. 155

Date	Explanation	Ref.	Debit	Credit	Balance

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Ex. 176 (cont.)

Accounts Payable — Account No. 201

Date	Explanation	Ref.	Debit	Credit	Balance

Notes Payable — Account No. 205

Date	Explanation	Ref.	Debit	Credit	Balance

Common Stock — Account No. 301

Date	Explanation	Ref.	Debit	Credit	Balance

Dividends — Account No. 306

Date	Explanation	Ref.	Debit	Credit	Balance

Delivery Revenue — Account No. 400

Date	Explanation	Ref.	Debit	Credit	Balance

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Ex. 176 (cont.)

Rent Expense — Account No. 719

Date	Explanation	Ref.	Debit	Credit	Balance

Salaries Expense — Account No. 726

Date	Explanation	Ref.	Debit	Credit	Balance

Utility Expense — Account No. 735

Date	Explanation	Ref.	Debit	Credit	Balance

NESTER DELIVERY SERVICE
Trial Balance
September 30, 2008

Accounts	Debit	Credit

Solution 176 (25 min.)

General Journal J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
2008				
Sept. 1	Cash	101	20,000	
	Common Stock	301		20,000
	(Issued Stock for cash)			
4	Delivery Trucks	155	30,000	
	Cash	101		10,000
	Notes Payable	205		20,000
	(Paid cash and issued 2-year, 9%, note for delivery trucks)			
8	Rent Expense	719	1,000	
	Cash	101		1,000
	(Paid September rent)			
15	Prepaid Insurance	130	400	
	Cash	101		400
	(Paid one-year liability insurance)			
18	Cash	101	2,500	
	Delivery Revenue	400		2,500
	(Received cash for delivery services)			
20	Salaries Expense	726	500	
	Cash	101		500
	(Paid salaries for current period)			
25	Utility Expense	735	100	
	Accounts Payable	201		100
	(Received a bill for September utilities)			
30	Dividends	306	1,500	
	Cash	101		1,500
	(Paid dividends)			
30	Accounts Receivable	112	2,000	
	Delivery Revenue	400		2,000
	(Billed customer for delivery service)			

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Solution 176 (cont.)

General Ledger

Cash — Account No. 101

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 1		J1	20,000		20,000
4		J1		10,000	10,000
8		J1		1,000	9,000
15		J1		400	8,600
18		J1	2,500		11,100
20		J1		500	10,600
30		J1		1,500	9,100

Accounts Receivable — Account No. 112

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 30		J1	2,000		2,000

Prepaid Insurance — Account No. 130

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 15		J1	400		400

Delivery Trucks — Account No. 155

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 4		J1	30,000		30,000

Accounts Payable — Account No. 201

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 25		J1		100	100

Solution 176 (cont.)

Notes Payable — Account No. 205

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 4		J1		20,000	20,000

Common Stock — Account No. 301

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 1		J1		20,000	20,000

Dividends — Account No. 306

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 30		J1	1,500		1,500

Delivery Revenue — Account No. 400

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 18		J1		2,500	2,500
30		J1		2,000	4,500

Rent Expense — Account No. 719

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 8		J1	1,000		1,000

Salary Expense — Account No. 726

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 20		J1	500		500

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Solution 176 (cont.)

Utility Expense — Account No. 735

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 25		J1	100		100

NESTER DELIVERY SERVICE
Trial Balance
September 30, 2008

Accounts	Debit	Credit
Cash	$ 9,100	
Accounts Receivable	2,000	
Prepaid Insurance	400	
Delivery Trucks	30,000	
Accounts Payable		$ 100
Notes Payable		20,000
Common Stock		20,000
Dividends	1,500	
Delivery Revenue		4,500
Rent Expense	1,000	
Salary Expense	500	
Utility Expense	100	
Totals	$44,600	$44,600

Ex. 177

The bookkeeper for Reagan Service Inc. made a number of errors in journalizing and posting as described below:

1. A debit posting to accounts receivable for $500 was omitted.
2. A payment of accounts payable for $600 was credited to cash and debited to accounts receivable.
3. A credit to accounts receivable for $650 was posted as $65.
4. A cash purchase of equipment for $693 was journalized as a debit to equipment and a credit to notes payable. The credit posting was made for $639.
5. A debit posting of $300 for purchase of supplies was credited to supplies.
6. A debit to repairs expense for $491 was posted as $419.
7. A debit posting for wages expense for $900 was made twice.
8. A cash purchase of supplies for $700 was journalized and posted as a debit to supplies for $70 and a credit to cash for $70.

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Ex. 177 (cont.)

Instructions

For each error, indicate (a) whether the trial balance will balance; if the trial balance will not balance, indicate (b) the amount of the difference, and (c) the trial balance column that will have the larger total. Consider each error separately. Use the following form, in which error (1) is given as an example.

Error	(A) In Balance	(B) Difference	(C) Larger Column
1	No	$500	Credit

Solution 177 (15 min.)

Error	(A) In Balance	(B) Difference	(C) Larger Column
1	No	$500	Credit
2	Yes	—	—
3	No	585	Debit
4	No	54	Debit
5	No	600	Credit
6	No	72	Credit
7	No	900	Debit
8	Yes	—	—

Ex. 178

Post the following transactions to T-accounts and determine each account's ending balance.

1.	Supplies	2,500	
	Accounts Payable		2,500
2.	Accounts Receivable	4,000	
	Service Revenue		4,000
3.	Cash	3,000	
	Accounts Receivable		3,000
4.	Accounts Payable	1,000	
	Cash		1,000

Solution 178 (6 min.)

Cash			
3.	3,000	4.	1,000
Bal.	2,000		

Accounts Payable			
4.	1,000	1.	2,500
		Bal.	1,500

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Solution 178 (cont.)

Accounts Receivable			
2.	4,000	3.	3,000
Bal.	1,000		

Service Revenue			
		2.	4,000
		Bal.	4,000

Supplies			
1.	2,500		
Bal.	2,500		

Ex. 179

The trial balance of Gagne Company shown below does not balance.

GAGNE COMPANY
Trial Balance
June 30, 2008

	Debit	Credit
Cash	$ 2,600	
Accounts Receivable	7,600	
Supplies	600	
Equipment	8,300	
Accounts Payable		$ 9,766
Common Stock		1,952
Dividends	1,500	
Service Revenue		15,200
Wages Expense	3,800	
Repair Expense	1,600	
Totals	$26,000	$26,918

An examination of the ledger and journal reveals the following errors:

1. Each of the above listed accounts has a normal balance per the general ledger.
2. Cash of $360 received from a customer on account was debited to Cash $630 and credited to Accounts Receivable $630.
3. A dividend $300 was posted as a credit to Dividends, $300 and credit to Cash $300.
4. A debit of $300 was not posted to Wages Expense.
5. The purchase of equipment on account for $700 was recorded as a debit to Repair Expense and a credit to Accounts Payable for $700.
6. Services were performed on account for a customer, $510, for which Accounts Receivable was debited $510 and Service Revenue was credited $51.
7. A payment on account for $225 was credited to Cash for $225 and credited to Accounts Payable for $252.

Ex. 179 (cont.)

Instructions

Prepare a correct trial balance.

Solution 179 (25 min.)

GAGNE COMPANY
Trial Balance
June 30, 2008

	Debit	Credit
Cash [2,600 – 270 (2)]	$ 2,330	$
Accounts Receivable [7,600 + 270 (2)]	7,870	
Supplies	600	
Equipment [8,300 + 700 (5)]	9,000	
Accounts Payable [9,766 – 477 (7)]		9,289
Common Stock		1,952
Dividends [1,500 + 300 + 300 (3)]	2,100	
Service Revenue [15,200 + 459 (6)]		15,659
Wages Expense [3,800 + 300 (4)]	4,100	
Repair Expense [1,600 – 700 (5)]	900	
Totals	$26,900	$26,900

Ex. 180

Some of the following errors would cause the debit and credit columns of the trial balance to have unequal totals. For each of the four cases, state whether the error would cause unequal totals in the trial balance. If the error causes unequal totals, indicate the amount of difference between the columns and state whether the debit or credit is larger. Each case is to be considered independently of the others.

1. A payment of $800 to a creditor was recorded by a debit to Accounts Payable of $80 and a credit to Cash of $800.
2. A $480 payment for a printer was recorded by a debit to Computer Equipment of $48 and a credit to Cash for $48.
3. An account receivable in the amount of $2,500 was collected in full. The collection was recorded by a debit to Cash for $2,500 and a debit to Accounts Payable for $2,500.
4. An account payable was paid by issuing a check for $800. The payment was recorded by debiting Accounts Payable $800 and crediting Accounts Receivable $800.

Solution 180 (5 min.)

1. The trial balance totals will be unequal. The credit column will be $720 larger than the debit column.
2. The trial balance totals will be misstated but not unequal.

Solution 180 (cont.)

3. The trial balance totals will be unequal. The debit column will be $5,000 larger than the credit column.

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4. The trial balance totals will be misstated but not unequal.

Ex. 181

Jane Carr and Associates is a financial planning service. The account balances at December 31, 2008 are shown by the following alphabetical list:

Accounts Payable	$ 5,000
Accounts Receivable	19,000
Automobiles	27,500
Building	120,000
Cash	18,500
Computer	22,000
Computer Software	4,200
Land	42,000
Common Stock	49,700
Retained Earnings	130,000
Notes Payable	95,000
Notes Receivable	8,100
Office Furniture	15,400
Office Supplies	800
Technical Library	2,200

Instructions
Prepare a trial balance with the accounts arranged in financial statement order.

Solution 181 (10 min.)

JANE CARR AND ASSOCIATES
Trial Balance
December 31, 2008

	Debit	Credit
Cash	$ 18,500	
Accounts Receivable	19,000	
Office Supplies	800	
Notes Receivable	8,100	
Computer	22,000	
Computer Software	4,200	
Technical Library	2,200	
Office Furniture	15,400	
Automobiles	27,500	
Building	120,000	
Land	42,000	
Accounts Payable		$ 5,000
Notes Payable		95,000
Common Stock		49,700
Retained Earnings		130,000
Totals	$279,700	$279,700

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Ex. 182

The ledger accounts of the Oak Street Gym at June 30, 2008 are shown below:

Accounts Payable	$ 9,100
Accounts Receivable	1,050
Building	51,400
Common Stock	33,100
Retained Earnings	30,000
Cash	15,000
Exercise Equipment	18,900
Weight Equipment	22,000
Notes Payable	49,000
Office Supplies	350
Office Equipment	2,000
Dividends	10,500

Instructions
Prepare a trial balance with the ledger accounts arranged in the proper financial statement order. Include the appropriate heading.

Solution 182 (10 min.)

OAK STREET GYM
Trial Balance
June 30, 2008

	Debit	Credit
Cash	$ 15,000	
Accounts Receivable	1,050	
Office Supplies	350	
Office Equipment	2,000	
Exercise Equipment	18,900	
Weight Equipment	22,000	
Building	51,400	
Accounts Payable		$ 9,100
Notes Payable		49,000
Common Stock		33,100
Retained Earnings		30,000
Dividends	10,500	
Totals	$121,200	$121,200

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Ex. 183

The ledger account balances for Jenkins Company are listed below.

Accounts Payable	$ 8,000
Accounts Receivable	7,000
Cash	13,000
Common Stock	3,000
Retained Earnings	8,000
Dividends	4,000
Repair Revenue	40,000
Salaries Expense	25,000
Unearned Revenue	2,000
Utilities Expense	12,000

Instructions
Prepare a trial balance in proper form for Jenkins at December 31, 2008.

Solution 183 (8 min.)

JENKINS COMPANY
Trial Balance
December 31, 2008

	Debit	Credit
Cash	$13,000	
Accounts Receivable	7,000	
Accounts Payable		$ 8,000
Unearned Revenue		2,000
Common Stock		3,000
Retained Earnings		8,000
Dividends	4,000	
Repair Revenue		40,000
Salaries Expense	25,000	
Utilities Expense	12,000	
	$61,000	$61,000

COMPLETION STATEMENTS

184. An _____ is a record of increases and decreases in specific assets, liabilities, and stockholders' equity items.

185. The process of entering an amount on the left side of an account is called _____ the account, and making an entry on the right side is called _____ the account.

186. _____, _____, and _____ have debit normal account balances whereas _____, _____, and _____ have credit normal account balances.

187. Stockholders' equity is decreased by: _____, and _____.

188. The basic steps in the recording process are: _____ each transaction, enter the transaction in a _____, and transfer the _____ information to appropriate accounts in the _____.

189. A sales slip, a check, and a cash register tape are examples of _____ used as evidence that a transaction has taken place.

190. An accounting record where transactions are initially recorded in chronological order is called a _____.

191. When three or more accounts are required in one journal entry, the entry is referred to as a _____ entry.

192. The entire group of accounts and their balances maintained by a company is called the _____.

193. A two column list of all accounts and their balances at a given time is a _____.

Answers to Completion Statements

184. account
185. debiting, crediting
186. Assets, expenses, dividends, liabilities, stockholders' equity, revenue
187. net losses, dividends
188. analyze, journal, journal, ledger
189. business documents
190. journal
191. compound
192. general ledger
193. trial balance

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MATCHING

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

A. Account	F. Journal
B. Normal account balance	G. Posting
C. Debit	H. Chart of accounts
D. Revenue account	I. Trial balance
E. Compound entry	J. Simple entry

____ 1. An entry that involves three or more accounts.

____ 2. Transferring journal entries to ledger accounts.

____ 3. The side which increases an account.

____ 4. A list of all the accounts used by an enterprise.

____ 5. A record of increases and decreases in specific assets, liabilities, and stockholders' equity items.

____ 6. Left side of an account.

____ 7. An entry that involves only two accounts.

____ 8. A book of original entry.

____ 9. A list of accounts and their balances at a given time.

____ 10. Has a normal credit balance

Answers to Matching

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

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SHORT-ANSWER ESSAY QUESTIONS

S-A E 195

An account is an important accounting record where financial information is stored until needed. Briefly explain (1) the nature of an account, (2) the different types of accounts, and (3) the manner in which an account is increased and decreased and its normal balance.

Solution 195

An account is an individual accounting record of increases and decreases in specific asset, liability, and stockholders' equity accounts. In its simplest form, an account consists of three parts: (1) the title of the account, (2) a left or debit side, and (3) a right or credit side (it resembles the letter T). Accounts are classified as asset, liability, stockholders' equity, revenue, and expense. Accounts with a normal debit balance, such as assets and expenses, are increased when debited and decreased when credited. Accounts with a normal credit balance, such as liabilities and revenues, are increased when credited and decreased when debited.

S-A E 196

Describe the process of preparing a trial balance. What is the purpose of preparing a trial balance? If a trial balance does not balance, identify what might be the reasons why it does not balance. If the trial balance does balance, does that insure that the ledger accounts are correct? Explain.

Solution 196

The process of preparing a trial balance consists of (1) listing the account titles and their debit or credit balances in the order in which they appear in the general ledger, (2) totaling the debit and credit columns, and (3) proving the equality of the total debits and total credits. The primary purpose of the trial balance is to prove the equality of the debits and credits after posting. A trial balance also uncovers errors in journalizing and posting because errors in journalizing and posting cause a trial balance not to balance. A trial balance does not prove that all transactions have been recorded or that the ledger is correct. The trial balance may balance even when (1) an entire transaction is not journalized, (2) a correct journal entry is not posted, (3) a journal entry is posted twice, (4) incorrect accounts are used in journalizing or posting, or (5) offsetting errors are made in recording the amount of a transaction or posting to the ledger.

S-A E 197

During a study session, a classmate states that it is not necessary to make journal entries and then post them to the ledger. She states that it is sufficient to analyze the transaction and simply record the information in T-accounts.

What is your response to this statement? Be brief, yet concise.

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Solution 197

You have a very good point regarding the steps of the accounting cycle. If a company only has a few transactions, it might be possible to simply analyze them and then record each in T-accounts. However, nearly all businesses have many transactions each day. There must be a systematic way to process these transactions. The steps of the accounting cycle represent this process. After analyzing each transaction, a journal entry needs to be prepared. The journal represents a chronological listing of every transaction for a business. This allows users to review past transactions. Your approach does not leave a trail that can be reviewed at a later date. Once the journal entries are made, posting allows each line of the journal to be transferred into the ledger. This process increases and decreases individual accounts in the ledger. At the end of the accounting period, the balance of each account is determined and the trial balance is prepared.

Based on your approach, if someone saw a credit to cash for $10,000 and wondered what the debit was, that person would have to go through every ledger account to locate the corresponding debit. By having a general journal, the person can view the entire transaction, thus easily seeing the account that was debited.

Your approach may work for a very simple business, but it would result in problems for the majority of businesses and accountants.

S-A E 198 (Ethics)

Jim Coleman, Jr. was appointed the manager of Maris Properties, a recently formed company that manages residential rental properties. Linda Grider is the accountant. She prepared a chart of accounts based on an analysis of the expenditures of the company. One of the largest expense categories is Travel and Entertainment. Mr. Coleman believes that it is important to maintain a presence in the social life of the city. In this, he sharply differs from his father, Jim Coleman, Sr. The elder Mr. Coleman has set up Maris Properties in order to test his son's management skills before allowing him to manage the more lucrative commercial property business. Mr. Coleman, Sr. provided the capital for Maris, and maintains close contact with the company. He allowed his son, however, to hire his own employees.

Mr. Coleman has asked Ms. Grider to change the name of the Travel and Entertainment account to Property Development. He hopes to deflect his father's attention away from the amount he has spent on travel and entertainment until he has proven that his methods work. When Ms. Grider resisted, he reminded her that he, not his father, hired her. He also reminded her that she had been enthusiastic about his business plans when she was hired.

Required:

1. Who are the stakeholders in this situation?
2. Should Ms. Grider agree to the change in the Travel and Entertainment account to Property Development? Explain.

Solution 198

1. The stakeholders in this situation include
   Mr. Coleman, Jr.
   Linda Grider
   Mr. Coleman, Sr.
   Bankers and others who might rely on the financial statements

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Solution 198 (cont.)

2. Ms. Grider definitely should not agree to the name change. The intention of the person making the change is to deceive someone who has a right to know the affairs of the business, fully and completely. Though Ms. Grider was hired by Mr. Coleman, Jr., and though she may agree with his business methods, she cannot be a party to such deceit.

S-A E 199 (Communication)

A classmate is considering dropping his accounting class because he cannot understand the rules of debits and credits.

a. Can the student be successful in the course without an understanding of the rules of debits and credits?

b. Explain the rules of debits and credits in a way that will help him understand them.

Solution 199

a. Accounting is based on the double-entry system. This system records the dual effect of each transaction in the appropriate accounts, thus keeping the accounting equation in balance. Each transaction is analyzed and recorded using this dual effect system. If you do not have this basic understanding, the remaining chapters will become increasingly more difficult. You will not have the ability to make journal entries for the many new topics in these upcoming chapters.

b. You may be trying to memorize the rules of debits and credits, only to discover that this does not work. Here are some other ways to master this very important topic:

   - Make sure that you understand the accounting equation. Assets equal the total of liabilities and stockholders' equity. Stockholders' equity is not an account but rather a group of accounts that includes common stock, retained earnings, revenues, expenses, and dividends. Common stock, retained earnings, and revenues cause stockholders' equity to increase while expenses and dividends cause stockholders' equity to decrease.

   - Next, make sure that you understand the accounting meaning of the terms debits and credits. For accounting, debit means left and credit means right. Don't try to add any more to these definitions.

   - Then, work with the rules of debits and credits. These rules determine whether a debit or credit increases or decreases an account. Start with assets. Assets increase with a debit and thus decrease with a credit. Think about the cash account—when cash is received, the account is increased with a debit. When cash is paid, the account is decreased with a credit. The remaining accounts are on the right side of the equal sign in the accounting equation. All of the other rules of debits and credits keep the equation in balance. Liabilities, common stock, retained earnings, and revenues are all increased with credits. Expenses and dividends are the two accounts that cause stockholders' equity to decrease, thus they must be increased with a debit.

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