

Student: _____

1. The first step in the accounting cycle is transaction analysis.
True False
 2. An account is a detailed record of increases and decreases in a specific asset, liability or equity item.
True False
 3. A ledger is a type of account.
True False
 4. Goods sold on credit to customers are called accounts payable.
True False
 5. As prepaid assets are used up, the costs of the assets become expenses.
True False
 6. Withdrawals are a type of transaction that affects equity.
True False
 7. A building is an example of an asset that does not provide any benefit to its owner.
True False
 8. To make it easier for the bookkeeper, the cost of land is separated from the cost of buildings located on the land.
True False
 9. Unearned revenues are assets, because a service or product is owed to the customer.
True False
 10. Cash withdrawn by the owner of an unincorporated business in the form of a monthly salary should be treated as an expense of the business.
True False
 11. When a company sells services for which cash will not be received until some future date, the company should credit an unearned revenues account for the amount charged to the customer.
True False
 12. A T-Account is a formal account frequently used in business.
True False
 13. An account balance is the difference between the increases and decreases recorded in an account.
True False
 14. The left side of a T-account is always the credit side, while the right side is always the debit side.
True False
 15. The accounting equation is expressed as assets = liabilities - equity.
True False
 16. The accounting equation can be expressed as liabilities = assets - equity.
True False
 17. In a double-entry accounting system, total debits must always equal total credits.
True False
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18. Double-entry accounting means that every transaction affects and is recorded in at least two accounts.
True False
 19. Debits increase asset and expense accounts.
True False
 20. Credits to accounts are always increases.
True False
 21. To credit an expense account means to decrease it.
True False
 22. Increases in liabilities are recorded as debits.
True False
 23. All increases and decreases in cash are not necessarily recorded in the Cash account.
True False
 24. A revenue account normally has a debit balance.
True False
 25. Debits to accounts are normally decreases.
True False
 26. Because they decrease equity, withdrawals made by a business owner are credited to his/her withdrawals account.
True False
 27. Asset accounts normally have credit balances and expense accounts normally have debit balances.
True False
 28. The normal balance of an account refers to the debit or credit side where increases are recorded.
True False
 29. The chart of accounts is a list of all the accounts used by a company.
True False
 30. Purchasing supplies on credit increases assets while decreasing liabilities.
True False
 31. Prepaid Insurance is an expense account which is used for recording expenses that have been paid in advance.
True False
 32. A credit purchase of a business expense item should be recorded with a debit to an expense account and a credit to Accounts Payable.
True False
 33. If a company purchases land, paying part with cash and issuing a note payable for the balance, the journal entry to record this transaction will include a debit to Cash.
True False
 34. If a company sells products and receives from the customer a formal written promise to pay a definite sum of money on demand or on a defined future date (or dates), the seller should debit the promised amount to Accounts Receivable.
True False
 35. A transaction that decreases an asset account and increases a liability account must also affect another account.
True False
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36. When a business sends a bill for \$200 to a customer for services rendered, the journal entry to record this transaction will include a \$200 credit to Accounts Receivable.
True False
37. A transaction that increases an asset account and decreases a liability account must also affect another account.
True False
38. Step Two of the accounting cycle requires that we record transactions in a record called a journal.
True False
39. A compound journal entry usually affects three or more accounts.
True False
40. A general journal entry usually includes information about the date of a transaction, titles of affected accounts, dollar amount of each debit and credit and an explanation of the transaction.
True False
41. Posting is the process of copying the debit and credit amounts from a journal to the ledger accounts.
True False
42. Since all figures are eventually posted to the ledger, the posting reference column in a journal is not necessary.
True False
43. An abnormal balance in an account refers to a balance on the side where decreases are recorded.
True False
44. The trial balance is a list of the accounts that have balances in the ledger.
True False
45. A trial balance that is in balance is proof that no errors were made in journalizing the transactions, posting to the ledger, and preparing the trial balance.
True False
46. If an account was incorrectly debited for \$300 instead of correctly credited for \$300, the account is out of balance by \$300.
True False
47. If an error is discovered in either the journal or the ledger, it must be corrected by erasing the incorrect amount and entering the corrected amount.
True False
48. The accounting cycle begins with:
A. Preparing financial statements and other reports.
B. Analysis of economic events and recording their effects.
C. Posting to the ledger.
D. Presentation of financial information to decision makers.
E. None of these answers is correct.
49. A place or location within an accounting system in which the increases and decreases in a specific asset, liability, or equity item is recorded and stored is called a(n):
A. Journal.
B. Ledger.
C. Trial balance.
D. Account.
E. Chart of accounts.
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50. An account used to record the owner's investments in the business plus any more or less permanent changes in the equity is called a(n):
- Withdrawals account.
 - Capital account.
 - Asset account.
 - Expense account.
 - Revenue account.
51. The account sometimes referred to as the owner's personal account or drawing account is called a(n):
- Revenue account.
 - Withdrawals account.
 - Capital account.
 - Expense account.
 - Liability account.
52. Which of the following statements is correct?
- When an insurance premium is paid in advance, the payment is normally recorded in a liability account called Prepaid Insurance.
 - Goods and services are commonly sold to customers on the basis of oral or implied promises of future payment, called promissory notes.
 - Increases and decreases in cash are always recorded in the equity account.
 - An account called Land is commonly used to record increases and decreases in the land and buildings owned by a business.
 - None of these statements are correct.
53. Unearned revenues are:
- Revenues that have been earned and received.
 - Revenues that have been earned but not yet collected.
 - Liabilities created by advance cash payments from customers for products or services.
 - Recorded as an asset in the accounting records.
 - Increases to owners' equity.
54. Prepaid expenses are:
- Payments made for economic benefits that never expire.
 - Classified as liabilities on the balance sheet.
 - Generally all combined into one account called "Miscellaneous Expenses".
 - Assets created by payments for economic benefits that are not used up until later.
 - Always debited to an expense account.
55. Which of the following statements is correct?
- The left side of a T-account is the credit side.
 - Entries that decrease asset and expense accounts, or increase liability, equity, and revenue accounts are posted as debits.
 - The left side of a T-account is the debit side.
 - The right side of a T-account is the debit side.
 - Entries that increase asset, expense, and revenue accounts are posted as debits.
56. An unconditional written promise to pay a definite sum of money on demand or on a defined future date (or dates) is a(n):
- Unearned revenue.
 - Prepaid expense.
 - Account payable.
 - Promissory note.
 - Account receivable.
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57. A simple account form widely used in accounting education to illustrate how debits and credits work is called a:
- A. Withdrawals account.
 - B. Capital account.
 - C. Ledger.
 - D. T-account.
 - E. Balance column account.
58. An account balance is:
- A. The total of the credit side of the account.
 - B. The total of the debit side of the account.
 - C. The difference between the increases (including the beginning balance) and decreases recorded in the account.
 - D. The same as the balance sheet equation.
 - E. Not used in the real world.
59. A record of all accounts used by a business is called a:
- A. Journal.
 - B. Book of original entry.
 - C. General Journal.
 - D. Trial balance.
 - E. Ledger.
60. The right side of a T-account is a(n):
- A. Debit.
 - B. Increase.
 - C. Credit.
 - D. Decrease.
 - E. Account balance.
61. Double-entry accounting is:
- A. An accounting system that disregards the accounting equation, $A = L + E$.
 - B. An accounting system that records the effects of transactions and other events in at least two accounts with equal debits and credits.
 - C. An accounting system in which each transaction affects and is recorded in two or more accounts with unequal debits and equal credits.
 - D. An accounting system in which the sum of the debit account balances never equals the sum of the credit account balances.
 - E. An accounting system in which errors never occur.
62. A debit is used to record:
- A. An increase in a liability account.
 - B. A decrease in an asset account.
 - C. A decrease in the withdrawals account.
 - D. An increase in an asset account.
 - E. An increase in a revenue account.
63. Of the following accounts, the one that normally has a debit balance is:
- A. Accounts Payable.
 - B. Accounts Receivable.
 - C. Ted Neal, Capital.
 - D. Sales Revenue.
 - E. Unearned Revenue.
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64. Of the following accounts, the one that normally has a credit balance is:
- A. Cash.
 - B. Office Equipment.
 - C. Sales Salaries Payable.
 - D. Ted Neal, Withdrawals.
 - E. Sales Salaries Expense.
65. Which of the following statements is *incorrect*?
- A. The normal balance of the accounts receivable account is a debit.
 - B. The normal balance of the owner's withdrawals account is a debit.
 - C. The normal balance of an unearned revenues account is a credit.
 - D. The normal balance of an expense account is a credit.
 - E. The abnormal balance of a revenue account is a debit.
66. A credit is used to record:
- A. A decrease in an expense account.
 - B. A decrease in an asset account.
 - C. An increase in an unearned revenue account.
 - D. An increase in a revenue account.
 - E. All of these answers are correct.
67. A debit entry:
- A. Increases asset and expense accounts.
 - B. Decreases liability and equity accounts.
 - C. Increases the owner's withdrawals account.
 - D. Decreases revenue accounts.
 - E. All of these answers are correct.
68. A credit entry:
- A. Increases asset and expense accounts, or decreases liability, equity, and revenue accounts.
 - B. Is recorded on the left side of a T-account.
 - C. Decreases asset and expense accounts, or increases liability, equity, and revenue accounts.
 - D. Decreases asset, expense and revenue accounts.
 - E. Increases the withdrawals account.
69. A list of all accounts used by a company, including the identification number assigned to each account, is called a:
- A. Ledger.
 - B. Journal.
 - C. Trial balance.
 - D. Chart of accounts.
 - E. General Journal.
70. An asset created by a payment for economic benefits that does not expire until some later time is:
- A. Recorded as a debit to an unearned revenue account.
 - B. Recorded as a debit to a prepaid expense account.
 - C. Recorded as a credit to an unearned revenue account.
 - D. Recorded as a credit to a prepaid expense account.
 - E. Not recorded in the accounting records.
71. A liability created by the receipt of cash from customers in payment for products or services that have not yet been delivered to the customers is:
- A. Recorded as a debit to an unearned revenue account.
 - B. Recorded as a debit to a prepaid expense account.
 - C. Recorded as a credit to an unearned revenue account.
 - D. Recorded as a credit to a prepaid expense account.
 - E. ~~Not recorded in the accounting records.~~
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72. On May 31, Don Company had an Accounts Payable balance of \$57,000. During the month of June, total credits to Accounts Payable were \$34,000, which resulted from purchases on credit. The June 30 Accounts Payable balance was \$32,000. What was the amount of payments made during June?
- A. \$32,000.
 - B. \$34,000.
 - C. \$57,000.
 - D. \$59,000.
 - E. \$84,000.
73. On June 30, the Cash account of Lutness Company had a normal balance of \$4,300. During July the account was debited for a total of \$3,400 and credited for a total of \$3,600. What was the balance in the Cash account on August 1?
- A. \$-0.
 - B. \$4,100 debit.
 - C. \$3,400 credit.
 - D. \$3,400 debit.
 - E. \$4,100 credit.
74. During the month of November, Cornish Company had cash receipts of \$3,500 and paid out \$1,000 for expenses. The November 30th cash balance was \$4,300. What was the cash balance on November 1?
- A. \$1,800.
 - B. \$2,800.
 - C. \$4,300.
 - D. \$5,800.
 - E. \$7,300.
75. The following transactions occurred during July for Hurley Services:

How much revenue was earned in July?

- A. \$1,200.
- B. \$2,300.
- C. \$2,800.
- D. \$5,500.
- E. \$7,000.

76. If Girard Don, the owner of Girard's Software proprietorship, uses cash of the business to purchase a personal computer, the business should record this use of cash with an entry to:
- A. Debit Salary Expense and credit Cash.
 - B. Debit Girard Don, Salary and credit Cash.
 - C. Debit Cash and credit Girard Don, Withdrawals.
 - D. Debit Girard Don, Capital and credit Cash.
 - E. Debit Girard Don, Withdrawals and credit Cash.
77. The process of copying journal information to the ledger is called:
- A. Double-entering.
 - B. Posting.
 - C. An internal business transaction.
 - D. Journalizing.
 - E. An external business transaction.
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78. A column in journals and accounts used to cross reference journal and ledger entries is called the:
- Account balance.
 - Debit.
 - Posting reference.
 - Credit.
 - Description.
79. A journal in which transactions are first recorded is:
- A book of original entry.
 - A ledger.
 - A book of final entry.
 - A revenue account.
 - The cash ledger.
80. The general journal provides a place for recording:
- The transaction date.
 - The names of the accounts involved.
 - The amount of each debit and credit.
 - An explanation of the transaction.
 - All of these answers are correct.
81. A balance column ledger account is:
- An account entered on the balance sheet.
 - An account with debit and credit columns for recording entries and a third column for showing the balance of the account after each entry is posted.
 - Another name for the withdrawals account.
 - An account used to record the transfers of assets from a business to its owner.
 - A simple form of account that is widely used in accounting education to illustrate the debits and credits required in recording a transaction.
82. A ledger is:
- A book of original entry.
 - A journal in which transactions are first recorded.
 - A book in which a complete record of transactions is recorded and from which transaction amounts are posted to the accounts.
 - A book of final entry.
 - Another name for the bank account.
83. A book of original entry is:
- A book in which amounts are posted from a journal.
 - Another name for the cash account.
 - Another name for the general journal.
 - Also called a ledger.
 - Sometimes called a book of final entry.
84. A compound journal entry is:
- A journal entry that has three or more debits and three or more credits.
 - A journal entry that affects at least three accounts.
 - A journal entry that affects at least four accounts.
 - A journal entry involving at least two accounting periods.
 - A journal entry involving only two ledger accounts.
85. The most flexible type of journal that can be used to record any kind of transaction is called a:
- Ledger.
 - Trial balance.
 - Chart of accounts.
 - ~~General Journal.~~
 - Balance column account.

86. Welder Company purchases supplies from Plumber Company on account. The entry for this transaction will include a:
- A. Debit to Accounts Payable for Welder Company.
 - B. Debit to Accounts Receivable for Welder Company.
 - C. Debit to Accounts Receivable for Plumber Company.
 - D. Credit to Accounts Payable for Plumber Company.
 - E. Credit to Accounts Receivable for Welder Company.
87. Green's Book Store purchased a new automobile that cost \$25,000, made a down payment of \$4,000, and signed a note payable for the balance. The entry to record this transaction is:
- A.
 - B.
 - C.
 - D.
 - E.
88. Eli opened a new business by investing the following assets: cash, \$6,000; land, \$30,000; building, \$100,000. Also, the business will assume responsibility for a note payable of \$22,000. Eli signed the note as part of his payment for the land and building. Which journal entry should be used on the books of the new business to record the investment by Eli?
- A.
 - B.
 - C.
 - D.
 - E.
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89. Zen Hatha opened a yoga studio and during a short period as a dealer completed these transactions:

What was the total of the debit balances shown in the trial balance prepared after these transactions were posted?

- A. \$152,300.
- B. \$167,700.
- C. \$173,950.
- D. \$181,900.
- E. \$243,620.

90. A summary of the ledger that lists the accounts and their balances, in which the total debit balances should equal the total credit balances, is called a(n):

- A. Account balance.
- B. Trial balance.
- C. Ledger.
- D. Chart of accounts.
- E. General Journal.

91. Which of the following statements is *true*?

- A. The trial balance is never used to prepare financial statements.
- B. The trial balance is a list of all the accounts in the journal.
- C. Another name for the trial balance is the "chart of accounts".
- D. The trial balance is a list of the accounts in the general ledger.
- E. A trial balance is only prepared at year end.

92. While in the process of posting from the journal to the ledger, the accountant for X Company failed to post a \$50 debit to the Office Supplies account. The effect of this error will be as follows:

- A. The Office Supplies account balance will be overstated.
- B. The trial balance will not balance.
- C. The error will overstate the debits listed in the journal.
- D. The total debits in the trial balance will be larger than the total credits.
- E. This error will not make any difference.

93. A \$15 credit to Sales was posted as a \$150 credit. By what amount is Sales out of balance?

- A. \$150 understated.
 - B. \$135 overstated.
 - C. \$150 overstated.
 - D. \$15 understated.
 - E. ~~\$135 understated.~~
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94. If, on a trial balance, the total of the debits is \$7,500 and the total of the credits is \$7,419, the difference could have been caused by:
- A. An error in copying an account balance from the ledger to the trial balance.
 - B. A transposition error.
 - C. A sliding error.
 - D. Posting only one side of an entry.
 - E. All of these answers are correct.
95. In which of the following situations would the trial balance not balance?
- A. A \$1,000 collection of an account receivable was incorrectly posted as a debit to Accounts Receivable and a credit to Cash.
 - B. The purchase of office supplies on account for \$3,250 was incorrectly recorded in the journal as \$2,350.
 - C. \$50 cash receipt for the performance of a service was not recorded.
 - D. The purchase of office equipment for \$1,200 was posted as a debit to Office Supplies.
 - E. The payment of a \$750 account payable was posted as a debit to Accounts Payable and a debit to Cash for \$750.
96. The purchase on credit of a delivery truck for \$9,600 was posted to Delivery Trucks as a \$9,600 debit and to Rent Expense as a \$9,600 debit. What effect would this error have on the trial balance?
- A. The total of the Debit column of the trial balance will exceed the total of the Credit column by \$9,600.
 - B. The total of the Credit column of the trial balance will exceed the total of the Debit column by \$9,600.
 - C. The total of the Debit column of the trial balance will exceed the total of the Credit column by \$19,200.
 - D. The total of the Credit column of the trial balance will exceed the total of the Debit column by \$19,200.
 - E. The total of the Debit column of the trial balance will equal the total of the Credit column.
97. If the Debit and Credit column totals of a trial balance are equal, then:
- A. All transactions have been recorded correctly.
 - B. All entries from the journal have been posted to the ledger correctly.
 - C. All ledger account balances are correct.
 - D. The total debit entries and total credit entries in the ledger are equal.
 - E. No sliding or transposition errors have been made.
98. Jelly's Grocery Store showed the following account balances at the end of 2015:

If all of the accounts have normal balances, what are the totals for the trial balance?

- A. \$86,000.
 - B. \$119,600.
 - C. \$127,600.
 - D. \$186,600.
 - E. \$255,500.
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99. Of the following errors, which one by itself will cause the trial balance to be out of balance?
- A. A \$200 salary payment posted as a \$200 debit to Cash and a \$200 credit to Salaries Expense.
 - B. A \$100 receipt from a customer in payment of his account posted as a \$100 debit to Cash and a \$10 credit to Accounts Receivable.
 - C. A \$75 receipt from a customer in payment of his account posted as a \$75 debit to Cash and a \$75 credit to Cash.
 - D. A \$50 cash purchase of office supplies posted as a \$50 debit to Office Equipment and a \$50 credit to Cash.
 - E. All of these errors will cause the trial balance to be out of balance.
100. A \$130 credit to Office Equipment was credited to Sales by mistake. By what amounts are the accounts under- or overstated as a result of this error?
- A. Office Equipment, understated \$130; Sales, overstated \$130.
 - B. Office Equipment, understated \$260; Sales, overstated \$130.
 - C. Office Equipment, overstated \$130; Sales, overstated \$130.
 - D. Office Equipment, overstated \$130; Sales, understated \$130.
 - E. Office Equipment, overstated \$260; Sales, understated \$130.
101. List the steps in the accounting cycle.

102. Put the steps of the accounting cycle in the correct order:

- Adjust
- Analyze transactions
- Close
- Journalize
- Post
- Prepare adjusted trial balance
- Prepare post-closing trial balance
- Prepare statements
- Prepare unadjusted trial balance

103. Identify each of the following accounts as a revenue, expense, asset, liability, or equity by placing initials (R, E, A, L or E) in the blanks.

- _____ (1) Rent Expense
- _____ (2) Cash
- _____ (3) Equipment
- _____ (4) Owner, Capital
- _____ (5) Fees Earned
- _____ (6) Accounts Receivable
- _____ (7) Accounts Payable
- _____ (8) Owner, Withdrawals
- _____ (9) Supplies
- _____ (10) Unearned Revenue
- _____ (11) Prepaid Insurance
- _____ (12) Sales

104. The following accounts appear on either the Income Statement (IS) or Balance Sheet (BS). In the space provided next to each account write the letters, IS or BS, that identify the statement on which the account appears.

105. David Thomas is a computer consultant and software engineer. Below are the names of several accounts in his ledger with each account name preceded by a number. Following the account names are several transactions completed by Mr. Thomas. Indicate the accounts debited and credited in recording each transaction by placing the proper account numbers in the boxes to the right of each transaction.



106. Dawn Roberts is a real estate consultant and property manager. Below are the names of several accounts in her ledger with each account name preceded by a number. Following the account names are several transactions completed by Ms. Roberts. Indicate the accounts debited and credited in recording each transaction by placing the proper account numbers in the boxes to the right of each transaction.

107. Explain the steps in processing transactions in an accounting system.

108. Explain how accounts are used in recording information about transactions.

109.Explain the difference between a ledger and a chart of accounts.

110.Explain debits and credits and their role in the accounting system.

111.Indicate whether a debit or a credit entry would be made to record the following changes in each account.

- (a) To decrease Cash.
- (b) To increase Owner, Capital.
- (c) To decrease Accounts Payable.
- (d) To increase Salaries Expense.
- (e) To decrease Supplies.
- (f) To increase Revenue.
- (g) To decrease Accounts Receivable.
- (h) To increase Owner, Withdrawals.

112. The following list of accounts is for Shannon Sales Co.:

Use the form below to identify the type of account and its normal balance. The first one has been done for you as an example.

113. Discuss how the following transactions affect accounts and financial statements.

- (1) Jillian Robb invested \$30,000 cash in Profile Design Co.
- (2) Profile Design Co. purchased supplies for \$5,000 on its credit card.
- (3) Profile Design Co. purchased equipment for \$19,000 and signed a note payable.

114. The Shreddy Company receives a \$3,200 bill from a supplier for delivery services rendered. Set up two or more T-accounts below and show how this transaction would be recorded directly in those accounts.

115. A business paid \$2,500 to satisfy a previously recorded account payable. Set up two or more T-accounts below and show how this transaction would be recorded directly in those accounts.

116. A business paid \$100 to Karen Smith (the owner of the business) for her personal use. Set up two or more T-accounts below and show how this transaction would be recorded directly in those accounts.

117. The following are all of the accounts of Vita Mix Company that have a balance at the end of August, the company's first month of operation:

All accounts have normal balances.

(A) Calculate net income.

(B) Calculate the amount of equity to be shown on the August 31 balance sheet.

118. Record the following transactions by making entries directly to the T-accounts provided.

119. On December 2, 2015, the Tropic Company paid \$400 for office supplies. Prepare the general journal entry to record this transaction.

120. On February 3, 2015, Fusilli Stores purchased a computer that cost \$5,000. The firm made a down payment of \$500 and signed a note payable for the balance. Show the general journal entry to record this transaction.

121. Krenz Kar Kare, owned and operated by Karl Krenz, began business in September of the current year. Karl, a master mechanic, had no experience with keeping a set of books. As a result, Karl entered all of September's transactions directly to the General Ledger accounts. When he tried to locate a particular entry originally made on September 8, he found it confusing and time-consuming. He has hired you to improve his bookkeeping procedures. The accounts in his General Ledger follow:

Prepare the general journal entries, in chronological order, from the general ledger entries shown. Include a brief description of the probable nature of each transaction.

122. Girard Cohen began a computer servicing business and during the month of October completed these transactions:

- (a) Began business by investing cash, \$12,000, and computer equipment with a fair value of \$3,000.
- (b) Paid rent for one year in advance, \$6,000.
- (c) Completed a computer servicing assignment and billed the client for \$3,000.
- (d) Paid the utilities bill for the month, \$100.
- (e) Wrote a \$1,000 cheque on the business bank account for personal expenses.

Prepare journal entries to record the above transactions. Include a brief description for each entry.

123. Jay Smith's Word Processing began business and completed these transactions during the month of November:

- (a) Purchased office supplies on account, \$75.
- (b) Completed work for a publisher on credit, \$500.
- (c) Paid for the office supplies purchased in Transaction a.
- (d) Completed work for a resume writing service and received \$85 cash.
- (e) Received \$500 for the work described in Transaction b.

Prepare journal entries to record the above transactions. Include a brief description for each entry.

124. D. Brown Plumbing Co completed the following transactions during February of the current year:

Prepare general journal entries to record the transactions. Include a brief description for each entry.

125. On June 20, 2015, Lucie Majeau invested the following assets in a new sole proprietorship: cash, \$12,000; office equipment, \$6,000; land, \$100,000; building, \$115,000. Majeau owes the bank a \$25,000 note payable that is secured by the land and building. Prepare the general journal entry to record Majeau's investments in the new business.

126. Explain the recording and posting processes.

127. Discuss the use of the trial balance.

128. For each of the following errors, indicate on the schedule the amount it will cause the trial balance to be out of balance and which trial balance column (i.e., debit or credit) will have the larger total as a result of the error.

- (a) A \$100 debit to Cash was debited to the Cash account twice.
- (b) A \$1,900 credit to Sales was posted as a \$190 credit.
- (c) A \$5,000 debit to Office Equipment was debited to Office Supplies.
- (d) A \$625 debit to Prepaid Insurance was posted as a \$62.50 debit.
- (e) A \$520 debit to Supplies (purchased on account) was posted correctly, but the corresponding credit to Accounts Payable was not posted.

129. After preparing an unadjusted trial balance at year-end, the accountant for Chu Design Company discovered the following errors:

- (1) The payment of the \$225 telephone bill for December was recorded twice.
- (2) The payment of a \$1,000 note payable was recorded as a debit to Cash and a debit to Notes Payable.
- (3) A \$900 withdrawal by the owner was recorded to the correct accounts as \$90.
- (4) An additional investment of \$5,000 by the owner was recorded as a debit to G. Chu, Capital and a credit to Cash.
- (5) A credit purchase of office equipment for \$1,800 was recorded as a debit to the Office Equipment account with no offsetting credit entry.

Using the form below, indicate if each error would cause the trial balance to be out of balance. Would the error cause the trial balance to be out of balance?

130. The balances for the accounts of Mike's Maintenance Co. for the year ended December 31, 2015 are shown below. Each account shown has a normal balance.

*The ending balance of the capital account is \$20,000; the only addition to the account for the year was net income.

Calculate the correct balances for Cash and Mike, Withdrawals and prepare a trial balance.

131. Charlene Addemup prepared the following trial balance from the general ledger of Big Blue Cleaning Service. It did not balance.

Because the trial balance did not balance, Charlene decided to examine the accounting records very closely. She found that the following errors had been made:

Prepare a corrected trial balance for the Big Blue Cleaning Service at October 31, 2015.

132. The _____ consists of the steps repeated each reporting period for the purpose of preparing financial statements for users.

133. Unearned revenue is classified as a(n) _____ that is satisfied by delivering products or services in the future.

134. Increases in assets are _____ to asset accounts, and increases in liabilities are _____ to liability accounts.

135. Decreases in expenses are _____ to expense accounts, and decreases in revenues are _____ to revenue accounts.

136. FastForward purchased \$25,000 worth of equipment for cash. The Equipment account is _____ for \$25,000 and the cash account is _____ for \$25,000.

137. A(n) _____ is a list of all the accounts used by a company.

138. _____ is the process of transferring journal entry information to the ledger.

139. The accounting process for the trial balance includes (1) preparing journal entries, (2) _____, (3) calculating account balances, (4) _____, and (5) totalling the trial balance columns.

140. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

1. Com pound journal entry An accounting system where every transaction affects and is recorded in at least two accounts; the sum of the debits for all entries must equal the sum of the credits for all entries. _

2. Account t An entry that decreases asset and expense accounts, or increases liability, equity, and revenue accounts; recorded on the right side of a T-account. _

3. Source document s A place or location within an accounting system in which the increases and decreases in a specific asset, liability or equity account are recorded and stored. _

4. Ledger A journal entry that affects at least three accounts. _

5. Credit The process of copying journal entry information to the ledger. _

6. Journal A book of original entry where transactions are recorded before they are posted to the accounts. _

7. Debit Another name for business papers. _

8. T-account A simple account form used as a helpful tool in showing the effects of transactions and events on specific accounts. _

9. Double-entry accountin g A record containing all accounts used by a business. _

10. Postin g An entry that increases asset and expense accounts, or decreases liability, equity, and revenue accounts; recorded on the left side of a T-account. _

141. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

- | | | |
|----------------------------------|--|----|
| 1. Normal balance | An entry that decreases asset and expense accounts, or increases liability, equity, and revenue accounts; recorded on the right side of a T-account. | __ |
| 2. Balance column ledger account | Exchanges within an organization that can also affect the accounting equation. | __ |
| 3. Promissory note | An entry that increases asset and expense accounts, or decreases liability, equity, and revenue accounts; recorded on the left side of a T-account. | __ |
| 4. Trial balance | The difference between the increases (including the beginning balance) and decreases recorded in an account. | __ |
| 5. Internal transactions | A list of accounts and their balances at a point in time; the total debit balances should equal the total credit balances. | __ |
| 6. Chart of accounts | The debit or credit side on which an account increases. | __ |
| 7. External transactions | Exchanges between the entity and some other person or organization. | __ |
| 8. Account balance | An account with debit and credit columns for recording entries and a third column for showing the balance of the account after each entry is posted. | __ |
| 9. Credit | An unconditional written promise to pay a definite sum of money on demand or on a defined future date. | __ |
| 10. Debit | A list of all accounts used by a company; includes the identification number assigned to each account. | __ |

142. Match the following definitions and terms by placing the letter that identifies the best definition in the blank space next to the term.

- | | | |
|-----------------------------|---|----|
| 1. Account | Liabilities created when customers pay in advance for products or services; created when cash is received before revenues are earned; satisfied by delivering the products or services in the future. | __ |
| 2. Posting reference column | The most flexible type of journal, which can be used to record any kind of transaction. | __ |
| 3. External transactions | Exchanges between the entity and some other person or organization. | __ |
| 4. Internal transactions | A journal entry that affects at least three accounts. | __ |
| 5. Unearned revenues | A column in journals where individual account numbers are entered when entries are posted to the ledger. | __ |
| 6. Chart of accounts | A simple form used as a helpful tool in showing the effect of transactions and events on specific accounts. | __ |
| 7. Compound journal entry | A place or location within an accounting system in which the increases and decreases in a specific asset, liability or equity account are recorded and stored. | __ |
| 8. General Journal | A list of all accounts used by a company: includes the identification number assigned to each account. | __ |
| 9. T-account | Exchanges within an organization that can also affect the accounting equation. | __ |
| 10. Note receivable | An unconditional written promise from a customer to pay a definite sum of money on demand or on a defined future date. | __ |

02 Key

1. The first step in the accounting cycle is transaction analysis.
TRUE
*Difficulty: Easy
Larson - Chapter 02 #1
Learning Objective: 02-01 Explain the accounting cycle.
Type: Knowledge*
 2. An account is a detailed record of increases and decreases in a specific asset, liability or equity item.
TRUE
*Difficulty: Easy
Larson - Chapter 02 #2
Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*
 3. A ledger is a type of account.
FALSE
*Difficulty: Easy
Larson - Chapter 02 #3
Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*
 4. Goods sold on credit to customers are called accounts payable.
FALSE
*Difficulty: Moderate
Larson - Chapter 02 #4
Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*
 5. As prepaid assets are used up, the costs of the assets become expenses.
TRUE
*Difficulty: Easy
Larson - Chapter 02 #5
Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*
 6. Withdrawals are a type of transaction that affects equity.
TRUE
*Difficulty: Easy
Larson - Chapter 02 #6
Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*
 7. A building is an example of an asset that does not provide any benefit to its owner.
FALSE
*Difficulty: Moderate
Larson - Chapter 02 #7
Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*
 8. To make it easier for the bookkeeper, the cost of land is separated from the cost of buildings located on the land.
FALSE
*Difficulty: Moderate
Larson - Chapter 02 #8
Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*
 9. Unearned revenues are assets, because a service or product is owed to the customer.
FALSE
*Difficulty: Moderate
Larson - Chapter 02 #9
Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*
-

10. Cash withdrawn by the owner of an unincorporated business in the form of a monthly salary should be treated as an expense of the business.

FALSE

*Difficulty: Moderate
Larson - Chapter 02 #10
Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*

11. When a company sells services for which cash will not be received until some future date, the company should credit an unearned revenues account for the amount charged to the customer.

FALSE

*Difficulty: Moderate
Larson - Chapter 02 #11
Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*

12. A T-Account is a formal account frequently used in business.

FALSE

*Difficulty: Easy
Larson - Chapter 02 #12
Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*

13. An account balance is the difference between the increases and decreases recorded in an account.

TRUE

*Difficulty: Easy
Larson - Chapter 02 #13
Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*

14. The left side of a T-account is always the credit side, while the right side is always the debit side.

FALSE

*Difficulty: Moderate
Larson - Chapter 02 #14
Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*

15. The accounting equation is expressed as assets = liabilities - equity.

FALSE

*Difficulty: Easy
Larson - Chapter 02 #15
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge*

16. The accounting equation can be expressed as liabilities = assets - equity.

TRUE

*Difficulty: Moderate
Larson - Chapter 02 #16
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge*

17. In a double-entry accounting system, total debits must always equal total credits.

TRUE

*Difficulty: Easy
Larson - Chapter 02 #17
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge*

18. Double-entry accounting means that every transaction affects and is recorded in at least two accounts.

TRUE

*Difficulty: Moderate
Larson - Chapter 02 #18
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge*

19. Debits increase asset and expense accounts.

TRUE

*Difficulty: Easy
Larson - Chapter 02 #19
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge*

20. Credits to accounts are always increases.
FALSE
*Difficulty: Moderate
Larson - Chapter 02 #20
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge*
21. To credit an expense account means to decrease it.
TRUE
*Difficulty: Easy
Larson - Chapter 02 #21
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge*
22. Increases in liabilities are recorded as debits.
FALSE
*Difficulty: Easy
Larson - Chapter 02 #22
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge*
23. All increases and decreases in cash are not necessarily recorded in the Cash account.
FALSE
*Difficulty: Easy
Larson - Chapter 02 #23
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge*
24. A revenue account normally has a debit balance.
FALSE
*Difficulty: Moderate
Larson - Chapter 02 #24
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge*
25. Debits to accounts are normally decreases.
FALSE
*Difficulty: Easy
Larson - Chapter 02 #25
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge*
26. Because they decrease equity, withdrawals made by a business owner are credited to his/her withdrawals account.
FALSE
*Difficulty: Hard
Larson - Chapter 02 #26
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge*
27. Asset accounts normally have credit balances and expense accounts normally have debit balances.
FALSE
*Difficulty: Moderate
Larson - Chapter 02 #27
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge*
28. The normal balance of an account refers to the debit or credit side where increases are recorded.
TRUE
*Difficulty: Moderate
Larson - Chapter 02 #28
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge*
29. The chart of accounts is a list of all the accounts used by a company.
TRUE
*Difficulty: Easy
Larson - Chapter 02 #29
Learning Objective: 02-04 Describe a chart of accounts and its relationship to the ledger.
Type: Knowledge*

30. Purchasing supplies on credit increases assets while decreasing liabilities.

FALSE

*Difficulty: Moderate
Larson - Chapter 02 #30*

*Learning Objective: 02-05 Analyze the impact of transactions on accounts.
Type: Application*

31. Prepaid Insurance is an expense account which is used for recording expenses that have been paid in advance.

FALSE

*Difficulty: Moderate
Larson - Chapter 02 #31*

*Learning Objective: 02-05 Analyze the impact of transactions on accounts.
Type: Knowledge*

32. A credit purchase of a business expense item should be recorded with a debit to an expense account and a credit to Accounts Payable.

TRUE

*Difficulty: Easy
Larson - Chapter 02 #32*

*Learning Objective: 02-05 Analyze the impact of transactions on accounts.
Type: Knowledge*

33. If a company purchases land, paying part with cash and issuing a note payable for the balance, the journal entry to record this transaction will include a debit to Cash.

FALSE

*Difficulty: Moderate
Larson - Chapter 02 #33*

*Learning Objective: 02-05 Analyze the impact of transactions on accounts.
Type: Application*

34. If a company sells products and receives from the customer a formal written promise to pay a definite sum of money on demand or on a defined future date (or dates), the seller should debit the promised amount to Accounts Receivable.

FALSE

*Difficulty: Hard
Larson - Chapter 02 #34*

*Learning Objective: 02-05 Analyze the impact of transactions on accounts.
Type: Application*

35. A transaction that decreases an asset account and increases a liability account must also affect another account.

TRUE

*Difficulty: Hard
Larson - Chapter 02 #35*

*Learning Objective: 02-05 Analyze the impact of transactions on accounts.
Type: Knowledge*

36. When a business sends a bill for \$200 to a customer for services rendered, the journal entry to record this transaction will include a \$200 credit to Accounts Receivable.

FALSE

*Difficulty: Moderate
Larson - Chapter 02 #36*

*Learning Objective: 02-05 Analyze the impact of transactions on accounts.
Type: Application*

37. A transaction that increases an asset account and decreases a liability account must also affect another account.

TRUE

*Difficulty: Hard
Larson - Chapter 02 #37*

*Learning Objective: 02-05 Analyze the impact of transactions on accounts.
Type: Knowledge*

38. Step Two of the accounting cycle requires that we record transactions in a record called a journal.

TRUE

*Difficulty: Easy
Larson - Chapter 02 #38*

*Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.
Type: Knowledge*

39. A compound journal entry usually affects three or more accounts.

TRUE

Difficulty: Easy

Larson - Chapter 02 #39

Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.

Type: Knowledge

40. A general journal entry usually includes information about the date of a transaction, titles of affected accounts, dollar amount of each debit and credit and an explanation of the transaction.

TRUE

Difficulty: Easy

Larson - Chapter 02 #40

Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.

Type: Knowledge

41. Posting is the process of copying the debit and credit amounts from a journal to the ledger accounts.

TRUE

Difficulty: Easy

Larson - Chapter 02 #41

Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.

Type: Knowledge

42. Since all figures are eventually posted to the ledger, the posting reference column in a journal is not necessary.

FALSE

Difficulty: Moderate

Larson - Chapter 02 #42

Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.

Type: Knowledge

43. An abnormal balance in an account refers to a balance on the side where decreases are recorded.

TRUE

Difficulty: Hard

Larson - Chapter 02 #43

Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.

Type: Knowledge

44. The trial balance is a list of the accounts that have balances in the ledger.

TRUE

Difficulty: Easy

Larson - Chapter 02 #44

Learning Objective: 02-07 Prepare and explain the use of a trial balance.

Type: Knowledge

45. A trial balance that is in balance is proof that no errors were made in journalizing the transactions, posting to the ledger, and preparing the trial balance.

FALSE

Difficulty: Moderate

Larson - Chapter 02 #45

Learning Objective: 02-07 Prepare and explain the use of a trial balance.

Type: Knowledge

46. If an account was incorrectly debited for \$300 instead of correctly credited for \$300, the account is out of balance by \$300.

FALSE

Difficulty: Moderate

Larson - Chapter 02 #46

Learning Objective: 02-07 Prepare and explain the use of a trial balance.

Type: Application

47. If an error is discovered in either the journal or the ledger, it must be corrected by erasing the incorrect amount and entering the corrected amount.

FALSE

Difficulty: Moderate

Larson - Chapter 02 #47

Learning Objective: 02-07 Prepare and explain the use of a trial balance.

Type: Knowledge

48. The accounting cycle begins with:
- A. Preparing financial statements and other reports.
 - B.** Analysis of economic events and recording their effects.
 - C. Posting to the ledger.
 - D. Presentation of financial information to decision makers.
 - E. None of these answers is correct.

Difficulty: Easy
Larson - Chapter 02 #48
Learning Objective: 02-01 Explain the accounting cycle.
Type: Knowledge

49. A place or location within an accounting system in which the increases and decreases in a specific asset, liability, or equity item is recorded and stored is called a(n):
- A. Journal.
 - B. Ledger.
 - C. Trial balance.
 - D.** Account.
 - E. Chart of accounts.

Difficulty: Easy
Larson - Chapter 02 #49
Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge

50. An account used to record the owner's investments in the business plus any more or less permanent changes in the equity is called a(n):
- A. Withdrawals account.
 - B.** Capital account.
 - C. Asset account.
 - D. Expense account.
 - E. Revenue account.

Difficulty: Moderate
Larson - Chapter 02 #50
Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge

51. The account sometimes referred to as the owner's personal account or drawing account is called a(n):
- A. Revenue account.
 - B.** Withdrawals account.
 - C. Capital account.
 - D. Expense account.
 - E. Liability account.

Difficulty: Easy
Larson - Chapter 02 #51
Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge

52. Which of the following statements is correct?
- A. When an insurance premium is paid in advance, the payment is normally recorded in a liability account called Prepaid Insurance.
 - B. Goods and services are commonly sold to customers on the basis of oral or implied promises of future payment, called promissory notes.
 - C. Increases and decreases in cash are always recorded in the equity account.
 - D. An account called Land is commonly used to record increases and decreases in the land and buildings owned by a business.
 - E.** None of these statements are correct.

Difficulty: Hard
Larson - Chapter 02 #52
Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge

53. Unearned revenues are:
- A. Revenues that have been earned and received.
 - B. Revenues that have been earned but not yet collected.
 - C.** Liabilities created by advance cash payments from customers for products or services.
 - D. Recorded as an asset in the accounting records.
 - E. Increases to owners' equity.

*Difficulty: Moderate
Larson - Chapter 02 #53*

*Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*

54. Prepaid expenses are:
- A. Payments made for economic benefits that never expire.
 - B. Classified as liabilities on the balance sheet.
 - C. Generally all combined into one account called "Miscellaneous Expenses".
 - D.** Assets created by payments for economic benefits that are not used up until later.
 - E. Always debited to an expense account.

*Difficulty: Moderate
Larson - Chapter 02 #54*

*Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*

55. Which of the following statements is correct?
- A. The left side of a T-account is the credit side.
 - B. Entries that decrease asset and expense accounts, or increase liability, equity, and revenue accounts are posted as debits.
 - C.** The left side of a T-account is the debit side.
 - D. The right side of a T-account is the debit side.
 - E. Entries that increase asset, expense, and revenue accounts are posted as debits.

*Difficulty: Moderate
Larson - Chapter 02 #55*

*Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*

56. An unconditional written promise to pay a definite sum of money on demand or on a defined future date (or dates) is a(n):
- A. Unearned revenue.
 - B. Prepaid expense.
 - C. Account payable.
 - D.** Promissory note.
 - E. Account receivable.

*Difficulty: Moderate
Larson - Chapter 02 #56*

*Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*

57. A simple account form widely used in accounting education to illustrate how debits and credits work is called a:
- A. Withdrawals account.
 - B. Capital account.
 - C. Ledger.
 - D.** T-account.
 - E. Balance column account.

*Difficulty: Easy
Larson - Chapter 02 #57*

*Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*

58. An account balance is:
- A. The total of the credit side of the account.
 - B. The total of the debit side of the account.
 - C.** The difference between the increases (including the beginning balance) and decreases recorded in the account.
 - D. The same as the balance sheet equation.
 - E. Not used in the real world.

*Difficulty: Moderate
Larson - Chapter 02 #58*

Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.

Type: Knowledge

59. A record of all accounts used by a business is called a:
- A. Journal.
 - B. Book of original entry.
 - C. General Journal.
 - D. Trial balance.
 - E.** Ledger.

Difficulty: Easy

Larson - Chapter 02 #59

Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.

Type: Knowledge

60. The right side of a T-account is a(n):
- A. Debit.
 - B. Increase.
 - C.** Credit.
 - D. Decrease.
 - E. Account balance.

Difficulty: Easy

Larson - Chapter 02 #60

Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.

Type: Knowledge

61. Double-entry accounting is:
- A. An accounting system that disregards the accounting equation, $A = L + E$.
 - B.** An accounting system that records the effects of transactions and other events in at least two accounts with equal debits and credits.
 - C. An accounting system in which each transaction affects and is recorded in two or more accounts with unequal debits and equal credits.
 - D. An accounting system in which the sum of the debit account balances never equals the sum of the credit account balances.
 - E. An accounting system in which errors never occur.

Difficulty: Moderate

Larson - Chapter 02 #61

Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.

Type: Knowledge

62. A debit is used to record:
- A. An increase in a liability account.
 - B. A decrease in an asset account.
 - C. A decrease in the withdrawals account.
 - D.** An increase in an asset account.
 - E. An increase in a revenue account.

Difficulty: Hard

Larson - Chapter 02 #62

Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.

Type: Knowledge

63. Of the following accounts, the one that normally has a debit balance is:
- A. Accounts Payable.
 - B. Accounts Receivable.**
 - C. Ted Neal, Capital.
 - D. Sales Revenue.
 - E. Unearned Revenue.

Difficulty: Easy
Larson - Chapter 02 #63
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge

64. Of the following accounts, the one that normally has a credit balance is:
- A. Cash.
 - B. Office Equipment.
 - C. Sales Salaries Payable.**
 - D. Ted Neal, Withdrawals.
 - E. Sales Salaries Expense.

Difficulty: Easy
Larson - Chapter 02 #64
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge

65. Which of the following statements is *incorrect*?
- A. The normal balance of the accounts receivable account is a debit.
 - B. The normal balance of the owner's withdrawals account is a debit.
 - C. The normal balance of an unearned revenues account is a credit.
 - D. The normal balance of an expense account is a credit.**
 - E. The abnormal balance of a revenue account is a debit.

Difficulty: Moderate
Larson - Chapter 02 #65
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge

66. A credit is used to record:
- A. A decrease in an expense account.
 - B. A decrease in an asset account.
 - C. An increase in an unearned revenue account.
 - D. An increase in a revenue account.
 - E. All of these answers are correct.**

Difficulty: Moderate
Larson - Chapter 02 #66
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge

67. A debit entry:
- A. Increases asset and expense accounts.
 - B. Decreases liability and equity accounts.
 - C. Increases the owner's withdrawals account.
 - D. Decreases revenue accounts.
 - E. All of these answers are correct.**

Difficulty: Hard
Larson - Chapter 02 #67
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge

68. A credit entry:
- A. Increases asset and expense accounts, or decreases liability, equity, and revenue accounts.
 - B. Is recorded on the left side of a T-account.
 - C. Decreases asset and expense accounts, or increases liability, equity, and revenue accounts.**
 - D. Decreases asset, expense and revenue accounts.
 - E. Increases the withdrawals account.

Difficulty: Moderate
Larson - Chapter 02 #68
Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge

69. A list of all accounts used by a company, including the identification number assigned to each account, is called a:
- A. Ledger.
 - B. Journal.
 - C. Trial balance.
 - D.** Chart of accounts.
 - E. General Journal.

*Difficulty: Easy
Larson - Chapter 02 #69*

*Learning Objective: 02-04 Describe a chart of accounts and its relationship to the ledger.
Type: Knowledge*

70. An asset created by a payment for economic benefits that does not expire until some later time is:
- A. Recorded as a debit to an unearned revenue account.
 - B.** Recorded as a debit to a prepaid expense account.
 - C. Recorded as a credit to an unearned revenue account.
 - D. Recorded as a credit to a prepaid expense account.
 - E. Not recorded in the accounting records.

*Difficulty: Hard
Larson - Chapter 02 #70*

*Learning Objective: 02-05 Analyze the impact of transactions on accounts.
Type: Knowledge*

71. A liability created by the receipt of cash from customers in payment for products or services that have not yet been delivered to the customers is:
- A. Recorded as a debit to an unearned revenue account.
 - B. Recorded as a debit to a prepaid expense account.
 - C.** Recorded as a credit to an unearned revenue account.
 - D. Recorded as a credit to a prepaid expense account.
 - E. Not recorded in the accounting records.

*Difficulty: Hard
Larson - Chapter 02 #71*

*Learning Objective: 02-05 Analyze the impact of transactions on accounts.
Type: Knowledge*

72. On May 31, Don Company had an Accounts Payable balance of \$57,000. During the month of June, total credits to Accounts Payable were \$34,000, which resulted from purchases on credit. The June 30 Accounts Payable balance was \$32,000. What was the amount of payments made during June?
- A. \$32,000.
 - B. \$34,000.
 - C. \$57,000.
 - D.** \$59,000.
 - E. \$84,000.

*Difficulty: Moderate
Larson - Chapter 02 #72*

*Learning Objective: 02-05 Analyze the impact of transactions on accounts.
Type: Application*

73. On June 30, the Cash account of Lutness Company had a normal balance of \$4,300. During July the account was debited for a total of \$3,400 and credited for a total of \$3,600. What was the balance in the Cash account on August 1?
- A. \$-0.
 - B.** \$4,100 debit.
 - C. \$3,400 credit.
 - D. \$3,400 debit.
 - E. \$4,100 credit.

*Difficulty: Moderate
Larson - Chapter 02 #73*

*Learning Objective: 02-05 Analyze the impact of transactions on accounts.
Type: Application*

74. During the month of November, Cornish Company had cash receipts of \$3,500 and paid out \$1,000 for expenses. The November 30th cash balance was \$4,300. What was the cash balance on November 1?
- A.** \$1,800.
 - B. \$2,800.
 - C. \$4,300.
 - D. \$5,800.
 - E. \$7,300.

*Difficulty: Hard
Larson - Chapter 02 #74*

*Learning Objective: 02-05 Analyze the impact of transactions on accounts.
Type: Application*

75. The following transactions occurred during July for Hurley Services:

How much revenue was earned in July?

- A. \$1,200.
- B.** \$2,300.
- C. \$2,800.
- D. \$5,500.
- E. \$7,000.

*Difficulty: Hard
Larson - Chapter 02 #75*

*Learning Objective: 02-05 Analyze the impact of transactions on accounts.
Type: Application*

76. If Girard Don, the owner of Girard's Software proprietorship, uses cash of the business to purchase a personal computer, the business should record this use of cash with an entry to:
- A. Debit Salary Expense and credit Cash.
 - B. Debit Girard Don, Salary and credit Cash.
 - C. Debit Cash and credit Girard Don, Withdrawals.
 - D. Debit Girard Don, Capital and credit Cash.
 - E.** Debit Girard Don, Withdrawals and credit Cash.

*Difficulty: Moderate
Larson - Chapter 02 #76*

*Learning Objective: 02-05 Analyze the impact of transactions on accounts.
Type: Application*

77. The process of copying journal information to the ledger is called:
- A. Double-entering.
 - B.** Posting.
 - C. An internal business transaction.
 - D. Journalizing.
 - E. An external business transaction.

*Difficulty: Easy
Larson - Chapter 02 #77*

*Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.
Type: Knowledge*

78. A column in journals and accounts used to cross reference journal and ledger entries is called the:
- A. Account balance.
 - B. Debit.
 - C.** Posting reference.
 - D. Credit.
 - E. Description.

Difficulty: Easy

Larson - Chapter 02 #78

Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.

Type: Knowledge

79. A journal in which transactions are first recorded is:
- A.** A book of original entry.
 - B. A ledger.
 - C. A book of final entry.
 - D. A revenue account.
 - E. The cash ledger.

Difficulty: Moderate

Larson - Chapter 02 #79

Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.

Type: Knowledge

80. The general journal provides a place for recording:
- A. The transaction date.
 - B. The names of the accounts involved.
 - C. The amount of each debit and credit.
 - D. An explanation of the transaction.
 - E.** All of these answers are correct.

Difficulty: Easy

Larson - Chapter 02 #80

Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.

Type: Knowledge

81. A balance column ledger account is:
- A. An account entered on the balance sheet.
 - B.** An account with debit and credit columns for recording entries and a third column for showing the balance of the account after each entry is posted.
 - C. Another name for the withdrawals account.
 - D. An account used to record the transfers of assets from a business to its owner.
 - E. A simple form of account that is widely used in accounting education to illustrate the debits and credits required in recording a transaction.

Difficulty: Moderate

Larson - Chapter 02 #81

Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.

Type: Knowledge

82. A ledger is:
- A. A book of original entry.
 - B. A journal in which transactions are first recorded.
 - C. A book in which a complete record of transactions is recorded and from which transaction amounts are posted to the accounts.
 - D.** A book of final entry.
 - E. Another name for the bank account.

Difficulty: Moderate

Larson - Chapter 02 #82

Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.

Type: Knowledge

83. A book of original entry is:
- A. A book in which amounts are posted from a journal.
 - B. Another name for the cash account.
 - C.** Another name for the general journal.
 - D. Also called a ledger.
 - E. Sometimes called a book of final entry.

Difficulty: Moderate
Larson - Chapter 02 #83
Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.
Type: Knowledge

84. A compound journal entry is:
- A. A journal entry that has three or more debits and three or more credits.
 - B.** A journal entry that affects at least three accounts.
 - C. A journal entry that affects at least four accounts.
 - D. A journal entry involving at least two accounting periods.
 - E. A journal entry involving only two ledger accounts.

Difficulty: Moderate
Larson - Chapter 02 #84
Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.
Type: Knowledge

85. The most flexible type of journal that can be used to record any kind of transaction is called a:
- A. Ledger.
 - B. Trial balance.
 - C. Chart of accounts.
 - D.** General Journal.
 - E. Balance column account.

Difficulty: Easy
Larson - Chapter 02 #85
Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.
Type: Knowledge

86. Welder Company purchases supplies from Plumber Company on account. The entry for this transaction will include a:
- A. Debit to Accounts Payable for Welder Company.
 - B. Debit to Accounts Receivable for Welder Company.
 - C.** Debit to Accounts Receivable for Plumber Company.
 - D. Credit to Accounts Payable for Plumber Company.
 - E. Credit to Accounts Receivable for Welder Company.

Difficulty: Moderate
Larson - Chapter 02 #86
Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.
Type: Application

87. Green's Book Store purchased a new automobile that cost \$25,000, made a down payment of \$4,000, and signed a note payable for the balance. The entry to record this transaction is:
- A.
 - B.
 - C.
 - D.
 - E.**

Difficulty: Moderate
Larson - Chapter 02 #87
Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.
Type: Application

88. Eli opened a new business by investing the following assets: cash, \$6,000; land, \$30,000; building, \$100,000. Also, the business will assume responsibility for a note payable of \$22,000. Eli signed the note as part of his payment for the land and building. Which journal entry should be used on the books of the new business to record the investment by Eli?
- A.
 - B.
 - C.
 - D.**
 - E.

Difficulty: Hard
Larson - Chapter 02 #88
Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.
Type: Application

89. Zen Hatha opened a yoga studio and during a short period as a dealer completed these transactions:

What was the total of the debit balances shown in the trial balance prepared after these transactions were posted?

- A. \$152,300.
- B. \$167,700.
- C. \$173,950.
- D. \$181,900.**
- E. \$243,620.

Difficulty: Hard

Larson - Chapter 02 #89

Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.

Learning Objective: 02-07 Prepare and explain the use of a trial balance.

Type: Application

90. A summary of the ledger that lists the accounts and their balances, in which the total debit balances should equal the total credit balances, is called a(n):

- A. Account balance.
- B. Trial balance.**
- C. Ledger.
- D. Chart of accounts.
- E. General Journal.

Difficulty: Easy

Larson - Chapter 02 #90

Learning Objective: 02-07 Prepare and explain the use of a trial balance.

Type: Knowledge

91. Which of the following statements is *true*?

- A. The trial balance is never used to prepare financial statements.
- B. The trial balance is a list of all the accounts in the journal.
- C. Another name for the trial balance is the "chart of accounts".
- D. The trial balance is a list of the accounts in the general ledger.**
- E. A trial balance is only prepared at year end.

Difficulty: Moderate

Larson - Chapter 02 #91

Learning Objective: 02-07 Prepare and explain the use of a trial balance.

Type: Knowledge

92. While in the process of posting from the journal to the ledger, the accountant for X Company failed to post a \$50 debit to the Office Supplies account. The effect of this error will be as follows:
- A. The Office Supplies account balance will be overstated.
 - B.** The trial balance will not balance.
 - C. The error will overstate the debits listed in the journal.
 - D. The total debits in the trial balance will be larger than the total credits.
 - E. This error will not make any difference.

Difficulty: Moderate
Larson - Chapter 02 #92
Learning Objective: 02-07 Prepare and explain the use of a trial balance.
Type: Application

93. A \$15 credit to Sales was posted as a \$150 credit. By what amount is Sales out of balance?
- A. \$150 understated.
 - B.** \$135 overstated.
 - C. \$150 overstated.
 - D. \$15 understated.
 - E. \$135 understated.

Difficulty: Moderate
Larson - Chapter 02 #93
Learning Objective: 02-07 Prepare and explain the use of a trial balance.
Type: Application

94. If, on a trial balance, the total of the debits is \$7,500 and the total of the credits is \$7,419, the difference could have been caused by:
- A. An error in copying an account balance from the ledger to the trial balance.
 - B. A transposition error.
 - C. A sliding error.
 - D. Posting only one side of an entry.
 - E.** All of these answers are correct.

Difficulty: Moderate
Larson - Chapter 02 #94
Learning Objective: 02-07 Prepare and explain the use of a trial balance.
Type: Knowledge

95. In which of the following situations would the trial balance not balance?
- A. A \$1,000 collection of an account receivable was incorrectly posted as a debit to Accounts Receivable and a credit to Cash.
 - B. The purchase of office supplies on account for \$3,250 was incorrectly recorded in the journal as \$2,350.
 - C. \$50 cash receipt for the performance of a service was not recorded.
 - D. The purchase of office equipment for \$1,200 was posted as a debit to Office Supplies.
 - E.** The payment of a \$750 account payable was posted as a debit to Accounts Payable and a debit to Cash for \$750.

Difficulty: Moderate
Larson - Chapter 02 #95
Learning Objective: 02-07 Prepare and explain the use of a trial balance.
Type: Application

96. The purchase on credit of a delivery truck for \$9,600 was posted to Delivery Trucks as a \$9,600 debit and to Rent Expense as a \$9,600 debit. What effect would this error have on the trial balance?
- A. The total of the Debit column of the trial balance will exceed the total of the Credit column by \$9,600.
 - B. The total of the Credit column of the trial balance will exceed the total of the Debit column by \$9,600.
 - C.** The total of the Debit column of the trial balance will exceed the total of the Credit column by \$19,200.
 - D. The total of the Credit column of the trial balance will exceed the total of the Debit column by \$19,200.
 - E. The total of the Debit column of the trial balance will equal the total of the Credit column.

Difficulty: Moderate
Larson - Chapter 02 #96
Learning Objective: 02-07 Prepare and explain the use of a trial balance.
Type: Application

97. If the Debit and Credit column totals of a trial balance are equal, then:
- A. All transactions have been recorded correctly.
 - B. All entries from the journal have been posted to the ledger correctly.
 - C. All ledger account balances are correct.
 - D.** The total debit entries and total credit entries in the ledger are equal.
 - E. No sliding or transposition errors have been made.

*Difficulty: Moderate
Larson - Chapter 02 #97*

*Learning Objective: 02-07 Prepare and explain the use of a trial balance.
Type: Knowledge*

98. Jelly's Grocery Store showed the following account balances at the end of 2015:

If all of the accounts have normal balances, what are the totals for the trial balance?

- A. \$86,000.
- B. \$119,600.
- C.** \$127,600.
- D. \$186,600.
- E. \$255,500.

*Difficulty: Moderate
Larson - Chapter 02 #98*

*Learning Objective: 02-07 Prepare and explain the use of a trial balance.
Type: Application*

99. Of the following errors, which one by itself will cause the trial balance to be out of balance?
- A. A \$200 salary payment posted as a \$200 debit to Cash and a \$200 credit to Salaries Expense.
 - B.** A \$100 receipt from a customer in payment of his account posted as a \$100 debit to Cash and a \$10 credit to Accounts Receivable.
 - C. A \$75 receipt from a customer in payment of his account posted as a \$75 debit to Cash and a \$75 credit to Cash.
 - D. A \$50 cash purchase of office supplies posted as a \$50 debit to Office Equipment and a \$50 credit to Cash.
 - E. All of these errors will cause the trial balance to be out of balance.

*Difficulty: Hard
Larson - Chapter 02 #99*

*Learning Objective: 02-07 Prepare and explain the use of a trial balance.
Type: Application*

100. A \$130 credit to Office Equipment was credited to Sales by mistake. By what amounts are the accounts under- or overstated as a result of this error?
- A. Office Equipment, understated \$130; Sales, overstated \$130.
 - B. Office Equipment, understated \$260; Sales, overstated \$130.
 - C.** Office Equipment, overstated \$130; Sales, overstated \$130.
 - D. Office Equipment, overstated \$130; Sales, understated \$130.
 - E. Office Equipment, overstated \$260; Sales, understated \$130.

*Difficulty: Hard
Larson - Chapter 02 #100*

*Learning Objective: 02-07 Prepare and explain the use of a trial balance.
Type: Application*

101. List the steps in the accounting cycle.

(1) Analyze transactions, (2) Journalize, (3) Post, (4) Prepare unadjusted trial balance, (5) Adjust, (6) Prepare adjusted trial balance, (7) Prepare statements, (8) Close, (9) Prepare post-closing trial balance

Difficulty: Moderate
Larson - Chapter 02 #101
Learning Objective: 02-01 Explain the accounting cycle.
Type: Knowledge

102. Put the steps of the accounting cycle in the correct order:

Adjust
Analyze transactions
Close
Journalize
Post
Prepare adjusted trial balance
Prepare post-closing trial balance
Prepare statements
Prepare unadjusted trial balance

1. Analyze transactions
2. Journalize
3. Post
4. Prepare unadjusted trial balance
5. Adjust
6. Prepare adjusted trial balance
7. Prepare statements
8. Close
9. Prepare post-closing trial balance

Difficulty: Easy
Larson - Chapter 02 #102
Learning Objective: 02-01 Explain the accounting cycle.
Type: Knowledge

103. Identify each of the following accounts as a revenue, expense, asset, liability, or equity by placing initials (R, E, A, L or E) in the blanks.

_____ (1) Rent Expense
_____ (2) Cash
_____ (3) Equipment
_____ (4) Owner, Capital
_____ (5) Fees Earned
_____ (6) Accounts Receivable
_____ (7) Accounts Payable
_____ (8) Owner, Withdrawals
_____ (9) Supplies
_____ (10) Unearned Revenue
_____ (11) Prepaid Insurance
_____ (12) Sales

(1) E (2) A (3) A (4) E (5) R (6) A (7) L (8) E (9) A (10) L (11) A (12) R

Difficulty: Easy
Larson - Chapter 02 #103
Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge

104. The following accounts appear on either the Income Statement (IS) or Balance Sheet (BS). In the space provided next to each account write the letters, IS or BS, that identify the statement on which the account appears.

(1) BS (2) IS (3) BS (4) IS (5) BS (6) BS (7) IS (8) BS (9) BS (10) BS

Difficulty: Moderate

Larson - Chapter 02 #104

Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.

Type: Knowledge

105. David Thomas is a computer consultant and software engineer. Below are the names of several accounts in his ledger with each account name preceded by a number. Following the account names are several transactions completed by Mr. Thomas. Indicate the accounts debited and credited in recording each transaction by placing the proper account numbers in the boxes to the right of each transaction.

(1) debit 3, credit 8 (2) debit 5, credit 1 (3) debit 10, credit 3 (4) debit 7, credit 3 (5) debit 1, credit 5

Difficulty: Moderate

Larson - Chapter 02 #105

Learning Objective: 02-05 Analyze the impact of transactions on accounts.

Type: Application

106. Dawn Roberts is a real estate consultant and property manager. Below are the names of several accounts in her ledger with each account name preceded by a number. Following the account names are several transactions completed by Ms. Roberts. Indicate the accounts debited and credited in recording each transaction by placing the proper account numbers in the boxes to the right of each transaction.

(1) debit 4, credit 14 (2) debit 7, credit 1 (3) debit 16, credit 4 (4) debit 12, credit 4 (5) debit 11, credit 4 (6) debit 1, credit 4 (7) debit 4, credit 3

Difficulty: Hard

Larson - Chapter 02 #106

Learning Objective: 02-05 Analyze the impact of transactions on accounts.

Type: Application

107. Explain the steps in processing transactions in an accounting system.

Business transactions and events are documented by source documents. These source documents are analyzed for the effects of the transactions and events on the accounting records. The information is recorded into the accounting system. The information is then posted to the accounts and organized in the trial balance. The final step is the preparation of financial statements and reports for decision makers.

Difficulty: Moderate

Larson - Chapter 02 #107

Learning Objective: 02-01 Explain the accounting cycle.

Learning Objective: 02-05 Analyze the impact of transactions on accounts.

Learning Objective: 02-06 Record transactions in a journal and post entries to a ledger.

Learning Objective: 02-07 Prepare and explain the use of a trial balance.

Type: Knowledge

108. Explain how accounts are used in recording information about transactions.

Accounts are classified into five major classifications: assets, liabilities, equity, revenues and expenses. Accounts are used to record detailed information about increases or decreases of specific items in these categories. The accounts serve as the information resource for financial statements and reports.

*Difficulty: Moderate
Larson - Chapter 02 #108*

*Learning Objective: 02-02 Describe an account; its use; and its relationship to the ledger.
Type: Knowledge*

109. Explain the difference between a ledger and a chart of accounts.

A ledger is a record containing all of the accounts of a business. The chart of accounts is a list of all of the accounts in the ledger. The chart of accounts usually includes a numbering system for the accounts.

*Difficulty: Moderate
Larson - Chapter 02 #109*

*Learning Objective: 02-04 Describe a chart of accounts and its relationship to the ledger.
Type: Knowledge*

110. Explain debits and credits and their role in the accounting system.

Debit refers to the left side of an account and credit refers to the right side of an account. Debits and credits form the basis of the double-entry accounting system. This system is based on the concept that all transactions and events affect at least two accounts. The double-entry system is organized around the accounting equation which states that $\text{assets} = \text{liabilities} + \text{equity}$. The left side is the normal balance for assets and the right side is the normal balance for liabilities and equity. Revenues have a right-side normal balance and expenses have a left-side normal balance.

*Difficulty: Hard
Larson - Chapter 02 #110*

*Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Knowledge*

111. Indicate whether a debit or a credit entry would be made to record the following changes in each account.

- (a) To decrease Cash.
- (b) To increase Owner, Capital.
- (c) To decrease Accounts Payable.
- (d) To increase Salaries Expense.
- (e) To decrease Supplies.
- (f) To increase Revenue.
- (g) To decrease Accounts Receivable.
- (h) To increase Owner, Withdrawals.

(a) Credit (b) Credit (c) Debit (d) Debit (e) Credit (f) Credit (g) Credit (h) Debit

*Difficulty: Moderate
Larson - Chapter 02 #111*

*Learning Objective: 02-03 Define debits and credits and explain their role in double-entry accounting.
Type: Application*