

**Chapter 2—Analyzing Transactions: The Accounting Equation**

1. A business entity is an individual, association, or organization with control over economic resources and which engages in economic activities.
- a. True
  - b. False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.1 - LO: 2-1  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-03-Business Forms  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

2. Liabilities represent an "inside" interest in a business.
- a. True
  - b. False

*ANSWER:* False  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.1 - LO: 2-1  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-03-Business Forms  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

3. The accounting equation shows the relationship among the three basic accounting elements—assets, expenses, and owner's equity.
- a. True
  - b. False

*ANSWER:* False  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.2 - LO: 2-2  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

4. If owner's equity and liabilities increased during the period, then assets must also have increased.
- a. True
  - b. False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.2 - LO: 2-2  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

5. An accounts payable is an unwritten promise to pay a supplier for assets purchased or services rendered.
- a. True
  - b. False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.1 - LO: 2-1  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

6. If the revenue of a period exceeds the expenses, the excess represents a net loss.
- a. True
  - b. False

*ANSWER:* False  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.3 - LO: 2-5  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-09-Financial Statements  
*KEYWORDS:* Bloom's: Evaluating  
*NOTES:* 1 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

7. Any accounting period of twelve months' duration is usually referred to as a fiscal year.
- a. True
  - b. False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.3 - LO: 2-5  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

8. Revenues received during an accounting period increase owner's equity.
- a. True
  - b. False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-09-Financial Statements  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

9. Since supplies last for several months, they are recorded as assets.
- a. True
  - b. False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4  
*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

10. Since insurance lasts for several months, it is recorded as owner's equity.

- a. True
- b. False

*ANSWER:* False  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4  
*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

11. The income statement provides information about events over a period of a month, year, or other period of time.

- a. True
- b. False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.3 - LO: 2-5  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-09-Financial Statements  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

12. The terms "profit and loss statement" or "operating statement" are sometimes used as synonyms for the balance sheet.

- a. True
- b. False

*ANSWER:* False  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.3 - LO: 2-5  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-09-Financial Statements  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

13. Other terms used for owner's equity include net worth and capital.
- a. True
  - b. False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.1 - LO: 2-1  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

14. Any item a business owns that will provide future benefits is called owner's equity.
- a. True
  - b. False

*ANSWER:* False  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.1 - LO: 2-1  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

15. It is not necessary to measure a business transaction in dollars.
- a. True
  - b. False

*ANSWER:* False  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.5 - LO: 2-3  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

16. The accounting equation may be expressed as assets – liabilities = owner's equity.
- a. True
  - b. False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.2 - LO: 2-2  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

17. According to the business entity concept, a proprietor may include nonbusiness assets and liabilities in the business entity's accounting records.
- a. True
  - b. False

*ANSWER:* False  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.1 - LO: 2-1  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

18. Recognizing the effects of transactions on assets, liabilities, owner's equity, revenue, and expenses of a business is the processing function.
- a. True
  - b. False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.6 - LO: 2-6  
*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-06-Recording Transactions  
*KEYWORDS:* Bloom's: Understanding  
*NOTES:* 1 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

19. Expenses represent a decrease in liabilities.

- a. True
- b. False

*ANSWER:* False  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4  
*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

20. Expenses that are incurred in operating the enterprise increase owner's equity.

- a. True
- b. False

*ANSWER:* False  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4  
*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Understanding  
*NOTES:* 1 min.

21. Withdrawing cash from a business entity will result in an increase in owner's equity.

- a. True
- b. False

*ANSWER:* False  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4  
*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Understanding  
*NOTES:* 1 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

22. An increase in a revenue account may also result in an increase in the accounts receivable account.
- True
  - False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4  
*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-09-Financial Statements  
*KEYWORDS:* Bloom's: Understanding  
*NOTES:* 1 min.

23. Financial statements commonly prepared by businesses include an income statement, a statement of owner's equity, and a balance sheet.
- True
  - False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.3 - LO: 2-5  
*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-09-Financial Statements  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

24. The statement of owner's equity shows the state of the business on a specific date.
- True
  - False

*ANSWER:* False  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.3 - LO: 2-5  
*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-09-Financial Statements  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.



## Chapter 2—Analyzing Transactions: The Accounting Equation

25. The balance sheet reports assets, liabilities, and owner's equity on a specific date.

- a. True
- b. False

*ANSWER:* True

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* COLL.HEIN.17.3 - LO: 2-5

*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Communication

*TOPICS:* ACBSP: APC-09-Financial Statements

*KEYWORDS:* Bloom's: Remembering

*NOTES:* 1 min.

26. The income statement and statement of owner's equity provide information covering a period of time.

- a. True
- b. False

*ANSWER:* True

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* COLL.HEIN.17.3 - LO: 2-5

*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Communication

*TOPICS:* ACBSP: APC-09-Financial Statements

*KEYWORDS:* Bloom's: Remembering

*NOTES:* 1 min.

27. The accounting equation may be expressed as

- a. owner's equity = assets – liabilities.
- b. revenue – expenses = net income.
- c. revenue = net income – expenses.
- d. liabilities – owner's equity = assets.

*ANSWER:* a

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* COLL.HEIN.17.2 - LO: 2-2

*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Communication

*TOPICS:* ACBSP: APC-02-GAAP

*KEYWORDS:* Bloom's: Remembering

*NOTES:* 1 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

28. Jason purchased office equipment for \$4,800 in cash. This transaction would
- increase assets and increase owner's equity.
  - increase assets and increase liabilities.
  - increase one asset and decrease another asset.
  - decrease assets and decrease liabilities.

*ANSWER:* c  
*POINTS:* 1  
*DIFFICULTY:* Moderate  
*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4  
*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Analytic  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

29. Stephen purchased office supplies for \$800 on account. This transaction would
- increase assets and increase owner's equity.
  - increase one asset and decrease another asset.
  - increase assets and increase liabilities.
  - decrease assets and decrease liabilities.

*ANSWER:* c  
*POINTS:* 1  
*DIFFICULTY:* Moderate  
*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4  
*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Analytic  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

30. Meghan started her business by investing \$30,000 in cash. This transaction would
- increase assets and increase owner's equity.
  - increase assets and increase liabilities.
  - increase one asset and decrease another asset.
  - decrease assets and decrease liabilities.

*ANSWER:* a  
*POINTS:* 1  
*DIFFICULTY:* Moderate  
*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4  
*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Analytic  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

31. Any accounting period of twelve months' duration is usually referred to as a(n)
- fiscal year.
  - calendar year.
  - physical year.
  - operational year.

*ANSWER:* a  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

32. Increases to owner's equity may be from
- a. expenses that are incurred.
  - b. expenses exceeding revenue for the period.
  - c. withdrawals of cash from the business by the owner.
  - d. revenue that is derived from sales of goods or services.

*ANSWER:* d

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4

*ACCREDITING STANDARDS:* AICPA BB-Critical thinking  
BUSPROG: Communication

*TOPICS:* ACBSP: APC-09-Financial Statements

*KEYWORDS:* Bloom's: Understanding

*NOTES:* 1 min.

33. Tyler paid \$3,700 on account to the company from which equipment was purchased on credit. This transaction would
- a. decrease assets and decrease liabilities.
  - b. increase assets and increase owner's equity.
  - c. increase assets and increase liabilities.
  - d. increase one asset and decrease another asset.

*ANSWER:* a

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4

*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Analytic

*TOPICS:* ACBSP: APC-02-GAAP

*KEYWORDS:* Bloom's: Remembering

*NOTES:* 1 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

34. An example of an expense is
- a. investments.
  - b. supplies consumed.
  - c. prepaid insurance.
  - d. withdrawals by the owner.

*ANSWER:* b  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4  
*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

35. A decrease in owner's equity may result from a(n)
- a. purchase of office supplies for cash.
  - b. withdrawal of cash from the business by the owner.
  - c. revenue that is derived from sales of goods or services.
  - d. investment of cash in the business by the owner.

*ANSWER:* b  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4  
*ACCREDITING STANDARDS:* AICPA BB-Critical thinking  
BUSPROG: Analytic  
*TOPICS:* ACBSP: APC-09-Financial Statements  
*KEYWORDS:* Bloom's: Understanding  
*NOTES:* 1 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

36. Which phase of the accounting process involves recognizing the effect of transactions on assets, liabilities, owner's equity, revenue, and expenses of a business?
- a. input
  - b. processing
  - c. output
  - d. summarizing

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* COLL.HEIN.17.6 - LO: 2-6

*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication

*TOPICS:* ACBSP: APC-06-Recording Transactions

*KEYWORDS:* Bloom's: Remembering

*NOTES:* 1 min.

37. The financial statement that should be completed first is the
- a. balance sheet.
  - b. statement of financial position.
  - c. statement of financial condition.
  - d. income statement.

*ANSWER:* d

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* COLL.HEIN.17.3 - LO: 2-5

*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Communication

*TOPICS:* ACBSP: APC-09-Financial Statements

*KEYWORDS:* Bloom's: Analyzing

*NOTES:* 1 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

38. Falana received \$7,000 in cash from a client for professional services rendered. This transaction would
- increase assets and increase owner's equity.
  - decrease assets and increase owner's equity.
  - increase liabilities and decrease owner's equity.
  - decrease assets and decrease owner's equity.

*ANSWER:* a  
*POINTS:* 1  
*DIFFICULTY:* Moderate  
*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4  
*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Analytic  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

39. The financial statement that shows the state of the firm's assets, liabilities, and owner's equity on a specific date is called a(n)
- balance sheet.
  - statement of operations.
  - statement of owner's equity.
  - income statement.

*ANSWER:* a  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.3 - LO: 2-5  
*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-09-Financial Statements  
*KEYWORDS:* Bloom's: Analyzing  
*NOTES:* 1 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

40. Sue Lee paid \$1,200 for her employees' salaries. This transaction would
- increase assets and decrease owner's equity.
  - increase assets and increase liabilities.
  - decrease assets and decrease liabilities.
  - decrease assets and decrease owner's equity.

*ANSWER:* d

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4

*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Analytic

*TOPICS:* ACBSP: APC-02-GAAP

*KEYWORDS:* Bloom's: Remembering

*NOTES:* 1 min.



## Chapter 2—Analyzing Transactions: The Accounting Equation

41. Match the letter corresponding to one of the basic elements of accounting to each of the accounts below.

A = Asset  
L = Liability  
OE = Owner's Equity  
R = Revenue  
E = Expense

- |                        |       |
|------------------------|-------|
| 1. Utility Expense     | _____ |
| 2. Accounts Payable    | _____ |
| 3. Prepaid Rent        | _____ |
| 4. Supplies            | _____ |
| 5. P. Coyote, Drawing  | _____ |
| 6. Wages Expense       | _____ |
| 7. P. Coyote, Capital  | _____ |
| 8. Cash                | _____ |
| 9. Advertising Expense | _____ |
| 10. Fees Earned        | _____ |

**ANSWER:**

1.	E
2.	L
3.	A
4.	A
5.	OE
6.	E
7.	OE
8.	A
9.	E
10.	R

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** COLL.HEIN.17.4 - LO: 2-4

**ACCREDITING STANDARDS:** AICPA BB-Industry  
BUSPROG: Communication

**TOPICS:** ACBSP: APC-02-GAAP

**KEYWORDS:** Bloom's: Remembering

**NOTES:** 5 min.

42. Show the effect of each transaction on the three basic accounting elements by indicating the dollar amount of the increase or decrease under the proper element heading. Compute the resulting accounting equation.

- Owner invested \$16,500 cash in the business.
- Paid premium for two-year insurance policy, \$1,500.
- Purchased a van valued at \$35,000 with \$5,000 down payment; the balance to be paid over three years.
- Paid the rent for the month, \$900.
- Purchased \$470 of supplies for cash.
- Cash sales for the month, \$8,750.

## Chapter 2—Analyzing Transactions: The Accounting Equation

- g. Billed credit customers \$14,200 for monthly services.
- h. Paid monthly utility bill, \$210.
- i. Owner withdrew \$2,200 for personal use.
- j. Received payments of \$3,300 from credit customers.

ASSETS										=	>
	Accounts				Prepaid						>
	Cash	+	Rec.	+	Supplies	+	Ins.	+	Van	=	
a.	_____		_____		_____		_____		_____		>
b.	_____		_____		_____		_____		_____		>
c.	_____		_____		_____		_____		_____		>
d.	_____		_____		_____		_____		_____		>
e.	_____		_____		_____		_____		_____		>
f.	_____		_____		_____		_____		_____		>
g.	_____		_____		_____		_____		_____		>
h.	_____		_____		_____		_____		_____		>
i.	_____		_____		_____		_____		_____		>
j.	_____		_____		_____		_____		_____		>
	_____		_____		_____		_____		_____		>

	LIAB.		+	OWNER'S EQUITY					
	Notes Payable	+	Capital	-	Drawing	+	Revenues	-	Expenses
a.	_____		_____		_____		_____		_____
b.	_____		_____		_____		_____		_____
c.	_____		_____		_____		_____		_____
d.	_____		_____		_____		_____		_____
e.	_____		_____		_____		_____		_____
f.	_____		_____		_____		_____		_____
g.	_____		_____		_____		_____		_____
h.	_____		_____		_____		_____		_____
i.	_____		_____		_____		_____		_____
j.	_____		_____		_____		_____		_____
	_____		_____		_____		_____		_____

### PROOF

Cash	_____	Notes Payable	_____
Accounts Receivable	_____	Capital	_____
Supplies	_____	Drawing	_____
Prepaid Insurance	_____	Revenues	_____
Van	_____	Expenses	_____
	=====		=====

ANSWER:

						ASSETS	=	>
		Accounts			Prepaid		>	
Cash	+	Rec.	+	Supplies	+	Ins.	+	Van
						=		
							>	

## Chapter 2—Analyzing Transactions: The Accounting Equation

a.	16,500				>
b.	(1,500)		1,500		>
c.	(5,000)			35,000	>
d.	(900)				>
e.	(470)		470		>
f.	8,750				>
g.		14,200			>
h.	(210)				>
i.	(2,200)				>
j.	<u>3,300</u>	<u>(3,300)</u>	<u>      </u>	<u>      </u>	>
	<u>18,270</u>	<u>10,900</u>	<u>470</u>	<u>1,500</u>	<u>35,000</u>

<		<b>LIAB.</b>	+	<b>OWNER'S EQUITY</b>			
<		<b>Note</b>					
		<b>Payable</b>	+	<b>Capital</b>	-	<b>Drawing</b>	+ <b>Revenues</b> - <b>Expenses</b>
<							
<	a.			16,500			
<	b.						
<	c.	30,000					
<	d.						900
<	e.						
<	f.					8,750	
<	g.					14,200	
<	h.						210
<	i.				2,200		
<	j.						
<		<u>30,000</u>		<u>16,500</u>		<u>2,200</u>	<u>22,950</u> <u>1,110</u>

## PROOF

Cash	18,270	Notes Payable	30,000
Accounts Receivable	10,900	Capital	16,500
Supplies	470	Drawing	(2,200)
Prepaid Insurance	1,500	Revenues	22,950
Van	<u>35,000</u>	Expenses	<u>(1,110)</u>
	<u>66,140</u>		<u>66,140</u>

*POINTS:*

1

**DIFFICULTY:**

Easy

**LEARNING OBJECTIVES:**

COLL.HEIN.17.2 - LO: 2-2

COLL.HEIN.17.4 - LO: 2-4

COLL.HEIN.17.5 - LO: 2-3

### ACCREDITING STANDARDS: AICPA FN-Measurement

## BUSPROG: Analytic

*TOPICS:*

ACBSP: APC-06-Recording Transactions

**KEYWORDS:**

## Bloom's: Applying

*NOTES:*

15 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

43. Show the effects of each transaction on the accounting equation by indicating under the proper heading the dollar amount increase or decrease for each transaction listed below. Compute the resulting accounting equation.

- Owner deposited \$20,000 in his new business checking account.
- Supplies were purchased for \$300 on account.
- Paid a \$1,200 premium for six months of liability insurance.
- Purchased supplies for \$200 cash.
- Purchased equipment for \$4,000 by paying \$1,000; the rest to be paid in six months.
- Paid the \$300 bill outstanding (from transaction b).
- Owner withdrew \$700 from the business for personal use.

**ASSETS = LIAB. + OWNER'S EQUITY**

	Cash	+	Supp.	+	Prep. Insur.	+	Equip	=	Accts. Pay.	+	Capital	-	Drawing
a.	_____		_____		_____		_____		_____		_____		_____
b.	_____		_____		_____		_____		_____		_____		_____
c.	_____		_____		_____		_____		_____		_____		_____
d.	_____		_____		_____		_____		_____		_____		_____
e.	_____		_____		_____		_____		_____		_____		_____
f.	_____		_____		_____		_____		_____		_____		_____
g.	_____		_____		_____		_____		_____		_____		_____
	_____		_____		_____		_____		_____		_____		_____

ANSWER:

	Cash	+	Supp.	+	Prep. Insur.	+	Equip	=	Accts. Pay.	+	Capital
a.	20,000										20,000
b.			300						300		
c.	(1,200)				1,200						
d.	(200)		200								
e.	(1,000)						4,000		3,000		
f.	(300)								(300)		
g.	(700)										
	<u>16,600</u>		<u>500</u>		<u>1,200</u>		<u>4,000</u>		<u>3,000</u>		<u>20,000</u>

### PROOF

Cash	16,600	Accounts Payable	3,000
Supplies	500	Capital	20,000
Prepaid Insurance	1,200	Drawing	(700)
Equipment	<u>4,000</u>		
	<u>22,300</u>		<u>22,300</u>

POINTS:

1

DIFFICULTY:

Easy

LEARNING OBJECTIVES:

COLL.HEIN.17.2 - LO: 2-2

COLL.HEIN.17.4 - LO: 2-4

COLL.HEIN.17.5 - LO: 2-3

## Chapter 2—Analyzing Transactions: The Accounting Equation

**ACCREDITING STANDARDS:** AICPA FN-Measurement

BUSPROG: Analytic

**TOPICS:** ACBSP: APC-06-Recording Transactions

**KEYWORDS:** Bloom's: Applying

**NOTES:** 15 min.

44. Madame Shira began a fortune telling business on May 1. The following transactions occurred:

1. Owner Madame Shira invested \$5,000 cash in the business.
2. Purchased \$2,000 of furniture with a down payment of \$500; the rest by issuing an account payable to be paid in three monthly installments.
3. Paid \$700 rent.
4. Purchased a crystal ball for \$300.
5. Paid \$1,700 for a 12-month insurance policy.
6. During the first month received \$2,500 from cash customers.
7. Sent billings of \$2,000 for services rendered to credit customers.
8. Paid assistant \$1,500 wages for the month.
9. Received \$600 in payments from credit customers.
10. Borrowed \$3,200 by signing a note.
11. Made a \$500 payment on the furniture bill (from transaction 2).
12. Owner withdrew \$300 cash for personal use.
13. Paid bills for advertising \$60, utilities \$39, and repairs \$52.

### Required:

1. Enter the above transactions in an accounting equation work sheet.
2. Prepare an income statement for Madame Shira for the month of May.
3. Prepare a statement of owner's equity for the month of May.

**ANSWER:**

1.

	ASSETS						= LIABILITIES			
	Cash	+	Furniture	+	Crystal Ball	+	Accounts Rec.	+	Prepaid Ins.	=
1.	5,000									
2.	(500)		2,000							
3.	(700)									
4.	(300)				300					
5.	(1,700)								1,700	
6.	2,500									
7.							2,000			
8.	(1,500)									
9.	600						(600)			
10.	3,200									
11.	(500)									
12.	(300)									
13.	(60)									
	(39)									
	<u>(52)</u>									
	<u>5,649</u>		<u>2,000</u>		<u>300</u>		<u>1,400</u>		<u>1,700</u>	

		OWNER'S				
		EQUITY				
		Shira,	Shira,	Revenues	Expenses	Desc.
		Capital	Drawing			
		5,000				
					700	Rent
				2,500		
				2,000		
					1,500	Wages
			300			
					60	Advertising
					39	Utilities
					52	Repairs
		<u>5,000</u>	<u>300</u>	<u>4,500</u>	<u>2,351</u>	

2.

**Madame Shira Fortune Telling  
Income Statement  
For Month Ended May 31, 20--**

Revenues:		
Fortune telling fees		\$4,500
Expenses:		
Rent expense	\$ 700	
Wages expense	1,500	
Advertising expense	60	
Utilities expense	39	
Repairs expense	52	
Total expenses		<u>2,351</u>
Net income		<u>\$2,149</u>

3.

**Madame Shira Fortune Telling  
Statement of Owner's Equity  
For Month Ended May 31, 20--**

Madame Shira, capital May 1, 20--		\$ 0
Investment by owner		5,000
Net income for May	\$2,149	
Less withdrawals for May	<u>300</u>	
Increase in capital		<u>1,849</u>
Madame Shira, capital May 31, 20--		<u>\$6,849</u>

POINTS:

1

## Chapter 2—Analyzing Transactions: The Accounting Equation

<b>DIFFICULTY:</b>	Moderate
<b>LEARNING OBJECTIVES:</b>	COLL.HEIN.17.3 - LO: 2-5 COLL.HEIN.17.4 - LO: 2-4 COLL.HEIN.17.5 - LO: 2-3
<b>ACCREDITING STANDARDS:</b>	AICPA FN-Measurement BUSPROG: Analytic
<b>TOPICS:</b>	ACBSP: APC-06-Recording Transactions
<b>KEYWORDS:</b>	Bloom's: Applying
<b>NOTES:</b>	15 min.

45. From the following list of accounts, prepare an income statement, statement of owner's equity, and balance sheet for the year ended or at December 31, 20--, for Milner's Star Express Cleaning Service.

Cash	\$ 2,026
Fees Earned	13,835
Accounts Payable	7,530
D. Milner, Capital January 1, 20--	6,000
D. Milner, Drawing	1,750
Utilities Expense	153
Prepaid Insurance	1,216
Rent Expense	1,200
Accounts Receivable	4,080
Equipment	15,290
Wages Expense	1,650

**ANSWER:**

**Milner's Star Express Cleaning Service  
Income Statement  
For the Year Ended December 31, 20--**

Revenues:		
Fees earned		\$13,8
Expenses:		
Utilities expense	\$ 153	
Rent expense	1,200	
Wages expense	<u>1,650</u>	
Total expenses		<u>3,0</u>
Net income		<u>\$10,8</u>

**Milner's Star Express Cleaning Service  
Statement of Owner's Equity  
For the Year Ended December 31, 20--**

D. Milner, capital January 1, 20--		\$ 6,0
Net income for the year	\$10,832	
Less withdrawals for the year	<u>1,750</u>	
Increase in capital		<u>9,0</u>
D. Milner, capital December 31, 20--		<u>\$15,0</u>

**Milner's Star Express Cleaning Service  
Balance Sheet**

## Chapter 2—Analyzing Transactions: The Accounting Equation

**December 31, 20--**

<b>Assets</b>		<b>Liabilities</b>	
Cash	\$ 2,026	Accounts payable	\$ 7,530
Prepaid insurance	1,216		
Accounts receivable	4,080		
Equipment	<u>15,290</u>	<b>Owner's Equity</b>	
Total assets	<u>\$22,612</u>	D. Milner, capital	<u>15,080</u>
		Total liab. & owner's equity	<u>\$22,612</u>

<b>POINTS:</b>	1
<b>DIFFICULTY:</b>	Moderate
<b>LEARNING OBJECTIVES:</b>	COLL.HEIN.17.3 - LO: 2-5
<b>ACCREDITING STANDARDS:</b>	AICPA FN-Reporting BUSPROG: Analytic
<b>TOPICS:</b>	ACBSP: APC-09-Financial Statements
<b>KEYWORDS:</b>	Bloom's: Applying
<b>NOTES:</b>	15 min.

46. From the following list of accounts, prepare an income statement, statement of owner's equity, and balance sheet for the year ended or at December 31, 20--, for J. Carr's Delivery Service.

Cash	\$11,450
Accounts Payable	4,450
Fees Earned	41,500
J. Carr, Capital January 1, 20--	14,500
J. Carr, Drawing	7,000
Office Supplies	250
Rent Expense	10,000
Accounts Receivable	7,000
Equipment	6,000
Wages Expense	14,000
Repairs Expense	250
Furniture	4,500

**ANSWER:**

**J. Carr's Delivery Service  
Income Statement  
For the Year Ended December 31, 20--**

Revenues:		
Fees earned		\$41,500
Expenses:		
Rent expense	\$10,000	
Wages expense	14,000	
Repairs expense	<u>250</u>	
Total expenses		<u>24,250</u>
Net income		<u>\$17,250</u>

**J. Carr's Delivery Service  
Statement of Owner's Equity**



## Chapter 2—Analyzing Transactions: The Accounting Equation

### For the Year Ended December 31, 20--

J. Carr, capital January 1, 20--		\$14,500
Net income for the year	\$17,250	
Less withdrawals for the year	<u>7,000</u>	
Increase in capital		<u>10,250</u>
J. Carr, capital December 31, 20--		<u>\$24,750</u>

### J. Carr's Delivery Service

#### Balance Sheet

December 31, 20--

Assets		Liabilities	
Cash	\$11,450	Accounts Payable	\$ 4,450
Accounts receivable	7,000		
Office supplies	250		
Equipment	6,000		
Furniture	<u>4,500</u>		
Total assets	<u>\$29,200</u>		
		Owner's Equity	
		J. Carr, capital	<u>24,750</u>
		Total liab. & owner's equity	<u>\$29,200</u>

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** COLL.HEIN.17.3 - LO: 2-5

**ACCREDITING STANDARDS:** AICPA FN-Reporting  
BUSPROG: Analytic

**TOPICS:** ACBSP: APC-09-Financial Statements

**KEYWORDS:** Bloom's: Applying

**NOTES:** 15 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

47. Dr. Etana Jenson is a podiatrist. As of December 31, Jenson owned the following assets related to the professional practice:

Cash	\$6,600	X-ray Equipment	\$9,000
Office Equipment	3,500	Laboratory Equipment	3,000

As of that date, Jenson owed business suppliers as follows:

Top Flight Office Equipment Co.	\$3,000
Dunhill Medical Supplies Company	1,000
Island Gas Company	2,200

### Required:

- a. Compute the amount of assets, liabilities, and owners' equity as of December 31.

Assets = Liabilities + Owner's Equity

- b. Assuming that during January there is an increase of \$4,600 in Dr. Jenson's business assets and an increase of \$2,500 in the business liabilities, compute the resulting equation as of January 31.

- c. Assuming that during February there is a decrease of \$1,500 in assets and a decrease of \$1,200 in liabilities, compute the resulting accounting equation as of February 28.

ANSWER:	Assets	=	Liabilities	+	Owner's Equity
a.	\$22,100	=	\$6,200	+	\$15,900
b.	26,700	=	8,700	+	18,000
c.	25,200	=	7,500	+	17,700

POINTS:

1

DIFFICULTY:

Easy

LEARNING OBJECTIVES:

COLL.HEIN.17.4 - LO: 2-4  
COLL.HEIN.17.5 - LO: 2-3

ACCREDITING STANDARDS:

AICPA FN-Measurement  
BUSPROG: Analytic

TOPICS:

ACBSP: APC-02-GAAP

KEYWORDS:

Bloom's: Understanding

NOTES:

3 min.

48. Kristin Holden started her own consulting business in July, 20--. During the first month, the following transactions

## Chapter 2—Analyzing Transactions: The Accounting Equation

occurred:

- Owner invested \$12,000 cash in the business.
- Purchased office equipment for \$7,500 cash.
- Purchased computer equipment costing \$11,500 on account.
- Paid \$1,100 office rent for the month.
- Received \$1,700 cash from a client for services rendered.
- Paid water bill for the month, \$170.
- Paid \$2,400 on account for computer equipment purchased in transaction (c).
- Paid the electric bill for the month, \$200.

### Required:

Record the effects of these transactions in an accounting equation worksheet.

	ASSETS				=	LIABILITIES			>	
	Cash	+	Office Equip.	+	Computer Equip.	=	Accounts Payable	+	K. Holden, Capital	>
a.	_____		_____		_____		_____		_____	>
Bal.	_____		_____		_____		_____		_____	>
b.	_____		_____		_____		_____		_____	>
Bal.	_____		_____		_____		_____		_____	>
c.	_____		_____		_____		_____		_____	>
Bal.	_____		_____		_____		_____		_____	>
d.	_____		_____		_____		_____		_____	>
Bal.	_____		_____		_____		_____		_____	>
e.	_____		_____		_____		_____		_____	>
Bal.	_____		_____		_____		_____		_____	>
f.	_____		_____		_____		_____		_____	>
Bal.	_____		_____		_____		_____		_____	>
g.	_____		_____		_____		_____		_____	>
Bal.	_____		_____		_____		_____		_____	>
h.	_____		_____		_____		_____		_____	>
Bal.	_____		_____		_____		_____		_____	>
<		+	OWNER'S EQUITY							<
<			Client Fees	–	Rent Expense			–	Utilities Expense	
<	a.		_____		_____				_____	
<	Bal.		_____		_____				_____	
<	b.		_____		_____				_____	
<	Bal.		_____		_____				_____	
<	c.		_____		_____				_____	
<	Bal.		_____		_____				_____	
<	d.		_____		_____				_____	
<	Bal.		_____		_____				_____	
<	e.		_____		_____				_____	
<	Bal.		_____		_____				_____	

## Chapter 2—Analyzing Transactions: The Accounting Equation

<	f.	_____	_____	_____
<	Bal.	_____	_____	_____
<	g.	_____	_____	_____
<	Bal.	_____	_____	_____
<	h.	_____	_____	_____
<	Bal.	_____	_____	_____

ANSWER:

	ASSETS			=	LIABILITIES		>
	Cash	+ Office Equip.	+ Computer Equip.	=	Accounts Payable	+ K. Holden, Capital	>
a.	<u>12,000</u>					<u>12,000</u>	>
Bal.	12,000					12,000	>
b.	<u>(7,500)</u>	<u>7,500</u>					>
Bal.	4,500	7,500				12,000	>
c.			<u>11,500</u>		<u>11,500</u>		>
Bal.	4,500	7,500	11,500		11,500	12,000	>
d.	<u>(1,100)</u>						>
Bal.	3,400	7,500	11,500		11,500	12,000	>
e.	<u>1,700</u>						>
Bal.	5,100	7,500	11,500		11,500	12,000	>
f.	<u>(170)</u>						>
Bal.	4,930	7,500	11,500		11,500	12,000	>
g.	<u>(2,400)</u>				<u>(2,400)</u>		>
Bal.	2,530	7,500	11,500		9,100	12,000	>
h.	<u>(200)</u>						>
Bal.	<u>2,330</u>	<u>7,500</u>	<u>11,500</u>		<u>9,100</u>	<u>12,000</u>	>

	OWNER'S EQUITY		
	+ Client Fees	- Rent Expense	- Utilities Expense
a.			
Bal.			
b.			
Bal.			
c.			
Bal.			
d.		<u>1,100</u>	
Bal.			
e.	<u>1,700</u>	<u>1,100</u>	
Bal.	1,700	1,100	
f.			<u>170</u>
Bal.	1,700	1,100	170
g.			
Bal.	1,700	1,100	170
h.			<u>200</u>
Bal.	<u>1,700</u>	<u>1,100</u>	<u>370</u>

## Chapter 2—Analyzing Transactions: The Accounting Equation

*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4  
*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Analytic  
*TOPICS:* ACBSP: APC-06-Recording Transactions  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 10 min.

49. Most businesses recognize \_\_\_\_\_ when earned, even if cash has not yet been received.

*ANSWER:* revenue  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4  
*ACCREDITING STANDARDS:* AICPA FN-Measurement  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-04-Cash vs. Accrual  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

50. \_\_\_\_\_ represent the decrease in assets (or increase in liabilities) as a result of efforts made to produce revenues.

*ANSWER:* Expenses  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4  
*ACCREDITING STANDARDS:* AICPA FN-Reporting  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-09-Financial Statements  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

51. The \_\_\_\_\_, sometimes called the profit and loss statement, reports the profitability of business operations for a specific period of time.

**ANSWER:** income statement  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** COLL.HEIN.17.3 - LO: 2-5  
**ACCREDITING STANDARDS:** AICPA BB-Industry  
BUSPROG: Communication  
**TOPICS:** ACBSP: APC-02-GAAP  
**KEYWORDS:** Bloom's: Remembering  
**NOTES:** 1 min.

52. \_\_\_\_\_ represent the amount a business charges customers for products sold or services performed.

**ANSWER:** Revenues  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** COLL.HEIN.17.4 - LO: 2-4  
**ACCREDITING STANDARDS:** AICPA BB-Industry  
BUSPROG: Communication  
**TOPICS:** ACBSP: APC-02-GAAP  
**KEYWORDS:** Bloom's: Remembering  
**NOTES:** 1 min.

53. The relationship between the three basic accounting elements: \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_, can be expressed in the form of a simple equation known as the accounting equation.

**ANSWER:** assets, liabilities, owner's equity  
assets, owner's equity, liabilities  
liabilities, assets, owner's equity  
liabilities, owner's equity, assets  
owner's equity, assets, liabilities  
owner's equity, liabilities, assets  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**LEARNING OBJECTIVES:** COLL.HEIN.17.2 - LO: 2-2  
**ACCREDITING STANDARDS:** AICPA BB-Industry  
BUSPROG: Communication  
**TOPICS:** ACBSP: APC-02-GAAP  
**KEYWORDS:** Bloom's: Remembering  
**NOTES:** 1 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

54. \_\_\_\_\_ represent probable future benefits.

*ANSWER:* Assets  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.1 - LO: 2-1  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

55. A(n) \_\_\_\_\_ is an unwritten promise to pay a supplier for assets purchased or services received.

*ANSWER:* accounts payable  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.1 - LO: 2-1  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

56. The report which shows a firm's assets, liabilities, and owner's equity as of a specific date is called the \_\_\_\_\_.

*ANSWER:* balance sheet  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.3 - LO: 2-5  
*ACCREDITING STANDARDS:* AICPA FN-Reporting  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-09-Financial Statements  
*KEYWORDS:* Bloom's: Understanding  
*NOTES:* 1 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

57. The \_\_\_\_\_ reports the investments and withdrawals by the owner, the profits and losses generated through operations, and how they have affected the capital account.

*ANSWER:* statement of owner's equity  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.3 - LO: 2-5  
*ACCREDITING STANDARDS:* AICPA FN-Reporting  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-09-Financial Statements  
*KEYWORDS:* Bloom's: Understanding  
*NOTES:* 1 min.

58. A(n) \_\_\_\_\_ is a reduction in owner's equity as a result of the owner taking cash or other assets out of the business for personal use.

*ANSWER:* withdrawal  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.4 - LO: 2-4  
*ACCREDITING STANDARDS:* AICPA FN-Reporting  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

59. \_\_\_\_\_ is the amount by which business assets exceed the business liabilities.

*ANSWER:* Owner's equity  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.1 - LO: 2-1  
*ACCREDITING STANDARDS:* AICPA FN-Reporting  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.



## Chapter 2—Analyzing Transactions: The Accounting Equation

60. Amounts owed to the business by its customers are called \_\_\_\_\_.

*ANSWER:* accounts receivable  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.1 - LO: 2-1  
*ACCREDITING STANDARDS:* AICPA FN-Reporting  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

61. A(n) \_\_\_\_\_ is an economic event that has a direct impact on the business.

*ANSWER:* business transaction  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.5 - LO: 2-3  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

62. A(n) \_\_\_\_\_ is a separate record used to summarize changes in assets, liabilities, and owner's equity of a business.

*ANSWER:* account  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*LEARNING OBJECTIVES:* COLL.HEIN.17.5 - LO: 2-3  
*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication  
*TOPICS:* ACBSP: APC-02-GAAP  
*KEYWORDS:* Bloom's: Remembering  
*NOTES:* 1 min.

## Chapter 2—Analyzing Transactions: The Accounting Equation

63. According to the \_\_\_\_\_, nonbusiness assets and liabilities are not included in the business entity's accounting records.

*ANSWER:* business entity concept

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* COLL.HEIN.17.1 - LO: 2-1

*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication

*TOPICS:* ACBSP: APC-02-GAAP

*KEYWORDS:* Bloom's: Remembering

*NOTES:* 1 min.

64. \_\_\_\_\_ is a measure of the ease with which an asset will be converted to cash.

*ANSWER:* Liquidity

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* COLL.HEIN.17.1 - LO: 2-1

*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication

*TOPICS:* ACBSP: APC-02-GAAP

*KEYWORDS:* Bloom's: Remembering

*NOTES:* 1 min.

*Match the terms with the definitions.*

- a. account
- b. accounts payable
- c. accounts receivable
- d. accounting equation
- e. assets
- f. balance sheet
- g. business entity
- h. business entity concept
- i. business transaction
- j. drawing
- k. expenses
- l. income statement
- m. liability
- n. net income
- o. net loss
- p. notes payable
- q. owner's equity
- r. revenues

## Chapter 2—Analyzing Transactions: The Accounting Equation

s. statement of owner's equity

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* COLL.HEIN.17.1 - LO: 2-1  
COLL.HEIN.17.2 - LO: 2-2  
COLL.HEIN.17.3 - LO: 2-5  
COLL.HEIN.17.4 - LO: 2-4  
COLL.HEIN.17.5 - LO: 2-3

*ACCREDITING STANDARDS:* AICPA BB-Industry  
BUSPROG: Communication

*TOPICS:* ACBSP: APC-02-GAAP  
ACBSP: APC-09-Financial Statements

*KEYWORDS:* Bloom's: Remembering

*NOTES:* 1 min.

65. The amount by which the business assets exceed the business liabilities.

*ANSWER:* q

*POINTS:* 1

66. Reports assets, liabilities, and owner's equity on a specific date.

*ANSWER:* f

*POINTS:* 1

67. Withdrawals that reduce owner's equity as a result of the owner taking cash or other assets out of the business for personal use.

*ANSWER:* j

*POINTS:* 1

68. The decrease in assets (or increase in liabilities) as a result of efforts to produce revenues.

*ANSWER:* k

*POINTS:* 1

69. A formal written promise to pay a supplier or lender a specified sum of money at a definite future time.

*ANSWER:* p

*POINTS:* 1

70. The excess of total revenues over total expenses for the period.

*ANSWER:* n

*POINTS:* 1

71. Reports the profitability of business operations for a specific period of time.

*ANSWER:* l

*POINTS:* 1

## Chapter 2—Analyzing Transactions: The Accounting Equation

72. Reports beginning capital, plus net income, less withdrawals to compute ending capital.

*ANSWER:* s

*POINTS:* 1

73. An economic event that has a direct impact on the business.

*ANSWER:* i

*POINTS:* 1

74. The concept that nonbusiness assets and liabilities are not included in the business' accounting records.

*ANSWER:* h

*POINTS:* 1

75. Consists of the three basic accounting elements: assets = liabilities + owner's equity.

*ANSWER:* d

*POINTS:* 1

76. Items a business owns that will provide future benefits.

*ANSWER:* e

*POINTS:* 1

77. An unwritten promise to pay a supplier for assets purchased or services rendered.

*ANSWER:* b

*POINTS:* 1

78. A separate record used to summarize changes in each asset, liability, and owner's equity of a business.

*ANSWER:* a

*POINTS:* 1

79. An amount owed to a business by its customers as a result of the sale of goods or services.

*ANSWER:* c

*POINTS:* 1

80. An individual, association, or organization that engages in economic activities and controls specific economic resources.

*ANSWER:* g

*POINTS:* 1

## Chapter 3, TEST A

Name \_\_\_\_\_  
Date \_\_\_\_\_

### SCORING RECORD

Section	Total Possible	Deductions	Student Score
A	30		
B	30		
C	10		
D	30		
Total	100		

### Section A

*Directions:* Each of the following statements is true or false. Indicate your choice by writing in the Answers column T for a true answer or F for a false answer. (2 points for each correct answer)

	<u>Answers</u>	<u>For Scoring</u>
1. One business transaction has a single-entry effect upon the accounting elements; two business transactions together have a dual-entry effect on accounting elements.	__F__	_____
2. A T account has three parts: the title, the debit side, and the credit side.	__T__	_____
3. To credit an account is to enter an amount on the right side of the account.	__T__	_____
4. For every account, the total dollar amount on the credit side is called the balance.	__F__	_____
5. Debit always means decrease and credit always means increase.	__F__	_____
6. A normal balance is the side of an account that is increased.	__T__	_____
7. An increase in an expense decreases owner's equity.	__T__	_____
8. Revenues increase owner's equity; therefore, they should always be recorded directly on the credit side of the owner's capital account.	__F__	_____
9. If a transaction has one debit, it can only have one credit.	__F__	_____
10. If Damen's delivery fees for the month include \$800 on account from customers and \$300 in cash, the revenue account increases \$1,100.	__T__	_____
11. Prepaid insurance is an asset because it will provide future benefits.	__T__	_____
12. Withdrawals of cash by the owner for personal reasons decrease owner's equity and should be debited directly to the owner's capital account.	__F__	_____
13. The sum of the debits must equal the sum of the credits on the trial balance.	__T__	_____
14. A trial balance is a list of accounts showing the title and the balance of each account.	__T__	_____
15. The trial balance is a formal statement just like the income statement, the owner's equity statement, and the balance sheet.	__F__	_____

**Section B**

*Directions:* Complete each of the following statements by writing in the Answers column the letter of the word or words that correctly completes each statement or answers the question. (3 points each)

	<u>Answers</u>	<u>For Scoring</u>
1. The assets of a business may consist of a number of items, such as (A) accounts payable; (B) cash; (C) delivery fees; (D) drawing; (E) none of these.	<u>  B  </u>	<u>      </u>
2. Totals on the debit and credit sides to determine the balance of an account are known as (A) footings; (B) credits; (C) debits; (D) rulings; (E) revenues.	<u>  A  </u>	<u>      </u>
3. The normal balance is a debit in a (A) liability account; (B) revenue account; (C) debt account; (D) capital account; (E) drawing account.	<u>  E  </u>	<u>      </u>
4. When a loan is paid, a(n) (A) liability account is debited; (B) expense account is debited; (C) asset account is debited; (D) revenue account is credited; (E) drawing account is debited.	<u>  A  </u>	<u>      </u>
5. Investment of cash in a business (A) increases revenue; (B) decreases capital; (C) increases drawing; (D) increases cash; (E) decreases drawing.	<u>  D  </u>	<u>      </u>
6. The financial statement prepared first is the (A) Statement of Financial Condition; (B) Statement of Owner's Equity; (C) Income Statement; (D) Balance Sheet; (E) any one of these statements can be prepared first.	<u>  C  </u>	<u>      </u>
7. Cash received on account affects (A) cash and accounts payable; (B) cash and accounts receivable; (C) accounts receivable and revenue; (D) accounts receivable and accounts payable; (E) cash and owner's equity.	<u>  B  </u>	<u>      </u>
8. Payment of office rent represents an increase in (A) revenues; (B) cash; (C) a liability account; (D) drawing; (E) expenses.	<u>  E  </u>	<u>      </u>
9. The trial balance is (A) a list of revenues showing the title and balance of each account; (B) used as an aid in preparing the balance sheet; (C) reported to the federal government; (D) a formal state or report; (E) all of these.	<u>  B  </u>	<u>      </u>
10. After the Statement of Owner's Equity is prepared, which of the following is carried over to the Balance Sheet? (A) Net Income; (B) Ending Drawing Balance; (C) Ending Capital Balance; (D) Total Assets; (E) none of these.	<u>  C  </u>	<u>      </u>

**Section C**

*Directions:* For each account, indicate the financial statement on which it is reported. BS = Balance Sheet, IS = Income Statement, and OE = Statement of Owner's Equity. (1 point each)

- |                        |           |                   |        |
|------------------------|-----------|-------------------|--------|
| 1. Accounts Payable    | __BS__    | 6. Equipment      | __BS__ |
| 2. Accounts Receivable | __BS__    | 7. Prepaid Rent   | __BS__ |
| 3. Capital             | __OE/BS__ | 8. Service Fees   | __IS__ |
| 4. Drawing             | __OE__    | 9. Supplies       | __BS__ |
| 5. Electricity Expense | __IS__    | 10. Wages Expense | __IS__ |

**Section D**

*Directions:* The accounts below all have normal balances. Prepare a trial balance for Aster's Accounting Service as of May 31, 20--. (30 points total)

Accounts Payable	\$ 600	Prepaid Insurance	\$1,200
Accounts Receivable	700	Rent Expense	900
Aster, Capital	9,400	Service Fees	9,200
Aster, Drawing	1,000	Supplies	375
Cash	3,500	Telephone Expense	125
Computers	4,400	Wages Expense	2,000
Office Furniture	5,000		

(Note: Order of accounts listed in the trial balance may vary.)

Aster's Accounting Service  
Trial Balance  
May 31, 20--

Account Title	Debit	Credit
Cash	3,500	
Accounts Receivable	700	
Supplies	375	
Prepaid Insurance	1,200	
Computers	4,400	
Office Furniture	5,000	
Accounts Payable		600
Aster, Capital		9,400
Aster, Drawing	1,000	
Service Fees		9,200
Rent Expense	900	
Telephone Expense	125	
Wages Expense	2,000	
Total	<u>19,200</u>	<u>19,200</u>





## Chapter 3, TEST B

Name \_\_\_\_\_  
Date \_\_\_\_\_

### SCORING RECORD

Section	Total Possible	Deductions	Student Score
A	30		
B	30		
C	10		
D	30		
Total	100		

### Section A

*Directions:* Each of the following statements is true or false. Indicate your choice by writing in the Answers column T for a true answer or F for a false answer. (2 points for each correct answer)

	<u>Answers</u>	<u>For Scoring</u>
1. A T account is used to keep track of the increases or decreases in the individual assets, liabilities, owner's equity, revenues, and expenses of a business entity.	__T__	_____
2. Debit means left and credit means right.	__T__	_____
3. The difference between the debit side total and the credit side total of an account is called the balance.	__T__	_____
4. Because assets are on the left side of the accounting equation, they are decreased by a debit and increased by a credit.	__F__	_____
5. Liability accounts normally have credit balances.	__T__	_____
6. Every time one account is increased, another account must be decreased.	__F__	_____
7. If Pauli received \$500 in cash and \$1,000 on account from customers for services provided during the month, accounts receivable would be credited for \$1,500.	__F__	_____
8. Carlos withdrew \$700 for personal use. This transaction decreases cash and decreases owner's equity.	__T__	_____
9. Wade paid his company's \$150 telephone bill for the month. The cash account should be credited and a prepaid asset account should be debited.	__F__	_____
10. Prepaid insurance is an asset account.	__T__	_____
11. When equipment is purchased, an expense account is debited for the amount of the purchase.	__F__	_____
12. All of the debit balances from the trial balance are carried over to the balance sheet.	__F__	_____
13. If the totals in both columns of a trial balance are equal, it proves that all of the individual account balances are correct.	__F__	_____
14. A trial balance is used to prove that assets plus liabilities equals owner's equity.	__F__	_____
15. A trial balance is often used when preparing financial statements.	__T__	_____

### Section B

*Directions:* Complete each of the following statements by writing in the Answers column the letter of the word or words that correctly completes each statement or answers the question. (3 points each)

	<u>Answers</u>	<u>For Scoring</u>
1. A debit (A) decreases cash; (B) decreases revenues; (C) increases owner's equity; (D) decreases drawing; (E) increases liabilities.	<u>  B  </u>	<u>      </u>
2. Net income appears in which financial statements? (A) Balance Sheet; (B) Income Statement; (C) Statement of Owner's Equity; (D) A & B; (E) B & C.	<u>  E  </u>	<u>      </u>
3. The normal balance is a credit in a(n) (A) asset account; (B) owner's equity account; (C) expense account; (D) drawing account; (E) none of these.	<u>  B  </u>	<u>      </u>
4. Examples of expenses are (A) wages; (B) rents; (C) advertising; (D) utilities; (E) all of these.	<u>  E  </u>	<u>      </u>
5. The capital account (A) decreases with increased revenues; (B) decreases with an investment; (C) decreases with increased expenses; (D) has a normal debit balance; (E) always has a balance equal to the cash account.	<u>  C  </u>	<u>      </u>
6. Ernst Elf pays his company's bill for two years of insurance coverage. The transaction (A) increases the drawing account and decreases an asset account; (B) includes a debit to the cash account; (C) decreases an asset account and a liability account; (D) increases expenses; (E) decreases one asset account and increases another asset account.	<u>  E  </u>	<u>      </u>
7. The trial balance should (A) only be completed if you think there is a problem; (B) list all of the accounts for the business even if they do not have a balance; (C) be submitted to the owner as a formal report for the business; (D) always balance; (E) all of these.	<u>  D  </u>	<u>      </u>
8. A purchase of equipment on account (A) decreases cash; (B) increases an asset; (C) decreases owner's equity; (D) decreases expenses; (E) decreases revenue.	<u>  B  </u>	<u>      </u>
9. The fact that each transaction has a dual effect on the accounting elements provides the basis for what is called (A) single-entry accounting; (B) compound-entry accounting; (C) multiple-entry accounting; (D) double-entry accounting; (E) duplicate-entry accounting.	<u>  D  </u>	<u>      </u>
10. Which of these always cause a decrease in owner's equity? (A) an increase in expenses and an increase in revenue; (B) a decrease in expenses and a decrease in revenue; (C) a decrease in expenses and a decrease in capital; (D) a decrease in expenses and an increase in revenue; (E) none of these.	<u>  E  </u>	<u>      </u>

**Section C**

*Directions:* Indicate the normal balance (debit or credit) for each of the following accounts. (1 point each)

- |                        |                    |
|------------------------|--------------------|
| 1. Owner's Drawing     | _____ Debit _____  |
| 2. Accounts Receivable | _____ Debit _____  |
| 3. Accounts Payable    | _____ Credit _____ |
| 4. Rent Expense        | _____ Debit _____  |
| 5. Supplies            | _____ Debit _____  |
| 6. Cash                | _____ Debit _____  |
| 7. Prepaid Insurance   | _____ Debit _____  |
| 8. Notes Payable       | _____ Credit _____ |
| 9. Owner's Capital     | _____ Credit _____ |
| 10. Equipment          | _____ Debit _____  |

**Section D**

Fabio Fox has started his own taxi service. During the first month, the following transactions occurred.

- (a) Fabio invested \$120,000 cash in the business.
- (b) Cellular phone equipment was purchased with cash for \$1,800.
- (c) Fabio purchased a taxi by paying \$3,000 cash and \$27,000 on account.
- (d) Fabio paid a cell phone bill for the first month, \$100.
- (e) A \$500 payment was made on account for the taxi.
- (f) Fabio received \$4,700 from customers.
- (g) At the end of the month, Fabio owed Best Bookkeeping \$450 for bookkeeping services received.

*Directions:* Record the above transactions in the T accounts provided on the next page. Foot and balance the accounts. Prove debits equal credits. (30 points total)

Cash		Accounts Payable		F. Fox, Capital	
(a) 120,000	(b) 1,800	(e) 500	(c) 27,000		(a) 120,000
(f) 4,700	(c) 3,000		(g) 450		
	(d) 100		Bal. 26,950		
	(e) 500				
104,700	5,400				
Bal 119,300					
Cellular Phone Equip.		Cell Phone Expense		Service Fees	
(b) 1,800		(d) 100			(f) 4,700
Taxi		Bookkeeping Expense			
(c) 30,000		(g) 450			
Debits:		Credits:			
Cash	\$119,300	F. Fox, Capital	\$120,000		
Cellular Phone Equipment	1,800	Accounts Payable	26,950		
Taxi	30,000	Service Fees	4,700		
Cell Phone Expense	100				
Bookkeeping Expense	450				
Total Debits	<u>\$151,650</u>	Total Credits	<u>\$151,650</u>		

## Chapter 3, TEST A

Name \_\_\_\_\_  
Date \_\_\_\_\_

### SCORING RECORD

Section	Total Possible	Deductions	Student Score
A	30		
B	30		
C	10		
D	30		
Total	100		

### Section A

*Directions:* Each of the following statements is true or false. Indicate your choice by writing in the Answers column T for a true answer or F for a false answer. (2 points for each correct answer)

	<u>Answers</u>	<u>For Scoring</u>
1. One business transaction has a single-entry effect upon the accounting elements; two business transactions together have a dual-entry effect on accounting elements.	_____	_____
2. A T account has three parts: the title, the debit side, and the credit side.	_____	_____
3. To credit an account is to enter an amount on the right side of the account.	_____	_____
4. For every account, the total dollar amount on the credit side is called the balance.	_____	_____
5. Debit always means decrease and credit always means increase.	_____	_____
6. A normal balance is the side of an account that is increased.	_____	_____
7. An increase in an expense decreases owner's equity.	_____	_____
8. Revenues increase owner's equity; therefore, they should always be recorded directly on the credit side of the owner's capital account.	_____	_____
9. If a transaction has one debit, it can only have one credit.	_____	_____
10. If Damen's delivery fees for the month include \$800 on account from customers and \$300 in cash, the revenue account increases \$1,100.	_____	_____
11. Prepaid insurance is an asset because it will provide future benefits.	_____	_____
12. Withdrawals of cash by the owner for personal reasons decrease owner's equity and should be debited directly to the owner's capital account.	_____	_____
13. The sum of the debits must equal the sum of the credits on the trial balance.	_____	_____
14. A trial balance is a list of accounts showing the title and the balance of each account.	_____	_____
15. The trial balance is a formal statement just like the income statement, the owner's equity statement, and the balance sheet.	_____	_____

**Section B**

*Directions:* Complete each of the following statements by writing in the Answers column the letter of the word or words that correctly completes each statement or answers the question. (3 points each)

	<u>Answers</u>	<u>For Scoring</u>
1. The assets of a business may consist of a number of items, such as (A) accounts payable; (B) cash; (C) delivery fees; (D) drawing; (E) none of these.	_____	_____
2. Totals on the debit and credit sides to determine the balance of an account are known as (A) footings; (B) credits; (C) debits; (D) rulings; (E) revenues.	_____	_____
3. The normal balance is a debit in a (A) liability account; (B) revenue account; (C) debt account; (D) capital account; (E) drawing account.	_____	_____
4. When a loan is paid, a(n) (A) liability account is debited; (B) expense account is debited; (C) asset account is debited; (D) revenue account is credited; (E) drawing account is debited.	_____	_____
5. Investment of cash in a business (A) increases revenue; (B) decreases capital; (C) increases drawing; (D) increases cash; (E) decreases drawing.	_____	_____
6. The financial statement prepared first is the (A) Statement of Financial Condition; (B) Statement of Owner's Equity; (C) Income Statement; (D) Balance Sheet; (E) any one of these statements can be prepared first.	_____	_____
7. Cash received on account affects (A) cash and accounts payable; (B) cash and accounts receivable; (C) accounts receivable and revenue; (D) accounts receivable and accounts payable; (E) cash and owner's equity.	_____	_____
8. Payment of office rent represents an increase in (A) revenues; (B) cash; (C) a liability account; (D) drawing; (E) expenses.	_____	_____
9. The trial balance is (A) a list of revenues showing the title and balance of each account; (B) used as an aid in preparing the balance sheet; (C) reported to the federal government; (D) a formal state or report; (E) all of these.	_____	_____
10. After the Statement of Owner's Equity is prepared, which of the following is carried over to the Balance Sheet? (A) Net Income; (B) Ending Drawing Balance; (C) Ending Capital Balance; (D) Total Assets; (E) none of these.	_____	_____







## Chapter 3, TEST B

Name \_\_\_\_\_  
Date \_\_\_\_\_

### SCORING RECORD

Section	Total Possible	Deductions	Student Score
A	30		
B	30		
C	10		
D	30		
Total	100		

### Section A

*Directions:* Each of the following statements is true or false. Indicate your choice by writing in the Answers column T for a true answer or F for a false answer. (2 points for each correct answer)

	<u>Answers</u>	<u>For Scoring</u>
1. A T account is used to keep track of the increases or decreases in the individual assets, liabilities, owner's equity, revenues, and expenses of a business entity.	_____	_____
2. Debit means left and credit means right.	_____	_____
3. The difference between the debit side total and the credit side total of an account is called the balance.	_____	_____
4. Because assets are on the left side of the accounting equation, they are decreased by a debit and increased by a credit.	_____	_____
5. Liability accounts normally have credit balances.	_____	_____
6. Every time one account is increased, another account must be decreased.	_____	_____
7. If Pauli received \$500 in cash and \$1,000 on account from customers for services provided during the month, accounts receivable would be credited for \$1,500.	_____	_____
8. Carlos withdrew \$700 for personal use. This transaction decreases cash and decreases owner's equity.	_____	_____
9. Wade paid his company's \$150 telephone bill for the month. The cash account should be credited and a prepaid asset account should be debited.	_____	_____
10. Prepaid insurance is an asset account.	_____	_____
11. When equipment is purchased, an expense account is debited for the amount of the purchase.	_____	_____
12. All of the debit balances from the trial balance are carried over to the balance sheet.	_____	_____
13. If the totals in both columns of a trial balance are equal, it proves that all of the individual account balances are correct.	_____	_____
14. A trial balance is used to prove that assets plus liabilities equals owner's equity.	_____	_____
15. A trial balance is often used when preparing financial statements.	_____	_____

### Section B

*Directions:* Complete each of the following statements by writing in the Answers column the letter of the word or words that correctly completes each statement or answers the question. (3 points each)

	<u>Answers</u>	<u>For Scoring</u>
1. A debit (A) decreases cash; (B) decreases revenues; (C) increases owner's equity; (D) decreases drawing; (E) increases liabilities.	_____	_____
2. Net income appears in which financial statements? (A) Balance Sheet; (B) Income Statement; (C) Statement of Owner's Equity; (D) A & B; (E) B & C.	_____	_____
3. The normal balance is a credit in a(n) (A) asset account; (B) owner's equity account; (C) expense account; (D) drawing account; (E) none of these.	_____	_____
4. Examples of expenses are (A) wages; (B) rents; (C) advertising; (D) utilities; (E) all of these.	_____	_____
5. The capital account (A) decreases with increased revenues; (B) decreases with an investment; (C) decreases with increased expenses; (D) has a normal debit balance; (E) always has a balance equal to the cash account.	_____	_____
6. Ernst Elf pays his company's bill for two years of insurance coverage. The transaction (A) increases the drawing account and decreases an asset account; (B) includes a debit to the cash account; (C) decreases an asset account and a liability account; (D) increases expenses; (E) decreases one asset account and increases another asset account.	_____	_____
7. The trial balance should (A) only be completed if you think there is a problem; (B) list all of the accounts for the business even if they do not have a balance; (C) be submitted to the owner as a formal report for the business; (D) always balance; (E) all of these.	_____	_____
8. A purchase of equipment on account (A) decreases cash; (B) increases an asset; (C) decreases owner's equity; (D) decreases expenses; (E) decreases revenue.	_____	_____
9. The fact that each transaction has a dual effect on the accounting elements provides the basis for what is called (A) single-entry accounting; (B) compound-entry accounting; (C) multiple-entry accounting; (D) double-entry accounting; (E) duplicate-entry accounting.	_____	_____
10. Which of these always cause a decrease in owner's equity? (A) an increase in expenses and an increase in revenue; (B) a decrease in expenses and a decrease in revenue; (C) a decrease in expenses and a decrease in capital; (D) a decrease in expenses and an increase in revenue; (E) none of these.	_____	_____

**Section C**

*Directions:* Indicate the normal balance (debit or credit) for each of the following accounts. (1 point each)

1. Owner's Drawing \_\_\_\_\_
2. Accounts Receivable \_\_\_\_\_
3. Accounts Payable \_\_\_\_\_
4. Rent Expense \_\_\_\_\_
5. Supplies \_\_\_\_\_
6. Cash \_\_\_\_\_
7. Prepaid Insurance \_\_\_\_\_
8. Notes Payable \_\_\_\_\_
9. Owner's Capital \_\_\_\_\_
10. Equipment \_\_\_\_\_

**Section D**

Fabio Fox has started his own taxi service. During the first month, the following transactions occurred.

- (a) Fabio invested \$120,000 cash in the business.
- (b) Cellular phone equipment was purchased with cash for \$1,800.
- (c) Fabio purchased a taxi by paying \$3,000 cash and \$27,000 on account.
- (d) Fabio paid a cell phone bill for the first month, \$100.
- (e) A \$500 payment was made on account for the taxi.
- (f) Fabio received \$4,700 from customers.
- (g) At the end of the month, Fabio owed Best Bookkeeping \$450 for bookkeeping services received.

*Directions:* Record the above transactions in the T accounts provided on the next page. Foot and balance the accounts. Prove debits equal credits. (30 points total)

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Debits:

Credits: