Financial Accounting with International Financial Reporting Standards 5th edition Weygandt Test Bank

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CHAPTER 2

THE RECORDING PROCESS

CHAPTER LEARNING OBJECTIVES

1. ***Describe how accounts, debits, and credits are used to record business transactions.*** An account is a record of increases and decreases in specific asset, liability, and equity items. The terms debit and credit are synonymous with left and right. Assets, dividends, and expenses are increased by debits and decreased by credits. Liabilities, share capital-ordinary, retained earnings, and revenues are increased by credits and decreased by debits.

2. ***Indicate how a journal is used 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.

   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.

3. ***Explain how a ledger and posting help in the recording process.*** The ledger is the entire group of accounts maintained by a company. The ledger provides the balance in each of the accounts as well as keeps track of changes in these balances. 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.

4. ***Prepare a trial balance.*** 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.

TRUE-FALSE STATEMENTS

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

   Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

   Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

   Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

   Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

   Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

   Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

   Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

   Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

   Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

    Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

    Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Reporting AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Reporting

12. Revenues are a subdivision of retained earnings.

    Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

15. All accounts reported in the statement of financial position are increased by using debits on the left-hand side of the T-account.

Ans: F LO1 BT: K Difficulty: Medium TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

16. The rules for debit and credit and the normal balance of the Share Capital–Ordinary account are the same as for asset accounts.

Ans: F LO1 BT: K Difficulty: Medium TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

17. Companies report share capital–ordinary and dividends in the equity section of the statement of financial position.

Ans: F LO1 BT: K Difficulty: Medium TOT: .5 min. AACSB: Knowledge AICPA AC: Reporting AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Reporting

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

Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

19. The normal balance of an expense account is a credit.

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

20. The journal provides a chronological record of transactions.

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

21. Transaction information can be entered directly into the accounts without using a journal.

Ans: F LO2 BT: K Difficulty: Medium TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

31. Entries that impact the income statement are called simple entries, whereas entries that impact the statement of financial position are called compound entries.

Ans: F LO2 BT: K Difficulty: Medium TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

32. The general ledger contains all the accounts that are reported on the statement of financial position, whereas the general journal contains all the accounts that are reported on the income statement.

Ans: F LO3 BT: K Difficulty: Medium TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

33. The chart of accounts lists accounts and the account numbers that identify their location in the ledger starting with the accounts that are reported on the income statement.

Ans: F LO3 BT: K Difficulty: Medium TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

36. A general ledger should be arranged in the order in which accounts are presented in the financial statements, beginning with the statement of financal position accounts.

Ans: T LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

37. 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.

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: T LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

40. Posting involves transferring the journalized debits and credits to the statement of financial position.

Ans: F LO3 BT: K Difficulty: Medium TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: T LO3 BT: C Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

43. The trial balance lists accounts and their balances at a given point in time in the order in which they appear on the statement of financial position.

Ans: F LO4 BT: K Difficulty: Medium TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

44. When debits do not equal credits on the trial balance, this indicates that the company has net income that needs to be transferred to the retained earnings account.

Ans: F LO4 BT: K Difficulty: Medium TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

45. Errors on the statement of financial position are called transpositions and errors on the income statement are called irregularities.

Ans: F LO4 BT: K Difficulty: Medium TOT: .5 min. AACSB: Knowledge AICPA AC: Reporting AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Reporting

46. Currency signs are typically used only in the trial balance and the financial statements.

Ans: T LO4 BT: K Difficulty: Medium TOT: .5 min. AACSB: Knowledge AICPA AC: Reporting AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Reporting

47. The general rules of debit and credit, and the steps in the recording process–the journal, ledger, and chart of accounts–are the same under both GAAP and IFRS.

Ans: T LO4 BT: K Difficulty: Medium TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: T LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: T LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: F LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

MULTIPLE CHOICE QUESTIONS

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

Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

52. 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.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

53. Which one of the following is **not** a part of an account?
    a. credit side
    b. trial balance
    c. debit side
    d. title

Ans: b LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

54. 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.

Ans: b LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

55. 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.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

56. 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.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

57. 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.

Ans: a LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

58. 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.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

59. 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.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

60. 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.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

61. 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 a ledger.
    d. first as a revenue and then as an expense.

Ans: a LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

62. Which of the following accounts does **not** have a normal credit balance?
    a. Share Capital–Ordinary
    b. Revenue account
    c. Liability account
    d. Dividends

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

63. Which one of the following represents the expanded basic accounting equation?
    a. Assets = Liabilities + Share Capital–Ordinary + Retained Earnings + Dividends – Revenue – Expenses
    b. Assets + Dividends + Expenses = Liabilities + Share Capital–Ordinary + Retained Earnings + Revenues
    c. Assets – Liabilities – Dividends = Share Capital–Ordinary + Retained Earnings + Revenues – Expenses
    d. Assets = Revenues + Expenses – Liabilities

Ans: b LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

a.

Assets	Debit
Liabilities	Credit
Equity	Credit
Revenues	Debit
Expenses	Credit

b.

Assets	Debit
Liabilities	Credit
Equity	Credit
Revenues	Credit
Expenses	Credit

c.

Assets	Credit
Liabilities	Debit
Equity	Debit
Revenues	Credit
Expenses	Debit

d.

Assets	Debit
Liabilities	Credit
Equity	Credit
Revenues	Credit
Expenses	Debit

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

65. 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.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

66. 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.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

67. 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.

Ans: b LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

    Ans: d LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

69. 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 equity account for $500.
    c. Debit another asset account for $500.
    d. Credit a different asset account for $500.

    Ans: d LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

70. 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 equity account for $500.
    d. Debit an equity account for $500.

    Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

71. 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.

    Ans: b LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

72. 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.

    Ans: a LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

73. 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.

    Ans: b LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

74. 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.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: b LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

76. 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

Ans: b LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

77. 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.

Ans: b LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

78. Which account below is **not** a subdivision of retained earnings?
   a. Dividends
   b. Revenues
   c. Expenses
   d. Share Capital-Ordinary

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

79. When a company pays dividends
   a. the dividend 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.

Ans: a LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

80. 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 retained earnings.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Reporting AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Reporting

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

Ans: a LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

82. 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.

Ans: a LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

83. In the first month of operations, the total of the debit entries to the cash account amounted to $700 and the total of the credit entries to the cash account amounted to $500. The cash account has a
    a. $500 credit balance.
    b. $700 debit balance.
    c. $200 debit balance.
    d. $200 credit balance.

Ans: c LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

84. Martin's Mail Service purchased equipment for $8,000. Martin paid $1,000 in cash and signed a note for the balance. Martin debited the Equipment account, credited Cash and
    a. nothing further must be done.
    b. debited the retained earnings account for $7,000.
    c. credited another asset account for $1,000.
    d. credited a liability account for $7,000.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

85. Taylor Industries purchased supplies for £1,000. They 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

Ans: a LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

86. On January 14, Ericsson 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.

Ans: a LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

87. On June 1, 2025, Alma Inc. reported a cash balance of €18,000. During June, Alma made deposits of €4,500 and made disbursements totaling €24,000. What is the cash balance at the end of June?
  a. €1,500 debit balance
  b. €22,500 debit balance
  c. €1,500 credit balance
  d. €6,000 credit balance

Ans: c LO1 BT: AP Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

88. At January 1, 2025, LeAnna Industries reported retained earnings of $260,000. In 2025, LeAnna had a net loss of $60,000 and paid dividends of $40,000. At December 31, 2025, the amount of retained earnings is
  a. $260,000.
  b. $280,000.
  c. $200,000.
  d. $160,000.

Ans: d LO1 BT: AP Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: c LO1 BT: K Difficulty: Medium TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

90. In the first month of operations for Widget Industries, the total of the debit entries to the cash account amounted to £18,000 (£10,000 investment by the owners and revenues of £8,000). The total of the credit entries to the cash account amounted to £10,000 (purchase of equipment £4,000 and payment of expenses £6,000). At the end of the month, the cash account has a(n)

a. £6,000 credit balance.
b. £6,000 debit balance.
c. £8,000 debit balance.
d. £8,000 credit balance.

Ans: c LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

91. Rusthe Company showed the following balances at the end of its first year:

Cash	$ 19,000
Prepaid insurance	1,400
Accounts receivable	7,000
Accounts payable	5,600
Notes payable	8,400
Share capital-ordinary	4,800
Dividends	1,400
Revenues	45,000
Expenses	35,000

What did Rusthe Company show as total credits on its trial balance?

a. $65,200
b. $63,800
c. $62,400
d. $66,600

Ans: b LO1 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

92. Ayala Company showed the following balances at the end of its first year:

Cash	$11,000
Prepaid insurance	500
Accounts receivable	2,500
Accounts payable	2,000
Notes payable	6,000
Share capital-ordinary	4,000
Dividends	500
Revenues	15,000
Expenses	12,500

What did Ayala Company show as total credits on its trial balance?

a. $27,500
b. $27,000
c. $26,500
d. $28,000

Ans: b LO1 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

93. During February 2025, its first month of operations, the owner of Alona Enterprises invested cash of $125,000. Alona had cash revenues of $20,000 and paid expenses of $35,000. Assuming no other transactions impacted the cash account, what is the balance in Cash at February 28?
a. $15,000 credit
b. $110,000 debit
c. $145,000 debit
d. $90,000 credit

Ans: b LO1 BT: AP Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

94. Which of the following statements is **true** regarding debits and credits?
a. On the income statement, debits are used to increase account balances, whereas on the statement of financial position, credits are used to increase account balances.
b. The basic equation on the statement of financial position is Assets + Liabilities = Equity.
c. The rules for debit and credit and the normal balance of Share Capital-Ordinary are the same as for liabilities.
d. On the income statement, revenues are increased by debits whereas on the statement of financial position retained earnings is increased by a credit.

Ans: c LO1 BT: K Difficulty: Medium TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

95. Which of the following accounts is reported in the equity section of the statement of financial position?
a. Dividends
b. Share capital–ordinary
c. Revenues
d. All of the answer choices are correct.

Ans: b LO1 BT: K Difficulty: Hard TOT: 1 min. AACSB: Knowledge AICPA AC: Reporting AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Reporting

96. Revenues are
a. impacted by debits and credits in the same way that expenses are impacted by debits and credits.
b. a subdivision of equity, providing information about why equity increased.
c. reported on the statement of financial position as a current item.
d. All of the answer choices are correct.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

98. A debit is **not** the normal balance for which of the following type of account?
    a. Asset account
    b. Dividends account
    c. Expense account
    d. Share capital-ordinary account

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

99. Which of the following rules is **incorrect**?
    a. Credits decrease the dividends account.
    b. Debits increase the share capital-ordinary account.
    c. Credits increase revenue accounts.
    d. Debits decrease liability accounts.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

100. Which of the following statements is **false**?
    a. Revenues increase 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.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

101. Which of the following is the correct sequence of steps in the recording process?
    a. posting, journalizing, and analyzing
    b. journalizing, analyzing, and posting
    c. analyzing, posting, and journalizing
    d. analyzing, journalizing, and posting

Ans: d LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

102. 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.

Ans: d LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

103. Sternberg Company purchases equipment for $1,200 and supplies for $400 from Tran 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 Tran.
    b. credit to Cash for Tran.
    c. credit to Accounts Payable for Sternberg.
    d. debit to Equipment $1,200 and a debit to Supplies $400 for Sternberg.

Ans: d LO2 BT: K Difficulty: Medium TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

104. Wiser Inc. paid cash dividends of $300. The entry for this transaction will include a debit of $300 to
   a. Dividends.
   b. Supplies Expense.
   c. Shareholders' Expense.
   d. Salaries and Wages Expense.

Ans: a LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

105. On October 3, Josh Antonio, a carpenter, received a cash payment for services previously billed to a client. Josh paid his telephone bill, and he also bought supplies 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.

Ans: d LO2 BT: C Difficulty: Medium TOT: 1.5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

106. Basic steps in the recording process include all of the following **except**
   a. transfer the journal information to the appropriate account in the statement of financial position.
   b. analyze each transaction for its effect on the accounts.
   c. enter the transaction information in a journal.
   d. All of the answer choices are correct.

Ans: a LO2 BT: K Difficulty: Medium TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

107. At January 31, 2025, the balance in Bota Inc.’s supplies account was $2,000. During February, Bota purchased supplies of $2,400 and used supplies of $3,200. At the end of February, the balance in the supplies account should be
   a. $2,000 debit.
   b. $2,800 credit.
   c. $4,400 debit.
   d. $1,200 debit.

Ans: d LO2 BT: AP Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

108. At December 1, 2025, Gibson Company’s accounts receivable balance was €7,200. During December, Gibson had credit revenues of €30,000 and collected accounts receivable of €24,000. At December 31, 2025, the accounts receivable balance is
   a. €7,200 debit.
   b. €13,200 debit.
   c. €37,200 debit.
   d. €13,200 credit.

Ans: b LO2 BT: AP Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

109. At October 1, 2025, Padilla Industries had an accounts payable balance of $90,000. During the month, the company made purchases on account of $75,000 and made payments on account of $120,000. At October 31, 2025, the accounts payable balance is
   a. $90,000.
   b. $30,000.
   c. $45,000.
   d. $120,000.

   Ans: c LO2 BT: AP Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

110. During 2025, its first year of operations, Yaspo's Bakery had revenues of $200,000 and expenses of $110,000. The business paid dividends of $60,000. What is the amount of retained earnings at December 31, 2025?
   a. $0
   b. $60,000 debit
   c. $30,000 credit
   d. $90,000 credit

   Ans: c LO2 BT: AP Difficulty: Medium TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

111. On July 7, 2025, Anaya Enterprises performed services for cash 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.

   Ans: c LO2 BT: AP Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

112. At September 1, 2025, Crews Co. reported equity of £272,000. During the month, Crews generated revenues of £40,000, incurred expenses of £24,000, purchased equipment for £10,000, and paid dividends of £4,000. What is total equity at September 30, 2025?
   a. £272,000
   b. £16,000
   c. £274,000
   d. £284,000

   Ans: d LO2 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

113. 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.

   Ans: d LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

114. 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.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

115. In recording business transactions, evidence that an accounting transaction has taken place is obtained from
   a. business documents.
   b. the taxing authority.
   c. the public relations department.
   d. the IASB.

Ans: a LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

116. 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. equity.
   c. ledger accounts.
   d. financial statements.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

117. 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.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

118. 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.

Ans: c LO2 BT: C Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

119. 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.

Ans: d LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

120. 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.

Ans: a LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

121. 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.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

122. 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.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: c LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

124. 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.

Ans: d LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

125. 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.

Ans: a LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

126. When only 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.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: b LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

128. 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.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: d LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

130. 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.

Ans: b LO2 BT: C Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

131. 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.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: d LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

133. 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.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

134. 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.

Ans: a LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

135. On June 1, 2025 Quang Le buys a copier machine for his business and finances this purchase with cash and a note. When journalizing this transaction, he will
    a. use two journal entries.
    b. make a compound entry.
    c. make a simple entry.
    d. list the credit entries first.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

a.

Salaries and Wages Expense	1,000	
Cash		2,500
Rent Expense	1,500	

b.

Salaries and Wages Expense		1,000
Rent Expense		1,500
Cash	2,500	

c.

Cash	2,500	
Salaries and Wages Expense		1,000
Rent Expense		1,500

d.

Salaries and Wages Expense	1,000	
Rent Expense	1,500	
Cash		2,500

Ans: d LO2 BT: AN Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

137. Which of the following statements is **true** regarding simple and compound entries?
a. Simple entries can be prepared by anyone whereas compound entries need to be prepared by a skilled accountant.
b. Simple entries are recorded on the income statement whereas compound entries are recorded on the statement of financial position.
c. Simple entries involve one account, whereas compound entries involved 2 or more accounts.
d. An example of a compound entry would be the purchase of a machine for $400 cash and a $2,000 note payable.

Ans: d LO2 BT: K Difficulty: Medium TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

138. Compound entries
a. would include an entry to record the purchase of a computer for cash.
b. include at least two debits or two credits.
c. require that all credits be listed before the debits for entries affecting the statement of financial position.
d. should be broken into their component parts and recorded as simple entries.

Ans: b LO2 BT: K Difficulty: Hard TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

139. Accounts maintained within the ledger that appear on the statement of financial position include all of the following **except**
a. Salaries and Wages Expense.
b. Interest Payable.
c. Supplies.
d. Share Capital-Ordinary.

Ans: a LO3 BT: K Difficulty: Hard TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

140. The entire group of accounts maintained by a company is called the
    a. statement of cash flows.
    b. general journal.
    c. general ledger.
    d. trial balance.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

142. The usual ordering of accounts in the general ledger is
    a. assets, liabilities, share capital–ordinary, retained earnings, dividends, revenues, and expenses.
    b. assets, liabilities, dividends, share capital–ordinary, retained earnings, expenses, and revenues.
    c. liabilities, assets, share capital–ordinary, retained earnings, revenues, expenses, and dividends.
    d. Share capital–ordinary, retained earnings, assets, liabilities, dividends, expenses, and revenues.

Ans: a LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: c LO3 BT: C Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

144. 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.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

145. Robitaille Company received a cash advance of $500 from a customer. As a result of this event,
   a. assets increased by $500.
   b. equity increased by $500.
   c. liabilities decreased by $500.
   d. revenues increased by $500.

Ans: a LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

146. Pastorek Company purchased equipment for $1,800 cash. As a result of this event,
   a. equity decreased by $1,800.
   b. total assets increased by $1,800.
   c. total assets remained unchanged.
   d. total liabilities increased by $1,800.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

147. On August 13, 2025, Merrill Enterprises purchased equipment for $2,000 and supplies of $400 on account. Which of the following journal entries is recorded correctly and in the standard format?

a.	Equipment	2,000	
	Account Payable..		2,400
	Supplies..	400	
b.	Equipment.		2,000
	Supplies..		400
	Accounts Payable..	2,400	
c.	Accounts Payable	2,400	
	Equipment..		2,000
	Supplies		400
d.	Equipment	2,000	
	Supplies..	400	
	Accounts Payable.		2,400

Ans: d LO3 BT: AP Difficulty: Medium TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

148. Root 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. equity increased by $2,500.
   d. both assets and equity increased by $2,500.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

149. 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.

Ans: a LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: a LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: d LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

152. 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.

Ans: a LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

153. 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.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

154. 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.

Ans: b LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

155. 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.

Ans: b LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

157. A numbering system for a chart of accounts
   a. is prescribed by IFRS.
   b. is uniform for all businesses.
   c. usually starts with income statement accounts.
   d. usually starts with the statement of financial position accounts.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

158. 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.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

159. Posting
   a. accumulates the effects of ledger entries and transfers them to the general journal.
   b. is done only for income statement activity; activity related to the statement of financial position does not require posting.
   c. is done only once per year.
   d. is done by posting all the debits and credits of one entry before moving on to the next entry.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

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

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

161. 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.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

162. The trial balance
   a. is a listing of all the accounts and their balances in the order the accounts appear on the statement of financial position.
   b. has as its primary purpose to prove (check) that all journal entries were made for the period.
   c. can be used to uncover errors in journalizing and posting.
   d. is used to prepare the statement of financial position while the general ledger is used to prepare the income statement.

Ans: c LO4 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

163. Which of the following errors will prevent the trial balance from balancing?
   a. A transaction is not journalized.
   b. Transposition error related to the statement of financial position.
   c. A journal entry is posted twice.
   d. A journal entry to purchase $100 worth of equipment is posted as a $1,000 purchase.

Ans: b LO4 BT: K Difficulty: Hard TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

164. Which of the following statements is **false** concerning the use of currency signs?
   a. Currency signs do not appear in journals or ledgers.
   b. Currency signs are generally only shown for the first item in a column and the column total.
   c. Currency signs are not typically used in the trial balance.
   d. All of the answer choices are correct.

Ans: c LO4 BT: K Difficulty: Medium TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

165. Which of the following statement is **true** regarding the recording process?
   a. Because IFRS rely more on fair value and less on historical cost than U.S. GAAP the double-entry accounting system is not widely used by companies who use IFRS.
   b. Both IFRS and U.S. GAAP, use the same general rules of debits and credits and the steps in the recording process.
   c. A trial balance using IFRS is organised by first showing the accounts from the statement of financial position followed by accounts from the income statement; a trial balance using U.S. GAAP is organized using the opposite order.
   d. All of the choices are correct regarding the recording process.

Ans: b LO5 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

166. Under U.S. GAAP,
   a. currency signs are generally used in the journal, ledger, trial balance, and financial statements.
   b. Share Capital-Ordinary is referred to as Retained Earnings.
   c. the statement of financial position is often called the statement of changes in financial position.
   d. the rules of debits and credits, and the steps in the recording process are the same as under IFRS.

Ans: d LO4 BT: K Difficulty: Hard TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

167. 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.

Ans: d LO4 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

168. 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.

Ans: d LO4 BT: C Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

169. 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.

Ans: c LO4 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

170. 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.

Ans: d LO4 BT: C Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

171. 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.

Ans: c LO4 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

172. 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.

Ans: c LO4 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

173. 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 a journal entry to the ledger.

Ans: d LO4 BT: C Difficulty: Medium TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

174. 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.

Ans: b LO4 BT: K Difficulty: Easy TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

175. 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.

Ans: d LO4 BT: C Difficulty: Medium TOT: 1 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

BRIEF EXERCISES

BE 176

At June 1, 2025, Estrada Industries had an accounts receivable balance of £12,000. During the month, the company performed credit services of £30,000 and collected accounts receivable of £32,000. What is the balance in accounts receivable at June 30, 2025?

Solution 176

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

Beginning accounts receivable	£12,000
Add: Credit sales	30,000
Less: Collections	(32,000)
Ending accounts receivable	£10,000

LO1 BT: AP Difficulty: Easy TOT: 3 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

BE 177

J. B. Goode has the following transactions during April of the current year. Indicate (a) the effect on the accounting equation and (b) the debit-credit analysis.

Apr. 1	Opens a law office, investing $20,000 in cash.
4	Pays rent in advance for 6 months, $10,800 cash.
16	Receives $8,000 from clients for services provided.
27	Pays secretary $3,000 salary.

Solution 177

(a) **Effect on Accounting Equation**	(b) **Debit-Credit Analysis**
The asset Cash is increased; the equity account Share Capital-Ordinary is increased.	Debits increase assets: debit Cash $20,000. Credits increase equity: credit Share Capital-Ordinary $20,000.
The asset Prepaid Rent is increased; the asset Cash is decreased.	Debits increase assets: debit Prepaid Rent $10,800. Credits decrease assets: credit Cash $10,800.
The asset Cash is increased; the revenue Service Revenue is increased.	Debits increase assets: debit Cash $8,000. Credits increase revenues: credit Service Revenue $8,000.
The expense Salaries and Wages Expense is increased; the asset Cash is decreased.	Debits increase expenses: debit Salaries and Wages Expense $3,000. Credits decrease assets: credit Cash $3,000.

LO1 BT: C Difficulty: Medium TOT: 6 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

BE 178

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. Salaries and Wages Expense.	________	_______	_______
2. Accounts Receivable.	________	_______	_______
3. Service Revenue.	________	_______	_______
4. Share Capital-Ordinary.	________	_______	_______
5. Dividends.	________	_______	_______

Solution 178

	Debit	Credit	Normal Balance
1. Salaries and Wages Expense.	+	–	Dr
2. Accounts Receivable.	+	–	Dr
3. Service Revenue.	–	+	Cr
4. Share Capital-Ordinary.	–	+	Cr
5. Dividends.	+	–	Dr

LO1 BT: K Difficulty: Easy TOT: 5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

BE 179

For each of the following transactions of Chen 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 179

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

LO2 BT: AP Difficulty: Medium TOT: 4 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

BE 180

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

1. Kevin Diaz invested $40,000 cash in exchange for ordinary shares.
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 salary.
5. Recorded revenue earned and received for the week, $1,500.

Solution 180

1.	Cash……...	40,000	
	Share Capital-Ordinary..		40,000
2.	No entry, not a transaction.		
3.	Prepaid Rent	7,200	
	Cash..		7,200
4.	Salaries and Wages Expense	400	
	Cash..		400
5.	Cash……….	1,500	
	Service Revenue		1,500

LO2 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

BE 181

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 181

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

LO2 BT: K Difficulty: Easy TOT: 4 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

BE 182

Journalize the following transactions for Mercado Company for June 2025, the company's first month of operations. You may omit explanations for the transactions.
1. Purchased equipment on account for $6,000.
2. Billed customers $5,000 for services performed.
3. Made payment of $1,500 on account for equipment purchased earlier in the month.
4. Collected $2,400 on customer accounts.

Solution 182

1.	Equipment	6,000	
	Accounts Payable		6,000
2.	Accounts Receivable	5,000	
	Service Revenue		5,000
3.	Accounts Payable	1,500	
	Cash		1,500
4.	Cash	2,400	
	Accounts Receivable		2,400

LO2 BT: AP Difficulty: Medium TOT: 4 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

BE 183

Use the information in BE 182 to answer the following questions.
1. What is the balance in Accounts Payable at June 30, 2025?
2. What is the balance in Accounts Receivable at June 30, 2025?

Solution 183

1. Accounts Payable at June 30, 2025:

Beginning accounts payable	$ 0
Purchases on account	6,000
Payments on account	(1,500)
Ending accounts payable	$4,500

2. Accounts Receivable at June 30, 2025:

Beginning accounts receivable	$ 0
Billed to customers	5,000
Collections from customers	(2,400)
Ending accounts receivable	$2,600

LO3 BT: AP Difficulty: Medium TOT: 6 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

BE 184

The transactions of the Buy 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
2025				
Aug.	5	Accounts Receivable	2,800	
		Service Revenue		2,800
	10	Cash	5,000	
		Service Revenue		5,000
	19	Rent Expense	1,000	
		Cash		1,000
	25	Cash	1,400	
		Accounts Receivable		1,400

General Ledger

Cash

Accounts Receivable

Service Revenue

Rent Expense

Solution 184

General Ledger

Cash

8/10	5,000	8/19	1,000
8/25	1,400		
8/31 Bal.	5,400		

Accounts Receivable

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

Service Revenue

		8/5	2,800
		8/10	5,000
		8/31 Bal.	7,800

Rent Expense

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

LO3 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

BE 185

Prepare a trial balance from the ledger accounts of Attica Company as of January 31, 2025.

Accounts Payable	$ 500	Rent Expense	$ 500
Accounts Receivable	2,000	Service Revenue	5,000
Cash	3,000	Supplies	200
Share Capital-Ordinary	2,200	Salaries and Wages Expense	1,000
Dividends	1,000		

Solution 185

ATTICA COMPANY
Trial Balance
January 31, 2025

	Debit	Credit
Cash	$3,000	
Accounts Receivable	2,000	
Supplies	200	
Accounts Payable		$ 500
Share Capital-Ordinary		2,200
Dividends	1,000	
Service Revenue		5,000
Rent Expense	500	
Salaries and Wages Expense	1,000	
	$7,700	$7,700

LO4 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

BE 186

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

LUZON COMPANY
Trial Balance
March 31, 2025

	Debit	Credit
Cash	€ 40,000	
Accounts Receivable		€ 30,000
Prepaid Insurance	2,500	
Equipment	60,000	
Accounts Payable		25,000
Unearned Service Revenue	10,000	
Notes Payable		20,000
Share Capital-Ordinary		54,000
Dividends		1,500
Service Revenue		55,000
Salaries and Wages Expense	15,000	
Utilities Expense	5,000	
Rent Expense	10,000	
	€142,500	€185,500

Solution 186

LUZON COMPANY
Trial Balance
March 31, 2025

	Debit	Credit
Cash	€ 40,000	
Accounts Receivable	30,000	
Prepaid Insurance	2,500	
Equipment	60,000	
Accounts Payable		€ 25,000
Unearned Service Revenue		10,000
Notes Payable		20,000
Share Capital-Ordinary		54,000
Dividends	1,500	
Service Revenue		55,000
Salaries and Wages Expense	15,000	
Utilities Expense	5,000	
Rent Expense	10,000	
	€164,000	€164,000

LO4 BT: AP Difficulty: Medium TOT: 6 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

EXERCISES

Ex. 187

The chart of accounts used by Ming 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 Service Revenue
112	Accounts Receivable	311	Share Capital-Ordinary
126	Supplies	332	Dividends
157	Equipment	400	Service 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 ordinary shares in exchange for ¥90,000,000 cash.		
2.	Purchased three photocopy machines for ¥200,000,000, paying ¥50,000,000 cash and signing a 5-year, 10% note for the remainder.		
3.	Purchased ¥5,000,000 supplies on credit.		
4.	Cash photocopy revenue amounted to ¥7,000,000.		
5.	Paid ¥500,000 cash for radio advertising.		
6.	Paid ¥800,000 on account for supplies purchased in transaction 3.		
7.	The company paid dividends of ¥1,500,000.		
8.	Paid ¥1,200,000 cash for rent for the current month.		
9.	Received ¥2,000,000 cash advance from a customer for future copying.		
10.	Billed a customer for ¥450,000 for photocopy work done.		

Solution 187

		Number(s) of account(s) debited	Number(s) of account(s) credited
1.	The company issues ordinary shares in exchange for ¥90,000,000 cash.	101	311
2.	Purchased three photocopy machines for ¥200,000,000, paying ¥50,000,000 cash and signing a 5-year, 10% note for the remainder.	157	101,200
3.	Purchased ¥5,000,000 supplies on credit.	126	201
4.	Cash photocopy revenue amounted to ¥7,000,000.	101	400
5.	Paid ¥500,000 cash for radio advertising.	610	101
6.	Paid ¥800,000 on account for supplies purchased in transaction 3.	201	101
7.	The company paid dividends of ¥1,500,000.	332	101
8.	Paid ¥1,200,000 cash for rent for the current month.	729	101
9.	Received ¥2,000,000 cash advance from a customer for future copying.	101	209
10.	Billed a customer for ¥450,000 for photocopy work done.	112	400

LO1 BT: AP Difficulty: Medium TOT: 15 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 188

Under a double-entry system, show how each item 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 Salaries and Wages Expense	____________________
2.	A decrease in Accounts Payable	____________________
3.	An increase in Prepaid Insurance	____________________
4.	An increase in Share Capital-Ordinary	____________________
5.	A decrease in 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 Equipment	____________________

Solution 188

1.	An increase in Salaries and Wages Expense	Debit
2.	A decrease in Accounts Payable	Debit
3.	An increase in Prepaid Insurance	Debit
4.	An increase in Share Capital-Ordinary	Credit
5.	A decrease in 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 Equipment	Credit

LO1 BT: C Difficulty: Easy TOT: 5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 189

Selected transactions for Sweet Home, a property management company, in its first month of business, are as follows.

Jan. 2 Issued ordinary shares to investors for $15,000 cash.
3 Purchased used car for $4,000 cash for use in business.
9 Purchased supplies on account for $500.
11 Billed customers $1,800 for services performed.
16 Paid $200 cash for advertising.
20 Received $700 cash from customers billed on January 11.
23 Paid creditor $300 cash on balance owed.
28 Paid dividends of $2,000.

Instructions
For each transaction indicate the following.
(a) The basic type of account debited and credited (asset (A), liability (L), equity (E)).
(b) The specific account debited and credited (cash, rent expense, service revenue, etc.).
(c) Whether the specific account is increased (incr.) or decreased (decr).
(d) The normal balance of the specific account.

Use the following format, in which the January 2 transaction is given as an example.

	Account Debited				Account Credited			
	(a)	(b)	(c)	(d)	(a)	(b)	(c)	(d)
	Basic	Specific		Normal	Basic	Specific	Normal	
Date	Type	Account	Effect	Balance	Type	Account	Effect	Balance
Jan. 2	A	Cash	Incr.	Debit	E	Share Cap.–Ord.	Incr.	Credit

Solution 189

		Account Debited				Account Credited		
	(a)	(b)	(c)	(d)	(a)	(b)	(c)	(d)
	Basic	Specific		Normal	Basic	Specific	Normal	
Date	**Type**	**Account**	**Effect**	**Balance**	**Type**	**Account**	**Effect**	**Balance**
Jan. 2	A	Cash	Incr.	Debit	E	Share Cap.–Ord.	Incr.	Credit
3	A	Equip.	Incr.	Debit	A	Cash	Decr.	Debit
9	A	Supplies	Incr.	Debit	L	Accts. Pay.	Incr.	Credit
11	A	Accts Rec.	Incr.	Debit	E	Service Revenue	Incr.	Credit
16	E	Advert. Expense	Incr.	Debit	A	Cash	Decr.	Debit
20	A	Cash	Incr.	Debit	A	Accts. Rec.	Decr.	Debit
23	L	Accts. Pay.	Decr.	Credit	A	Cash	Decr.	Debit
28	E	Dividends	Incr.	Debit	A	Cash	Decr.	Debit

LO1 BT: C Difficulty: Medium TOT: 10 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 190

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.	Retained Earnings	________________
6.	Supplies	________________
7.	Insurance Expense	________________
8.	Dividends	________________
9.	Equipment	________________
10.	Notes Payable	________________

Solution 190

	Accounts	Normal Balance Debit or Credit
1.	Service Revenue	Credit
2.	Rent Expense	Debit
3.	Accounts Receivable	Debit
4.	Accounts Payable	Credit
5.	Retained Earnings	Credit
6.	Supplies	Debit
7.	Insurance Expense	Debit
8.	Dividends	Debit
9.	Equipment	Debit
10.	Notes Payable	Credit

LO1 BT: C Difficulty: Easy TOT: 5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 191

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 and Wages Expense
4. Service Revenue
5. Equipment
6. Share Capital-Ordinary

Solution 191

		Debit Effect	Normal Balance
1.	Notes Payable	Decrease	Credit
2.	Prepaid Insurance	Increase	Debit
3.	Salaries and Wages Expense	Increase	Debit
4.	Service Revenue	Decrease	Credit
5.	Equipment	Increase	Debit
6.	Share Capital-Ordinary	Decrease	Credit

LO1 BT: C Difficulty: Easy TOT: 7 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 192

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	_____	(6)	Dividends
____	(2)	Service Revenue	_____	(7)	Cash
____	(3)	Accounts Payable	_____	(8)	Salaries and Wages Expense
____	(4)	Accounts Receivable	_____	(9)	Notes Payable
____	(5)	Share Capital-Ordinary	_____	(10)	Insurance Expense

Solution 192

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

LO1 BT: C Difficulty: Easy TOT: 5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 193

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		

SHARE CAPITAL-ORDINARY

		(1)	35,000

SERVICE REVENUE

		(5)	27,500

ACCOUNTS PAYABLE

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

DIVIDENDS

(8)	4,500		

SALARIES AND WAGES EXPENSE

(4)	2,225		

Ex. 193 (cont.)

Indicate for each debit and each credit: (a) whether an asset, liability, equity, 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 Type	Effect	Account Credited Type	Effect
(1)	(Example)	Asset	+	Equity	+
(2)					
(3)					
(4)					
(5)					
(6)					
(7)					
(8)					

Solution 193

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

LO1 BT: C Difficulty: Medium TOT: 15 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 194

For each of the following accounts indicate (a) the type of account (Asset, Liability, 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. Share Capital-Ordinary	7. Notes Payable
4. Dividends	8. Equipment

Solution 194

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. Equity account.
   b. Debit decreases, credit increases.
   c. Normal balance - credit.

4. a. Equity account.
   b. Debit increases, credit decreases.
   c. Normal balance - debit.

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.

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

LO1 BT: C Difficulty: Easy TOT: 15 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 195

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 equity accounts. In some cases there may be a "D" and a "C" in the same box.

Transactions:

1. Shareholders invest cash in the business in exchange for ordinary shares.
2. Pays insurance in advance for six months.
3. Pays secretary's salary.
4. Purchases supplies on account.
5. Pays electricity bill.
6. Borrows money from local bank.
7. Makes payment on account.
8. Receives cash due from customers.

Ex. 195 (cont.)

9. Provides services on account.
10. The company pays dividends.

	Transaction #									
	1	2	3	4	5	6	7	8	9	10
Assets										
Liabilities										
Share Capital-Ordinary										
Dividends										
Revenues										
Expenses										

Solution 195

	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			
Share Capital-Ordinary	C									
Dividends										D
Revenues									C	
Expenses			D		D					

LO1 BT: C Difficulty: Medium TOT: 15 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 196

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 ordinary shares in exchange for £25,000 cash.
2. Purchased £400 of supplies on credit.
3. Purchased equipment for £10,000, paying £3,000 in cash and signed a 30-day, £7,000, 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 supplies purchased in transaction 2.
7. Received a bill for £600 for advertising for the current month.
8. Paid £2,200 cash for 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 196

		Debit	Credit
1.	Cash	25,000	
	Share Capital-Ordinary		25,000
2.	Supplies	400	
	Accounts Payable		400
3.	Equipment	10,000	
	Cash		3,000
	Notes Payable		7,000
4.	Accounts Receivable	4,000	
	Service Revenue		4,000
5.	Rent Expense	700	
	Cash		700
6.	Accounts Payable	200	
	Cash		200
7.	Advertising Expense	600	
	Accounts Payable		600
8.	Salaries and Wages Expense	2,200	
	Cash		2,200
9.	Dividends	1,200	
	Cash		1,200
10.	Cash	3,000	
	Accounts Receivable		3,000

LO2 BT: AP Difficulty: Medium TOT: 15 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 197

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

1. The owners invested $10,000 cash in the business in exchange for ordinary shares.
2. Purchased supplies on account for $1,000.
3. Billed customers $2,000 for services performed.
4. Paid salaries of $900.

Solution 197

	Account Debited	Account Credited
1.	Cash	Share Capital-Ordinary
2.	Supplies	Accounts Payable
3.	Accounts Receivable	Service Revenue
4.	Salaries and Wages Expense	Cash

LO2 BT: C Difficulty: Easy TOT: 5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 198

Transactions for Tom Petty Company for October are presented below. Journalize each transaction and identify each transaction by number. You may omit journal explanations.

1. Issued ordinary shares in exchange for $50,000 cash.
2. Purchased land costing $28,000 for cash.
3. Purchased equipment costing $20,000 for $3,000 cash and the remainder on account.
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 salaries to employees for $2,500.
9. Paid dividends of $1,000.

Solution 198

1.	Cash	50,000	
	Share Capital-Ordinary		50,000
2.	Land	28,000	
	Cash		28,000
3.	Equipment	20,000	
	Cash		3,000
	Accounts Payable		17,000
4.	Supplies	800	
	Accounts Payable		800
5.	Prepaid Insurance	1,000	
	Cash		1,000
6.	Cash	3,000	
	Service Revenue		3,000
7.	Cash	4,000	
	Accounts Receivable		4,000
8.	Salaries and Wages Expense	2,500	
	Cash		2,500
9.	Dividends	1,000	
	Cash		1,000

LO2 BT: AP Difficulty: Medium TOT: 10 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 199

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 199

1. C 2. A 3. B

LO2 BT: C Difficulty: Easy TOT: 2 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 200

Prepare journal entries for each of the following transactions.

1. Performed services for customers on account €6,000.
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 200

1. Accounts Receivable	6,000	
Service Revenue		6,000
2. Equipment	20,000	
Accounts Payable		20,000
3. Cash	3,000	
Accounts Receivable		3,000
4. Dividends	1,000	
Cash		1,000

LO2 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 201

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

Accounts Payable	Prepaid Insurance
Accounts Receivable	Prepaid Rent
Accumulated Depreciation	Rent Expense
Cash	Salaries and Wages Expense
Depreciation Expense	Salaries and Wages Payable
Equipment	Service Revenue
Insurance Expense	Supplies
Share Capital-Ordinary	Supplies Expense
Dividends	

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.

1—199	Assets
200—299	Liabilities
300—399	Equity
400—499	Revenues
500—599	Expenses

Solution 201

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

101- Cash
112- Accounts Receivable
126- Supplies
130- Prepaid Insurance
140- Prepaid Rent
157- Equipment
158- Accumulated Depreciation
201- Accounts Payable
212- Salaries and Wages Payable
311- Share Capital-Ordinary
332- Dividends
400- Service Revenue
510- Salaries and Wages Expense
520- Supplies Expense
530- Rent Expense
540- Insurance Expense
550- Depreciation Expense

LO3 BT: AP Difficulty: Medium TOT: 15 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 202

The transactions of Medina Information 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
2025					
Sept.	1	Cash		35,000	
		Share Capital-Ordinary			35,000
		(Issued ordinary shares for cash)			
	4	Equipment		30,000	
		Cash			10,000
		Notes Payable			20,000
		(Paid cash and issued 2-year, 9%, note for equipment)			
	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	
		Service Revenue			2,500
		(Received cash for delivery services)			
	20	Salaries and Wages Expense		500	
		Cash			500
		(Paid salaries for current period)			
	25	Utilities Expense		600	
		Accounts Payable			600
		(Received a bill for September utilities)			
	30	Dividends		1,800	
		Cash			1,800
		(Paid dividends)			
	30	Accounts Receivable		2,000	
		Service Revenue			2,000
		(Billed customer for delivery service)			

Ex. 202 (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

Equipment					Account No. 155
Date	Explanation	Ref.	Debit	Credit	Balance

Accounts Payable					Account No. 201
Date	Explanation	Ref.	Debit	Credit	Balance

Notes Payable					Account No. 205
Date	Explanation	Ref.	Debit	Credit	Balance

Share Capital-Ordinary					Account No. 311
Date	Explanation	Ref.	Debit	Credit	Balance

Dividends					Account No. 332
Date	Explanation	Ref.	Debit	Credit	Balance

Ex. 202 (cont.)

Service Revenue					Account No. 400
Date	Explanation	Ref.	Debit	Credit	Balance

Rent Expense					Account No. 719
Date	Explanation	Ref.	Debit	Credit	Balance

Salaries and Wages Expense					Account No. 726
Date	Explanation	Ref.	Debit	Credit	Balance

Utilities Expense					Account No. 735
Date	Explanation	Ref.	Debit	Credit	Balance

MEDINA INFORMATION SERVICE
Trial Balance
September 30, 2025

Accounts	Debit	Credit

Solution 202

General Journal J1

Date		Account Titles and Explanation	Ref.	Debit	Credit
2025					
Sept.	1	Cash	101	35,000	
		Share Capital-Ordinary	311		35,000
		(Issued ordinary shares for cash)			
	4	Equipment	155	30,000	
		Cash	101		10,000
		Notes Payable	205		20,000
		(Paid cash and issued 2-year, 9%, note for equipment)			
	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	
		Service Revenue	400		2,500
		(Received cash for delivery services)			
	20	Salaries and Wages Expense	726	500	
		Cash	101		500
		(Paid salaries for current period)			
	25	Utilities Expense	735	600	
		Accounts Payable	201		600
		(Received a bill for September utilities)			
	30	Dividends	332	1,800	
		Cash	101		1,800
		(Paid dividends)			
	30	Accounts Receivable	112	2,000	
		Service Revenue	400		2,000
		(Billed customer for delivery service)			

Solution 202 (cont.)

General Ledger

Cash — Account No. 101

Date		Explanation	Ref.	Debit	Credit	Balance
2025						
Sept.	1		J1	35,000		35,000
	4		J1		10,000	25,000
	8		J1		1,000	24,000
	15		J1		400	23,600
	18		J1	2,500		26,100
	20		J1		500	25,600
	30		J1		1,800	23,800

Accounts Receivable — Account No. 112

Date		Explanation	Ref.	Debit	Credit	Balance
2025						
Sept.	30		J1	2,000		2,000

Prepaid Insurance — Account No. 130

Date		Explanation	Ref.	Debit	Credit	Balance
2025						
Sept.	15		J1	400		400

Equipment — Account No. 155

Date		Explanation	Ref.	Debit	Credit	Balance
2025						
Sept.	4		J1	30,000		30,000

Accounts Payable — Account No. 201

Date		Explanation	Ref.	Debit	Credit	Balance
2025						
Sept.	25		J1		600	600

Solution 202 (cont.)

Notes Payable — Account No. 205

Date		Explanation	Ref.	Debit	Credit	Balance
2025						
Sept.	4		J1		20,000	20,000

Share Capital-Ordinary — Account No. 311

Date		Explanation	Ref.	Debit	Credit	Balance
2025						
Sept.	1		J1		35,000	35,000

Dividends — Account No. 332

Date		Explanation	Ref.	Debit	Credit	Balance
2025						
Sept.	30		J1	1,800		1,800

Service Revenue — Account No. 400

Date		Explanation	Ref.	Debit	Credit	Balance
2025						
Sept.	18		J1		2,500	2,500
	30		J1		2,000	4,500

Rent Expense — Account No. 719

Date		Explanation	Ref.	Debit	Credit	Balance
2025						
Sept.	8		J1	1,000		1,000

Salaries and Wages Expense — Account No. 726

Date		Explanation	Ref.	Debit	Credit	Balance
2025						
Sept.	20		J1	500		500

Solution 202 (cont.)

Utilities Expense — Account No. 735

Date		Explanation	Ref.	Debit	Credit	Balance
2025						
Sept.	25		J1	600		600

MEDINA INFORMATION SERVICE
Trial Balance
September 30, 2025

Accounts	Debit	Credit
Cash	$23,800	
Accounts Receivable	2,000	
Prepaid Insurance	400	
Equipment	30,000	
Accounts Payable		$ 600
Notes Payable		20,000
Share Capital-Ordinary		35,000
Dividends	1,800	
Service Revenue		4,500
Rent Expense	1,000	
Salaries and Wages Expense	500	
Utilities Expense	600	
Totals	$60,100	$60,100

LO: 3, 4, BT: AP Difficulty: Hard TOT: 25 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 203

The bookkeeper for Dole Yard Service 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 $561 was journalized as a debit to equipment and a credit to notes payable. The credit posting was made for $516.
5. A debit posting of $300 for the purchase of supplies was credited to supplies.
6. A debit to insurance expense for $591 was posted as $519.
7. A debit posting for salaries 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.

Ex. 203 (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.

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

Solution 203

	(A)	(B)	(C)
Error	In Balance	Difference	Larger Column
1	No	$500	Credit
2	Yes	—	—
3	No	585	Debit
4	No	45	Debit
5	No	600	Credit
6	No	72	Credit
7	No	900	Debit
8	Yes	—	—

LO3 BT: AN Difficulty: Hard TOT: 15 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 204

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

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

Solution 204

Cash

3.	3,500	4.	1,000
Bal.	2,500		

Accounts Payable

4.	1,000	1.	2,000
		Bal.	1,000

Solution 204 (cont.)

Accounts Receivable

2.	4,000	3.	3,500
Bal.	500		

Service Revenue

		2.	4,000
		Bal.	4,000

Supplies

1.	2,000		
Bal.	2,000		

LO3 BT: AP Difficulty: Easy TOT: 6 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 205

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

DRYSDALE COMPANY
Trial Balance
June 30, 2025

	Debit	Credit
Cash	£ 2,600	
Accounts Receivable	7,600	
Supplies	600	
Equipment	8,300	
Accounts Payable		£ 9,766
Share Capital-Ordinary		1,952
Dividends	1,500	
Service Revenue		15,200
Salaries and Wages Expense	3,800	
Maintenance and Repairs 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 £170 received from a customer on account was debited to Cash £710 and credited to Accounts Receivable £710.
3. A dividend of £300 was posted as a credit to Dividends, £300 and credit to Cash £300.
4. A debit of £120 was not posted to Salaries and Wages Expense.
5. The purchase of equipment on account for £700 was recorded as a debit to Maintenance and Repairs Expense and a credit to Accounts Payable for £700.
6. Services were performed on account for a customer, £310, for which Accounts Receivable was debited £310 and Service Revenue was credited £31.
7. A payment on account for £225 was credited to Cash for £225 and credited to Accounts Payable for £252.

Ex. 205 (cont.)

Instructions
Prepare a correct trial balance.

Solution 205

DRYSDALE COMPANY
Trial Balance
June 30, 2025

	Debit	Credit
Cash [£2,600 – £540 (2)]	£ 2,060	
Accounts Receivable [£7,600 + £540 (2)]	8,140	
Supplies	600	
Equipment [£8,300 + £700 (5)]	9,000	
Accounts Payable [£9,766 – £477 (7)]		£ 9,289
Share Capital-Ordinary		1,952
Dividends [£1,500 + £300 + £300 (3)]	2,100	
Service Revenue [£15,200 + £279 (6)]		15,479
Salaries and Wages Expense [£3,800 + £120 (4)]	3,920	
Maintenance and Repairs Expense [£1,600 – £700 (5)]	900	
Totals	£26,720	£26,720

LO4 BT: AN Difficulty: Hard TOT: 25 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 206

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 Equipment of $48 and a credit to Cash for $48.
3. An account receivable in the amount of $1,500 was collected in full. The collection was recorded by a debit to Cash for $1,500 and a debit to Accounts Payable for $1,500.
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 206

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.

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

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

LO4 BT: AN Difficulty: Medium TOT: 5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 207

M. Caria and Associates is a financial planning service. The account balances at December 31, 2025 are shown by the following alphabetical list:

Accounts Payable	$ 13,000
Accounts Receivable	19,000
Buildings	120,000
Cash	26,500
Equipment	71,000
Land	42,000
Notes Payable	95,000
Notes Receivable	8,100
Share Capital-Ordinary	179,700
Supplies	1,100

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

Solution 207

M. CARIA AND ASSOCIATES
Trial Balance
December 31, 2025

	Debit	Credit
Cash	$ 26,500	
Accounts Receivable	19,000	
Supplies	1,100	
Notes Receivable	8,100	
Equipment	71,000	
Buildings	120,000	
Land	42,000	
Accounts Payable		$ 13,000
Notes Payable		95,000
Share Capital-Ordinary		179,700
Totals	$287,700	$287,700

LO4 BT: AP Difficulty: Medium TOT: 10 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 208

The ledger accounts of the Redlands Place Gym at June 30, 2025 are shown below:

Accounts Payable	$ 14,100
Accounts Receivable	1,050
Buildings	81,400
Cash	20,000
Dividends	10,500
Equipment	12,900
Notes Payable	49,000
Share Capital-Ordinary	63,100
Supplies	350

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

Solution 208

REDLANDS PLACE GYM
Trial Balance
June 30, 2025

	Debit	Credit
Cash	$ 20,000	
Accounts Receivable	1,050	
Supplies	350	
Equipment	12,900	
Buildings	81,400	
Accounts Payable		$ 14,100
Notes Payable		49,000
Share Capital-Ordinary		63,100
Dividends	10,500	
Totals	$126,200	$126,200

LO4 BT: AP Difficulty: Medium TOT: 10 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex. 209

The ledger account balances for Perkins Company are listed below.

Accounts Payable	€ 10,000
Accounts Receivable	7,000
Cash	13,000
Share Capital-Ordinary	9,000
Dividends	4,000
Service Revenue	40,000
Salaries and Wages Expense	25,000
Unearned Service Revenue	2,000
Utilities Expense	12,000

Instructions
Prepare a trial balance in proper form for Perkins at December 31, 2025.

Solution 209

PERKINS COMPANY
Trial Balance
December 31, 2025

	Debit	Credit
Cash	€13,000	
Accounts Receivable	7,000	
Accounts Payable		€10,000
Unearned Service Revenue		2,000
Share Capital-Ordinary		9,000
Dividends	4,000	
Service Revenue		40,000
Salaries and Wages Expense	25,000	
Utilities Expense	12,000	
	€61,000	€61,000

LO4 BT: AP Difficulty: Medium TOT: 8 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

Ex 210

The bookkeeper for Stan Lei Auto Repair made a number of errors in journalizing and posting, as described below.

1. A credit posting of $500 to Accounts Receivable was omitted.
2. A debit posting of $750 for Prepaid Insurance was debited to Insurance Expense.
3. A collection from a customer of $100 in payment of its account was journalized and posted as a debit to Cash $100 and a credit to Service Revenue $100.
4. A credit posting of $300 to Property Taxes Payable was made twice.
5. A cash purchase of supplies for $250 was journalized and posted as a debit to Supplies $25 and a credit to Cash $25.
6. A debit of $475 to Advertising Expense was posted as $457

Instructions

For each error:
(a**)** Indicate whether the trial balance will balance.
(b) If the trial balance will not balance, indicate the amount of the difference.
(c) Indicate 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	debit

Solution 210

Error	(a) In Balance	(b) Difference	(c) Larger Column
1.	No	$500	Debit
2.	Yes	—	—
3.	Yes	—	—
4.	No	300	Credit
5.	Yes	—	—
6.	No	18	Credit

LO4 BT: AN Difficulty: Hard TOT: 8 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

COMPLETION STATEMENTS

211. An _______________ is a record of increases and decreases in specific assets, liabilities, and equity items.

212. 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.

213. _______________, ________________, and _______________ have normal debit account balances whereas ________________, _________________, _________________, and ________________ have normal credit account balances.

214. The five subdivisions of equity are: ________________, ________________, ________________, ________________, and ________________.

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

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

217. An accounting record where transactions are initially recorded in chronological order is called a ________________.

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

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

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

Answers to Completion Statements

211. account
212. debiting, crediting
213. Assets, expenses, dividends,
share capital-ordinary, retained earnings,
liabilities, revenues
214. share capital-ordinary, retained earnings, dividends,
revenues, expenses
215. analyze, journal, journal, ledger
216. business documents
217. journal
218. compound
219. general ledger
220. trial balance

LO1-4 BT: K Difficulty: Easy TOT: 8 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

MATCHING

221. 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 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 credit normal balance

Answers to Matching

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

LO1-4 BT: K Difficulty: Easy TOT: 5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

SHORT-ANSWER ESSAY QUESTIONS

S-A E 222

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) how an account is increased and decreased and its normal balance.

Solution 222

An account is an individual accounting record of increases and decreases in specific asset, liability, and 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, equity, revenue, and expense. Accounts with normal debit balances, such as assets and expenses, are increased when debited and decreased when credited. Accounts with normal credit balances, such as liabilities and revenues, are increased when credited and decreased when debited.

LO1 BT: C Difficulty: Medium TOT: 5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

S-A E 223

Your roommate, a marketing major, thinks that debit means decrease and credit means increase. And, that every account can be debited and credited and as result, every account can have both a debit and a credit balance. Explain to your roommate (1) the meaning of debit and credit; (2) which accounts can only be debited, which can only be credited, and which can be both debited and credited; and (3) which accounts normally have debit balances and which credit balances.

Solution 223

The terms debit and credit mean the left and right side, respectively, of every account. Some accounts such as Dividends and Expenses are only debited; other accounts such as Share Capital-Ordinary and Revenues are only credited; and finally, some accounts such as Cash, Accounts Receivable, and Accounts Payable can be debited and credited. Accounts with debit balances include Assets, Dividends, and Expenses. Accounts with credit balances include Liabilities, Share Capital-Ordinary and Revenues.

LO1 BT: C Difficulty: Medium TOT: 5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

S-A E 224

A fellow classmate is confused about how debits and credits relate to the basic accounting equation. State the basic accounting equation, convert it into the expanded accounting equation, and then explain how it ties into the rules for debits and credits.

Solution 224

The basic accounting equation is:

Assets = Liabilities + Equity

The expanded equation divides Equity into its various parts, reflecting the shareholders' investment, dividends, revenues, and expenses:

Assets = Liabilities + Share Capital-Ordinary + Retained Earnings – Dividends + Revenues – Expenses

This expanded equation can then be re-arranged to explain why certain accounts have debit (left-hand) balances, while other accounts have credit (right-hand) balances, as follows:

Assets + Dividends + Expenses = Liabilities + Share Capital-Ordinary + Retained Earnings + Revenues

The accounts on the left-hand side of the equation have normal left-hand, or debit balances, while the accounts on the right-hand side of the equation have normal right-hand, or credit balances. Accounts with debit balances are increased with debits and decreased with credits, while accounts with credit balances are increased with credits and decreased with debits.

LO1 BT: S Difficulty: Hard TOT: 10 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

S-A E 225

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 225

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.

LO4 BT: AN Difficulty: Medium TOT: 5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

S-A E 226

John Dough, a fellow employee, wants to understand the basic steps in the recording process. Identify and briefly explain the steps in the order in which they occur.

Solution 226

The basic steps in the recording process are:

1. Analyze each transaction. In this step, business documents are examined to determine the effects of the transaction on the accounts.

2. Enter each transaction in a journal. This step is called journalizing and it results in making a chronological record of the transactions.

3. Transfer journal information to ledger accounts. This step is called posting. Posting makes it possible to accumulate the effects of journalized transactions on individual accounts.

LO2 BT: C Difficulty: Medium TOT: 5min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

S-A E 227

All recordable transactions are initially recorded in the journal. Discuss the contributions that the journal makes to the recording process.

Solution 227

The journal makes several significant contributions to the recording process: (1) It discloses in one place the complete effects of a transaction; (2) It provides a chronological record of transactions; and, (3) It helps to prevent and locate errors because the debit and credit amounts for each entry can be readily compared.

LO2 BT: C Difficulty: Medium TOT: 5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

S-A E 228

A bookkeeping student has come to you for tutoring on the recording process. She is confused about the relationship between the chart of accounts and the ledger. Explain the purpose of the chart of accounts and the general ledger. In your explanation indicate the relationship between these two items as well.

Solution 228

The chart of accounts lists all of the accounts that a company uses and their account numbers that identify their location in the ledger. The numbering system used to identify the accounts usually starts with the statement of financial position accounts followed by the income statement accounts.

The general ledger contains all of the accounts of a company and their respective balances at any point in time. The ledger is organized by account number with assets coming first, then liabilities, equity, revenue, and expense accounts.

LO3 BT: C Difficulty: Easy TOT: 5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

S-A E 229

The process of transferring the information in the journal to the general ledger is called posting. Explain the posting process, including the importance of the journal page number and the account numbers.

Solution 229

The posting process begins with locating the account(s) being debited in the general ledger. Then entering the date of the entry, the journal page number where the entry originated and debit portion of the entry in the date, reference and debit columns, respectively. Once this done, the account number(s) of the account(s) being debited is (are) entered in the reference column in the journal. Next, the credit portion of the journal entry is posted to the appropriate accounts in the ledger following the same steps as noted for the debit portion.

The importance of the journal page number, in the reference column of each account in the general ledger accounts, is to indicate where to find the original entry. The general ledger account numbers, in the reference column of the journal, indicate that the entry has been posted.

LO3 BT: S Difficulty: Medium TOT: 5 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

S-A E 230

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.

Solution 230

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.

LO2, 3 BT: S Difficulty: Medium TOT: 7 min. AACSB: Knowledge AICPA AC: Measurement Analysis and Interpretation AICPA BC: None AICPA PC: None IMA: Reporting & Control: Financial Recordkeeping

S-A E 231 (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 231

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

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.

LO1 BT: E Difficulty: Medium TOT: 7 min. AACSB: Ethics AICPA AC: None AICPA BC: Ethical Conduct AICPA PC: None IMA: Professional Ethics & Values: Professional Ethical Behavior

S-A E 232 (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 232

a. No. 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 equity. Equity is not an account but rather a group of accounts that includes share capital-ordinary, retained earnings, revenues, expenses, and dividends. Share capital-ordinary, retained earnings, and revenues cause equity to increase while expenses and dividends cause 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.

Solution 232 (cont.)

- 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, share capital-ordinary, retained earnings and revenues are all increased with credits. Expenses and dividends are the two accounts that cause equity to decrease, thus they must be increased with a debit.

LO1 BT: S Difficulty: Hard TOT: 10 min. AACSB: Communication AICPA AC: None AICPA BC: None AICPA PC: Communication IMA: None