



## Test Bank Chapter 3 for Financial Accounting Principles

Financial Accounting Principles (Harvard University)

# CHAPTER 3

## THE ACCOUNTING INFORMATION SYSTEM

### SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES

Item	LO	LO	Bloom's	CPA	AACSB	Item	LO	LO	Bloom's	CPA	AACSB	Item	LO	LO	Bloom's	CPA	AACSB
<b>True-False Statements</b>																	
1.	1	E	K	F	AN	14	2	E	K	F	AN	27	3	E	K	F	AN
2.	1	E	C	F	AN	15	2	E	K	F	AN	28	3	E	K	F	AN
3.	1	M	C	F	AN	16	2	E	K	F	AN	29	4	M	K	F	AN
4.	1	M	C	F	AN	17	2	E	C	F	AN	30	4	E	C	F	AN
5.	2	E	K	F	AN	18	2	M	C	F	AN	31	4	E	K	F	AN
6.	2	E	K	F	AN	19	2	E	K	F	AN	32	4	M	C	F	AN
7.	2	E	C	F	AN	20	2	E	C	F	AN	33	4	E	K	F	AN
8.	2	M	C	F	AN	21	3	E	K	F	AN	34	5	E	C	F	AN
9.	2	E	K	F	AN	22	3	E	K	F	AN	35	5	E	K	F	AN
10	2	E	C	F	AN	23	3	E	K	F	AN	36	5	M	C	F	AN
11.	2	E	C	F	AN	24	3	E	K	F	AN	37	5	M	C	F	AN
12	2	E	C	F	AN	25	3	E	K	F	AN						
13	2	E	K	F	AN	26	3	E	K	F	AN						

LOD: E = Easy M = Medium  
 Bloom's: C = Comprehension K = Knowledge  
 CPA: F = Financial Reporting  
 AACSB: AN = Analytic

**SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES  
(CONT'D)**

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
<b>Multiple Choice Questions</b>																	
38.	1	M	C	F	AN	73.	2	M	C	F	AN	108.	3	M	C	F	AN
39.	1	M	C	F	AN	74.	2	M	C	F	AN	109.	3	M	C	F	AN
40.	1	M	C	F	AN	75.	2	M	C	F	AN	110.	4	M	C	F	AN
41.	1	M	C	F	AN	76.	2	M	C	F	AN	111.	4	M	C	F	AN
42.	1	E	C	F	AN	77.	2	M	C	F	AN	112.	4	M	K	F	AN
43.	1	M	C	F	AN	78.	2	E	C	F	AN	113.	4	E	K	F	AN
44.	1	M	C	F	AN	79.	2	E	C	F	AN	114.	4	E	C	F	AN
45.	1	E	C	F	AN	80.	2	E	C	F	AN	115.	4	M	C	F	AN
46.	1	M	C	F	AN	81.	2	E	C	F	AN	116.	4	M	C	F	AN
47.	1	E	C	F	AN	82.	2	E	C	F	AN	117.	4	E	C	F	AN
48.	1	E	K	F	AN	83.	2	E	C	F	AN	118.	4	E	C	F	AN
49.	1	E	C	F	AN	84.	2	E	K	F	AN	119.	4	E	K	F	AN
50.	1	E	C	F	AN	85.	2	M	C	F	AN	120.	4	M	K	F	AN
51.	1	E	C	F	AN	86.	2	M	C	F	AN	121.	4	E	K	F	AN
52.	1	E	C	F	AN	87.	2	E	C	F	AN	122.	4	M	K	F	AN
53.	1	E	C	F	AN	88.	2	M	C	F	AN	123.	4	E	K	F	AN
54.	1	M	C	F	AN	89.	2	E	C	F	AN	124.	4	E	K	F	AN
55.	1	M	C	F	AN	90.	3	M	C	F	AN	125.	4	M	K	F	AN
56.	1	E	C	F	AN	91.	3	E	K	F	AN	126.	4	M	K	F	AN
57.	1	E	C	F	AN	92.	3	E	K	F	AN	127.	4	E	K	F	AN
58.	1	M	C	F	AN	93.	3	E	K	F	AN	128.	4	E	C	F	AN
59.	2	M	C	F	AN	94.	3	E	K	F	AN	129.	5	M	C	F	AN
60.	2	E	K	F	AN	95.	3	E	K	F	AN	130.	5	M	C	F	AN
61.	2	E	K	F	AN	96.	3	M	K	F	AN	131.	5	M	C	F	AN
62.	2	E	K	F	AN	97.	3	M	C	F	AN	132.	5	M	C	F	AN
63.	2	E	K	F	AN	98.	3	E	K	F	AN	133.	5	E	K	F	AN
64.	2	E	K	F	AN	99.	3	E	K	F	AN	134.	5	M	C	F	AN
65.	2	E	K	F	AN	100.	3	E	K	F	AN	135.	5	M	K	F	AN
66.	2	E	C	F	AN	101.	3	M	K	F	AN	136.	5	M	K	F	AN
67.	2	E	C	F	AN	102.	3	E	K	F	AN	137.	5	M	C	F	AN
68.	2	M	C	F	AN	103.	3	E	K	F	AN	138.	5	M	C	F	AN
69.	2	E	C	F	AN	104.	3	M	C	F	AN	139.	5	E	C	F	AN
70.	2	H	K	F	AN	105.	3	M	C	F	AN	140.	5	H	C	F	AN
71.	2	E	K	F	AN	106.	3	E	C	F	AN	141.	5	M	C	F	AN
72.	2	M	C	F	AN	107.	3	E	C	F	AN	142.	5	M	C	F	AN

LOD: E = Easy M = Medium H = Hard  
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**SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE, LEVEL OF DIFFICULTY, BLOOM'S TAXONOMY, CPA CODES, AND AACSB CODES (CONT'D)**

Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB	Item	LO	LOD	Bloom's	CPA	AACSB
<b>Exercises</b>																	
143.	1	E	C	F	AN	153.	2	M	AP	F	AN	163.	5	E	AP	F	AN
144.	1	E	AP	F	AN	154.	2	M	C	F	AN	164.	5	H	AP	F	AN
145.	1	E	AP	F	AN	155.	2,3	M	AP	F	AN	165.	5	H	AP	F	AN
146.	1	E	AP	F	AN	156.	2,4	E	AP	F	AN	166.	5	E	AP	F	AN
147.	1,2	E	C	F	AN	157.	3	M	AP	F	AN	167.	5	E	AP	F	AN
148.	2	E	C	F	AN	158.	3	E	AP	F	AN	168.	5	M	AP	F	AN
149.	2	E	C	F	AN	159.	3	M	AP	F	AN	169.	5	H	AP	F	AN
150.	2	E	AP	F	AN	160.	3-5	M	AP	F	AN	170.	5	H	AP	F	AN
151.	2	E	C	F	AN	161.	3,5	M	AP	F	AN						
152.	2	E	C	F	AN	162.	4,5	M	AP	F	AN						
<b>Matching</b>																	
171.	2-5	E,M	K	F	AN												
<b>Short-Answer Essay</b>																	
172.	1, 2	H	C	F	AN	174.	2	E	C	F	AN	176.	5	M	C	F	AN
173.	2	E	K	F	AN	175.	3	E	C	F,C	AN	177.	5	H	AP	F	AN
<b>CPA Questions</b>																	
178.	1	H	C	F	AN	180.	3	M	C	F	AN	182.	5	H	AN	F	AN
179.	2	M	K	F	AN	181.	3	M	K	F	AN						

LOD: E = Easy M = Medium H = Hard  
 Bloom's: AN = Analysis AP = Application C = Comprehension K = Knowledge  
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## SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
<b>Learning Objective 1</b>													
1.	TF	39.	MC	45.	MC	50.	MC	55.	MC	144.	Ex	178.	CP
2.	TF	40.	MC	46.	MC	51.	MC	56.	MC	145.	Ex		
3.	TF	41.	MC	47.	MC	52.	MC	57.	MC	146.	Ex		
4.	TF	42.	MC	48.	MC	53.	MC	58.	MC	147.	Ex		
38.	MC	43.	MC	49.	MC	54.	MC	143.	Ex	172.	SAE		
<b>Learning Objective 2</b>													
5.	TF	14.	TF	61.	MC	70.	MC	79.	MC	88.	MC	154.	Ex
6.	TF	15.	TF	62.	MC	71.	MC	80.	MC	89.	MC	155.	Ex
7.	TF	16.	TF	63.	MC	72.	MC	81.	MC	147.	Ex	156.	Ex
8.	TF	17.	TF	64.	MC	73.	MC	82.	MC	148.	Ex	171.	Ma
9.	TF	18.	TF	65.	MC	74.	MC	83.	MC	149.	Ex	172.	SAE
10.	TF	19.	TF	66.	MC	75.	MC	84.	MC	150.	Ex	173.	SAE
11.	TF	20.	TF	67.	MC	76.	MC	85.	MC	151.	Ex	174.	SAE
12.	TF	59.	MC	68.	MC	77.	MC	86.	MC	152.	Ex	179.	CP
13.	TF	60.	MC	69.	MC	78.	MC	87.	MC	153.	Ex		
<b>Learning Objective 3</b>													
21.	TF	27.	TF	94.	MC	100.	MC	106.	MC	158.	Ex	180.	CP
22.	TF	28.	TF	95.	MC	101.	MC	107.	MC	159.	Ex	181.	CP
23.	TF	90.	MC	96.	MC	102.	MC	108.	MC	160.	Ex		
24.	TF	91.	MC	97.	MC	103.	MC	109.	MC	161.	Ex		
25.	TF	92.	MC	98.	MC	104.	MC	155.	Ex	171.	Ma		
26.	TF	93.	MC	99.	MC	105.	MC	157.	Ex	175.	SAE		
<b>Learning Objective 4</b>													
29.	TF	33.	TF	113.	MC	117.	MC	121.	MC	125.	MC	156.	Ex
30.	TF	110.	MC	114.	MC	118.	MC	122.	MC	126.	MC	160.	Ex
31.	TF	111.	MC	115.	MC	119.	MC	123.	MC	127.	MC	162.	Ex
32.	TF	112.	MC	116.	MC	120.	MC	124.	MC	128.	MC	171.	Ma
<b>Learning Objective 5</b>													
34.	TF	130.	MC	135.	MC	140.	MC	162.	Ex	167.	Ex	176.	SAE
35.	TF	131.	MC	136.	MC	141.	MC	163.	Ex	168.	Ex	177.	SAE
36.	TF	132.	MC	137.	MC	142.	MC	164.	Ex	169.	Ex	182.	CP
37.	TF	133.	MC	138.	MC	160.	Ex	165.	Ex	170.	Ex		
129.	MC	134.	MC	139.	MC	161.	Ex	166.	Ex	171.	Ma		

Note: TF = True/False  
Ex = Exercise

MC = Multiple Choice  
SAE = Short-Answer Essay

Ma = Matching  
CP = CPA

## CHAPTER LEARNING OBJECTIVES

1. **Analyze the effects of transactions on the accounting equation.** Each business transaction has a dual effect on the accounting equation:  $\text{assets} = \text{liabilities} + \text{shareholders' equity}$ . For example, if an individual asset is increased, there must be a corresponding decrease in another asset, or an increase in a specific liability, or an increase in shareholders' equity.
2. **Explain how accounts, debits, and credits are used to record transactions.** The terms *debit* and *credit* mean the same thing as *left* and *right*, respectively. Assets, dividends declared, and expenses are increased by debits and decreased by credits. The normal balance of these accounts is a debit balance (the increase side). Liabilities, common shares, retained earnings, and revenues are increased by credits and decreased by debits. The normal balance of these accounts is a credit balance (the increase side).
3. **Journalize transactions in the general journal.** The initial record of a transaction is entered in a general journal. The journal discloses in one place the complete effect of a transaction, provides a chronological record of transactions, and helps prevent or locate errors because the debit and credit amounts for each entry can be readily compared.
4. **Post transactions to the general ledger.** Posting is the process of transferring journal entries from the general journal to the general ledger. This accumulates the effects of the journalized transactions in the individual ledger accounts.
5. **Prepare a trial balance.** A trial balance is a list of accounts and their balances at a specific time. The main purpose of the trial balance is to prove the mathematical equality of debits and credits after posting. A trial balance also can help uncover errors in journalizing and posting and is useful in preparing financial statements.

## TRUE-FALSE STATEMENTS

1. Economic events that require recording in the accounting records are called accounting transactions.
2. Revenue is only recorded when cash is received.
3. Collection of an account receivable will increase total assets.
4. Cash received from a customer in advance of work being performed or goods provided is recorded as revenue.
5. In its simplest form, a T account consists of three parts: (1) its title, (2) a left or credit side and (3) a right or debit side.
6. An individual accounting record for a specific asset, liability or shareholders' equity item is called an account.
7. A debit increases an account and a credit decreases an account.
8. If a revenue account is credited, this must increase shareholders' equity.
9. The normal balance of a liability account is a debit.
10. A credit means that an account has been increased.
11. A decrease in a liability account is recorded by a debit.
12. An increase in an asset is recorded by a debit.
13. The double-entry system of accounting refers to the placement of a double line at the end of a column of figures.
14. The double-entry accounting system records the dual effect of each transaction.
15. The normal balance of an asset is a credit.
16. The normal balance of the Dividends Declared account is a debit.

17. Assets are decreased with a credit.
18. An expense account is a subdivision of the retained earnings account and decreases shareholders' equity.
19. Revenues are a subdivision of shareholders' equity.
20. Under the double-entry system, revenues must always equal expenses.
21. The first step in the recording process is entering the transaction into the general journal.
22. Source documents can provide evidence that a transaction has occurred.
23. Each transaction must be analyzed in terms of its effect on the accounts before it can be recorded in a journal.
24. The journal is a chronological record of all transactions.
25. The account titles used in journalizing transactions need not be identical to the account titles in the ledger.
26. Entering transactions into the journal is called posting.
27. The account to be credited is entered first in a journal entry.
28. A compound journal entry affects more than two accounts.
29. The chart of accounts is a special ledger used in accounting systems.
30. A general ledger should be arranged in financial statement order beginning with the statement of financial position accounts.
31. The chart of accounts is the framework for the accounting database.
32. Posting is the process of proving the equality of debits and credits in the trial balance.



33. A list of accounts and their account numbers is called the chart of accounts.
34. A trial balance can still balance even if an entry is posted to the wrong account.
35. The main purpose of the trial balance is to check that debits equal credits.
36. If a journal entry is posted twice, this will be discovered by preparing a trial balance.
37. The retained earnings on the trial balance prepared immediately after posting represents the retained earnings at the beginning of the period.

**ANSWERS TO TRUE-FALSE STATEMENTS**

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

## MULTIPLE CHOICE QUESTIONS

38. If total assets are increased, there must be a corresponding
- (a) increase in liabilities only.
  - (b) increase in shareholders' equity only.
  - (c) increase in liabilities and decrease in shareholders' equity.
  - (d) increase in liabilities and/or increase in shareholders' equity.
39. An increase in the Dividends Declared account will result in
- (a) an increase in the Retained Earnings account.
  - (b) an increase in expenses.
  - (c) a decrease in the Retained Earnings account.
  - (d) a decrease in expenses.
40. Prepaid expenses are recorded as
- (a) expenses on the income statement.
  - (b) assets on the statement of financial position.
  - (c) revenues on the income statement.
  - (d) liabilities on the statement of financial position.
41. The payment of an account payable
- (a) decreases total assets.
  - (b) increases total assets.
  - (c) has no effect on total assets.
  - (d) increases total liabilities.
42. Shareholders' equity is increased by
- (a) dividends declared.
  - (b) revenues.
  - (c) expenses.
  - (d) liabilities.
43. If total liabilities increased by \$22,500, then
- (a) assets must have increased by \$22,500.
  - (b) only shareholders' equity must have increased by \$22,500.
  - (c) assets must have increased by \$22,500, or shareholders' equity must have decreased by \$22,500.
  - (d) assets and shareholders' equity must have both decreased by \$22,500.
44. Collection of an \$800 accounts receivable
- (a) increases an asset \$800; decreases a liability \$800.
  - (b) decreases a liability \$800; increases shareholders' equity \$800.
  - (c) decreases an asset \$800; decreases a liability \$800.
  - (d) has no effect on total assets.
45. If an individual asset is increased, then

- (a) there could be an equal decrease in a specific liability.
  - (b) there could be an equal decrease in shareholders' equity.
  - (c) there could be an equal decrease in another asset.
  - (d) none of these is possible.
46. If services are performed on credit, then
- (a) assets will decrease.
  - (b) liabilities will increase.
  - (c) shareholders' equity will increase.
  - (d) liabilities will decrease.
47. If expenses are paid in cash, then
- (a) assets will increase.
  - (b) liabilities will decrease.
  - (c) shareholders' equity will increase.
  - (d) assets will decrease.
48. Accounting systems should record
- (a) all economic events.
  - (b) events that result in a change in assets, liabilities, or shareholders' equity items.
  - (c) only events that involve cash.
  - (d) only events that include revenues, expenses, and cash.
49. An investment by the shareholders in a company increases
- (a) assets and shareholders' equity.
  - (b) assets and liabilities.
  - (c) liabilities and shareholders' equity.
  - (d) assets only.
50. The purchase of an asset for cash
- (a) increases assets and shareholders' equity.
  - (b) increases assets and liabilities.
  - (c) decreases assets and increases liabilities.
  - (d) has no effect on total assets.
51. The purchase of an asset on credit
- (a) increases assets and shareholders' equity.
  - (b) increases assets and liabilities.
  - (c) decreases assets and increases liabilities.
  - (d) has no effect on total assets.
52. The payment of a liability
- (a) decreases assets and shareholders' equity.
  - (b) increases assets and decreases liabilities.
  - (c) decreases assets and increases liabilities.
  - (d) decreases assets and liabilities.

53. Recording revenue

- (a) increases assets and liabilities.
- (b) increases assets and shareholders' equity.
- (c) increases assets and decreases shareholders' equity.
- (d) has no effect on total assets.

54. A paid dividend

- (a) decreases assets and shareholders' equity.
- (b) increases assets and shareholders' equity.
- (c) increases assets and decreases shareholders' equity.
- (d) decreases assets and increases shareholders' equity.

55. An expense

- (a) decreases assets and liabilities.
- (b) decreases shareholders' equity.
- (c) has no effect on shareholders' equity.
- (d) increases assets and decreases shareholder' equity.

56. Which of the following items has *no* effect on retained earnings?

- (a) expenses
- (b) dividends declared
- (c) revenues
- (d) hiring a new employee

57. A paid income tax instalment

- (a) increases assets and shareholders' equity.
- (b) decreases assets and shareholders' equity.
- (c) increases assets and decreases shareholders' equity.
- (d) decreases assets and increases shareholders' equity.

58. A payment of a portion of accounts payable will

- (a) not affect total assets.
- (b) increase liabilities.
- (c) not affect shareholders' equity.
- (d) decrease net income.

59. Debit and credit can be interpreted to mean

- (a) "bad" and "good," respectively.
- (b) increase and decrease, respectively.
- (c) decrease and increase, respectively.
- (d) either an increase or decrease depending on the account.

60. The left side of a T account is the

- (a) credit side.
- (b) debit side.
- (c) description of the account.

(d) balance of the account.

61. An individual accounting record of increases and decreases in a specific asset, liability, or shareholders' equity item is called a(n)

- (a) single-entry accounting system.
- (b) accounting transaction.
- (c) account.
- (d) normal balance.

62. The equality of debits and credits is the basis for

- (a) the double-entry accounting system.
- (b) the single-entry accounting system.
- (c) the T account.
- (d) all accounting systems.

63. The right side of an account is

- (a) always used to record increases.
- (b) the credit side.
- (c) the debit side.
- (d) always used to record decreases.

64. A T account consists of

- (a) a title, a debit balance, and a credit balance.
- (b) a title, a left side, and a debit balance.
- (c) a title, a debit side, and a credit side.
- (d) a title, a right side, and a debit balance.

65. A T account is

- (a) a way of illustrating the basic form of an account.
- (b) a special account used to record only debits.
- (c) a special account used to record only credits.
- (d) the actual account form used in real accounting systems.

66. A credit to an asset account indicates a(n)

- (a) error.
- (b) credit was made to a liability account.
- (c) decrease in the asset.
- (d) increase in the asset.

67. The normal balance of any account is the

- (a) left side.
- (b) right side.
- (c) side which increases the account.
- (d) side which decreases the account.

68. The double-entry system requires that each transaction must be recorded

- (a) in at least two different accounts.
- (b) in a T account.
- (c) first as a revenue and then as an expense.
- (d) twice.

69. A credit is *not* the normal balance for

- (a) common shares.
- (b) revenues.
- (c) liabilities.
- (d) cash.

70. Which one of the following represents the expanded basic accounting equation?

- (a)  $\text{Assets} = \text{Liabilities} + \text{Common Shares} + \text{Retained Earnings} + \text{Revenues} - \text{Expenses} - \text{Dividends Declared}$ .
- (b)  $\text{Assets} + \text{Liabilities} = \text{Dividends Declared} + \text{Expenses} + \text{Common Shares} + \text{Revenues}$ .
- (c)  $\text{Assets} - \text{Liabilities} - \text{Dividends Declared} = \text{Common Shares} + \text{Revenues} - \text{Expenses}$ .
- (d)  $\text{Assets} = \text{Revenues} + \text{Expenses} - \text{Liabilities}$ .

71. The best interpretation of the word credit is the

- (a) left side of an account.
- (b) increase side of an account.
- (c) right side of an account.
- (d) decrease side of an account.

72. In recording an accounting transaction in a double-entry system,

- (a) the number of accounts to be debited must equal the number of accounts to be credited.
- (b) there must always be entries made on both sides of the accounting equation.
- (c) the amount of the debits must equal the amount of the credits.
- (d) there must only be two accounts affected by any transaction.

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

- (a) Assets                      Debit  
Liabilities                      Credit  
Common Shares              Credit  
Revenues                      Debit  
Expenses                      Credit
- (b) Assets                      Debit  
Liabilities                      Credit  
Common Shares              Credit  
Revenues                      Credit  
Expenses                      Credit
- (c) Assets                      Credit  
Liabilities                      Debit  
Common Shares              Debit  
Revenues                      Credit  
Expenses                      Debit
- (d) Assets                      Debit  
Liabilities                      Credit  
Common Shares              Credit

Revenues	Credit
Expenses	Debit

74. An accountant has debited an asset account for \$5,000 and credited a revenue account for \$10,000. What can be done to complete the recording of the transaction?

- (a) Nothing further can be done.
- (b) Credit a shareholders' equity account for \$5,000.
- (c) Debit another asset account for \$5,000.
- (d) Credit another asset account for \$5,000.

75. An accountant has debited an asset account for \$2,000 and credited an expense account for \$4,000. Which of the following would be the *correct* way to complete the recording of the transaction?

- (a) Credit an asset account for \$4,000.
- (b) Credit a liability account for \$2,000.
- (c) Credit a shareholders' equity account for \$2,000.
- (d) Debit a shareholders' equity account for \$2,000.

76. Which pair of accounts follows the rules of debit and credit in the same manner?

- (a) Accounts Payable and Rent Expense
- (b) Repair and Maintenance Expense and Bank Loan Payable
- (c) Prepaid Insurance and Advertising Expense
- (d) Service Revenue and Accounts Receivable

77. Which of the following is *not* true of the terms debit and credit?

- (a) They can be abbreviated as Dr. and Cr.
- (b) They can be interpreted to mean increase and decrease.
- (c) They can be used to describe the balance of an account.
- (d) They can be interpreted to mean left and right.

78. An account will have a credit balance if the

- (a) credits exceed the debits.
- (b) first transaction entered was a credit.
- (c) debits exceed the credits.
- (d) last transaction entered was a credit.

79. For the basic accounting equation to stay in balance, each transaction recorded must

- (a) affect two or fewer accounts.
- (b) affect two or more accounts.
- (c) always affect exactly two accounts.
- (d) affect the same number of asset and liability accounts.

80. Which of the following statements is true?

- (a) Debits increase assets and increase liabilities.
- (b) Credits decrease assets and decrease liabilities.
- (c) Credits decrease assets and increase liabilities.
- (d) Debits increase liabilities and decrease assets.



81. Assets normally show

- (a) credit balances.
- (b) debit balances.
- (c) debit and credit balances.
- (d) debit or credit balances.

82. A knowledge of the normal balances of accounts would help you spot which of the following as an error in recording?

- (a) a debit balance in the Dividends Declared account
- (b) a credit balance in an expense account
- (c) a credit balance in a liabilities account
- (d) a credit balance in a revenue account

83. If a company has overdrawn its bank balance, then

- (a) the cash account will show a debit balance.
- (b) the cash account will show a credit balance.
- (c) the cash account debits will exceed the cash account credits.
- (d) this cannot be detected by observing the balance of the cash account.

84. Which account below is *not* a subdivision of shareholders' equity?

- (a) Dividends Declared
- (b) Revenues
- (c) Expenses
- (d) Liabilities

85. When a corporation pays a dividend, the

- (a) Cash account will be increased with a debit.
- (b) Dividends Declared account will be increased with a credit.
- (c) Retained Earnings account will be directly increased with a debit.
- (d) Dividends Declared account will be increased with a debit.

86. The Dividends Declared account

- (a) appears on the income statement along with the expenses of the business.
- (b) must show transactions every accounting period.
- (c) is increased with debits and decreased with credits.
- (d) is not a proper subdivision of shareholders' equity.

87. Which of the following statements is *not* true?

- (a) Expenses increase shareholders' equity.
- (b) Expenses have normal debit balances.
- (c) Expenses decrease shareholders' equity.
- (d) Expenses are a negative factor in the calculation of net income.

88. A credit to a liability account

- (a) indicates an increase in the amount owed to creditors.

- (b) indicates a decrease in the amount owed to creditors.
- (c) will always increase shareholders' equity.
- (d) must be accompanied by a debit to an asset account.

89. In the first month of operations, the total of the debit entries to the cash account amounted to \$1,900 and the total of the credit entries to the cash account amounted to \$1,500. Therefore, at the end of the month, the cash account has a

- (a) \$500 credit balance.
- (b) \$900 debit balance.
- (c) \$400 debit balance.
- (d) \$400 credit balance.

90. Which of the following is NOT true regarding the general journal?

- (a) It discloses the complete effect of a transaction.
- (b) It provides a chronological record of transactions.
- (c) It helps to prevent and locate errors.
- (d) Transactions are posted to the general journal.

91. The sequence of steps in the transaction recording process is

- (a) journal ◊ analyze ◊ ledger.
- (b) analyze ◊ journal ◊ ledger.
- (c) journal ◊ ledger ◊ analyze.
- (d) ledger ◊ journal ◊ analyze.

92. In recording accounting transactions, evidence that a transaction has taken place is obtained from

- (a) source documents.
- (b) the bank.
- (c) the public relations department.
- (d) the chart of accounts.

93. The first step in the recording process is to

- (a) prepare financial statements.
- (b) analyze the transaction in terms of its effect on the accounts.
- (c) post to a journal.
- (d) post to the ledger.

94. Evidence that would *not* help with determining the effects of a transaction on the accounts would be a(n)

- (a) cash register sales tape.
- (b) invoice.
- (c) advertising brochure.
- (d) cheque.

95. The usual sequence of steps in the recording process is to

- (a) analyze each transaction, enter the transaction in the journal, and transfer the information to the ledger accounts.

- (b) analyze each transaction, enter the transaction in the ledger, and transfer the information to the journal.
- (c) analyze each transaction, enter the transaction in the book of accounts, and transfer the information to the journal.
- (d) analyze each transaction, enter the transaction in the book of original entry, and transfer the information to the journal.

96. The recording process occurs

- (a) once a year.
- (b) once a month.
- (c) repeatedly during the accounting period.
- (d) infrequently – usually every two or three months.

97. A simple journal entry affects

- (a) one account.
- (b) two accounts.
- (c) two or more accounts.
- (d) three accounts.

98. A journal provides

- (a) the balances for each account.
- (b) information about a transaction in several different places.
- (c) a list of all accounts used in the business.
- (d) a chronological record of transactions.

99. The basic format of a journal would *not* include a(n)

- (a) brief explanation.
- (b) account title column.
- (c) T account.
- (d) date column.

100. Transactions recorded in a journal are done in

- (a) account number order.
- (b) financial statement order.
- (c) alphabetical order.
- (d) chronological order.

101. A journal is *not* useful for

- (a) recording in one place the complete effect of a transaction.
- (b) finding account balances.
- (c) providing a record of transactions.
- (d) locating and preventing errors.

102. A complete journal entry does *not* show

- (a) the date of the transaction.
- (b) the new balance in the accounts affected by the transaction.
- (c) a brief explanation of the transaction.

(d) the accounts and amounts to be debited and credited.

103. The name given to entering transaction data in the journal is

- (a) transacting.
- (b) listing.
- (c) posting.
- (d) journalizing.

104. Which of the following journal entries is recorded correctly in the basic format (ignoring explanations)?

(a) Salaries Expense.....	600	
Cash.....		1,350
Advertising Expense.....	750	
(b) Salaries Expense.....	600	
Advertising Expense.....	750	
Cash.....		1,350
(c) Salaries Expense.....	600	
Advertising Expense.....	750	
Cash.....		1,350
(d)    Cash.....		1,350
Salaries Expense.....	600	
Advertising Expense.....	750	

105. When a company has performed a service but has *not* yet received payment, it

- (a) debits Accounts Receivable and credits Service Revenue.
- (b) debits Service Revenue and credits Accounts Receivable.
- (c) debits Service Revenue and credits Accounts Payable.
- (d) makes no entry until the cash is received.

106. A company that receives money in advance of performing a service

- (a) debits Cash and credits a Prepaid account.
- (b) debits Unearned Revenue and credits Accounts Payable.
- (c) debits Cash and credits Unearned Revenue.
- (d) debits Cash and credits Accounts Receivable.

107. When a company receives a utility bill but will *not* pay it right away, it should

- (a) debit Utilities Expense and credit Accounts Receivable.
- (b) debit Utilities Expense and credit Accounts Payable.
- (c) debit Accounts Payable and credit Utilities Expense.
- (d) make no entry until the bill is paid.

108. When a service has been performed, but no cash has been received, which of the following statements is true?

- (a) No journal entry is made.
- (b) The entry includes a debit to Accounts Payable.

- (c) The entry includes a credit to Unearned Revenue.
- (d) The entry includes a debit to Accounts Receivable.

109. A \$50,000 machine is purchased by paying \$35,000 cash and signing a bank loan payable for the balance. The journal entry should include a

- (a) credit to Bank Loan Payable.
- (b) debit to Cash.
- (c) credit to Accounts Receivable.
- (d) credit to Machinery.

110. After a business transaction has been analyzed and entered in the journal, the next step in the recording process is to transfer the information to

- (a) the company's bank.
- (b) shareholders' equity.
- (c) ledger accounts.
- (d) financial statements.

111. After transaction information has been recorded in the journal, it is transferred to the

- (a) chart of accounts.
- (b) income statement.
- (c) book of original entry.
- (d) ledger.

112. The chart of accounts begins with

- (a) asset accounts.
- (b) liability accounts.
- (c) revenue accounts.
- (d) expense accounts.

113. The purpose of the ledger is to

- (a) record the day's transactions in date order.
- (b) keep a record of documentation to support each transaction.
- (c) keep in one place all information about changes in specific account balances.
- (d) make sure that all assets and liabilities have normal balances at all times.

114. Which of the following accounts probably would be listed before the others in a chart of accounts?

- (a) Buildings
- (b) Insurance Expense
- (c) Dividends Declared
- (d) Service Revenue

115. All transactions

- (a) are entered in the general ledger and then transferred to the general journal.
- (b) are non-economic events that are recorded.
- (c) are recorded and reported.
- (d) are entered in the general journal and posted to the general ledger.

116. Unearned revenues are classified as

- (a) assets on the statement of financial position.
- (b) liabilities on the statement of financial position.
- (c) shareholders' equity on the statement of financial position.
- (d) revenue on the income statement.

117. The Unearned Revenue account is classified as a(n)

- (a) asset.
- (b) revenue.
- (c) expense.
- (d) liability.

118. Which of the following is an asset?

- (a) Service Revenue
- (b) Bank Loan Payable
- (c) Supplies Expense
- (d) Prepaid Rent

119. A person who wants to determine the balance of a particular account should refer to the

- (a) ledger.
- (b) source document.
- (c) chart of accounts.
- (d) journal.

120. The usual ordering of accounts in the general ledger is

- (a) assets, liabilities, shareholders' equity, revenues, and expenses.
- (b) assets, liabilities, shareholders' equity, expenses, and revenues.
- (c) liabilities, assets, shareholders' equity, revenues, and expenses.
- (d) shareholders' equity, assets, liabilities, expenses, and revenues.

121. Management could determine the amounts due from customers by examining which ledger account?

- (a) Service Revenue
- (b) Accounts Payable
- (c) Accounts Receivable
- (d) Supplies

122. The ledger accounts should be arranged in

- (a) date order.
- (b) alphabetical order.
- (c) financial statement order.
- (d) order of appearance in the journal.

123. The procedure of transferring journal entries to the ledger accounts is called

- (a) journalizing.

- (b) analyzing.
- (c) reporting.
- (d) posting.

124. A chart of accounts

- (a) is a chart created in Excel.
- (b) indicates the amount of net income or loss for the period.
- (c) lists the accounts in the ledger.
- (d) shows the balance of each account in the general ledger.

125. Which of the following guidelines should be applied when choosing an account name to be included in the chart of accounts?

- (a) Account names should identify the nature and content of each account.
- (b) Account names should be used consistently.
- (c) Account names should use titles and not explanations.
- (d) All of the above are correct.

126. The principal purpose of posting is to

- (a) help identify errors made in the journal.
- (b) accumulate the effects of journalized transactions in the individual accounts.
- (c) enter transactions directly into the general ledger.
- (d) help determine if the financial statements are ready to be prepared.

127. Posting is performed by transferring information from the

- (a) source documents to the journal.
- (b) ledger to the journal.
- (c) source documents to the ledger.
- (d) journal to the ledger.

128. Crystal Credit recently started work with Carcrashian Ltd. It is her first job and she doesn't have a lot of accounting experience. When recording the sales for the day, she debited sales and credited cash. The entry is

- (a) correct.
- (b) an error.
- (c) an irregularity.
- (d) not necessary.

129. Jane Doe has prepared the trial balance for Braven Corp. Total debits are \$25,678 while total credits are \$30,034. Which of the following errors has Jane likely made?

- (a) a journal entry is posted twice
- (b) a transposition error
- (c) a correct journal entry is not posted
- (d) posted a debit as a credit

130. A trial balance is prepared

- (a) on a monthly basis only.
- (b) on a quarterly basis only.

- (c) on an annual basis only.
- (d) at the end of an accounting period which could be monthly, quarterly or annually.

131. A trial balance will not balance when

- (a) a one-sided entry is posted.
- (b) a journal entry is posted twice.
- (c) a correct journal entry is not posted.
- (d) incorrect accounts are used in journalizing or posting.

132. The trial balance will not balance when

- (a) a transaction is not journalized.
- (b) a correction journal entry is not posted.
- (c) a debit and a credit amount are unequal in a journal entry.
- (d) a journal entry is posted twice.

133. An accounting report that lists all assets, liabilities, and shareholders' equity accounts and their balances at a specific date is called a

- (a) trial balance.
- (b) general journal.
- (c) general ledger.
- (d) chart of accounts.

134. If the sum of the debit column equals the sum of the credit column in a trial balance, it indicates

- (a) no errors have been made.
- (b) no errors can be discovered.
- (c) that all accounts reflect correct balances.
- (d) the mathematical equality of the accounting equation.

135. A trial balance is a listing of the

- (a) transactions in a journal.
- (b) chart of accounts.
- (c) general ledger accounts and balances.
- (d) totals from the journal pages.

136. Usually, a trial balance is prepared

- (a) at the end of each day.
- (b) after each journal entry is posted.
- (c) at the end of an accounting period.
- (d) only when the business is started.

137. A trial balance usually

- (a) lists all the debit balances first, then all the credit balances.
- (b) lists all the credit balances first, then all the debit balances.
- (c) lists all the accounts in alphabetical order.
- (d) lists all the accounts and balances in financial statement order.



138. A trial balance would only help in detecting which one of the following errors?

- (a) a transaction that is not journalized
- (b) a journal entry that is posted twice
- (c) offsetting errors made in recording the transaction
- (d) the debit side of a transaction is posted incorrectly to the ledger

139. A trial balance proves

- (a) the mathematical equality of debits and credits in the ledger.
- (b) the ledger is posted correctly.
- (c) that all transactions have been recorded correctly.
- (d) that all transactions have been posted.

140. If the totals of a trial balance are *not* equal, it could be due to

- (a) a failure to record or post a transaction.
- (b) recording the same incorrect amount for both the debit and the credit parts of a transaction.
- (c) an error in calculating the account balances.
- (d) recording the transaction more than once.

141. Which of the following errors, each considered individually, would cause the trial balance to be out of balance?

- (a) A payment of \$229 to a creditor was posted as a debit to Accounts Payable and a debit of \$229 to Cash.
- (b) Cash received from a customer on account was posted as a debit of \$400 to Cash and a credit of \$400 to Accounts Payable.
- (c) A payment of \$75 for supplies was posted as a debit of \$57 to Supplies and a credit of \$57 to Cash.
- (d) A transaction was not posted.

142. The retained earnings on the trial balance prepared immediately after posting adjusting entries represents the

- (a) retained earnings at the end of the period.
- (b) retained earnings at the beginning of the period.
- (c) net income for the period.
- (d) total shareholders' equity at the trial balance date.

**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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

## EXERCISES

**Ex. 143**

Selected transactions for Markley Ltd. are listed below. Describe the effect of each transaction on assets, liabilities, and shareholders' equity for the following independent transactions:

Sample: Made initial cash investment in the business.

Answer: Increase in assets and increase in shareholders' equity.

1. Paid monthly utility bill.
2. Purchased new office furniture with cash.
3. Paid cash for repair work on security system.
4. Billed customers for services performed.
5. Received cash from customers billed in transaction 4.
6. Dividends declared paid to shareholders.
7. Incurred advertising expenses on account.
8. Paid monthly rent.
9. Received cash from customers at the time service was provided.
10. Paid monthly tax instalment.

**Solution 143** (5 min.)

1. Decrease in assets and decrease in shareholders' equity.
2. No net change in assets.
3. Decrease in assets and decrease in shareholders' equity.
4. Increase in assets and increase in shareholders' equity.
5. No net change in assets.
6. Decrease in assets and decrease in shareholders' equity.
7. Increase in liabilities and decrease in shareholders' equity.
8. Decrease in assets and decrease in shareholders' equity.
9. Increase in assets and increase in shareholders' equity.
10. Decrease in assets and decrease in shareholders' equity.

**Ex. 144**

Analyze the transactions of a business organized as a corporation described below and indicate their effect on the basic accounting equation. Use a plus sign (+) to indicate an increase and a minus sign (–) to indicate a decrease.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
1. Received cash for services provided.	_____		_____		_____
2. Purchased office equipment on credit.	_____		_____		_____

3. Paid employees' salaries.	_____	_____	_____
4. Received cash from customer in payment of his account receivable.	_____	_____	_____
5. Paid telephone bill for the month.	_____	_____	_____
6. Paid for office equipment purchased in transaction 2.	_____	_____	_____
7. Received cash from a customer for work to be done later.	_____	_____	_____
8. Dividends declared were paid.	_____	_____	_____
9. Obtained a loan from the bank.	_____	_____	_____
10. Billed customers for services performed.	_____	_____	_____

**Solution 144** (10 min.)

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Shareholders' Equity</u>
1. Received cash for services provided.	+				+
2. Purchased office equipment on credit.	+		+		
3. Paid employees' salaries.	-				-
4. Received cash from customer in payment of his account receivable.	+,-				
5. Paid telephone bill for the month.	-				-
6. Paid for office equipment purchased in transaction 2.	-		-		
7. Received cash from a customer for work to be done later.	+		+		
8. Dividends declared were paid.	-				-
9. Obtained a loan from the bank.	+		+		
10. Billed customers for services performed.	+				+

**Ex. 145**

Jim Cohen decides to open a courier business near the local university campus. Analyze the following transactions for the month of November in terms of their effect on the basic accounting equation. Record each transaction by increasing (+) or decreasing (-) the dollar amount of each item affected.

1. Jim Cohen invests \$25,000 cash in exchange for common shares to start a courier business on November 1.
2. Purchased bicycles for \$5,000 paying \$3,000 in cash and the remainder due in 30 days.
3. Purchased courier bags for \$1,200 cash.
4. Received a bill from Campus News for \$300 for advertising in the campus newspaper.
5. Cash receipts from customers for courier sales amounted to \$1,600.

6. Paid salaries of \$300 to student workers.
7. Billed the Maple Leaf Football Team \$100 for delivering banners.
8. Paid \$300 to Campus News for advertising that was previously billed in Transaction 4.
9. Jim Cohen was paid dividends of \$700.
10. Received a bill from City Electric for \$200 for utilities for November.

Trans-	Assets				=	Liabilities	+	Shareholders' Equity		
	Cash	Accounts + Receivable	Bicycles	Courier + Bags				Accounts Payable	Common Shares	Retained Earnings
								+ Revenue	- Expenses	
1.										
2.										
3.										
4.										
5.										
6.										
7.										
8.										
9.										
10.										
Totals										

**Solution 145 (20 min.)**

Trans-	Assets				=	Liabilities	+	Shareholders' Equity		
	Cash	Accounts + Receivable	Bicycles	Courier + Bags				Accounts Payable	Common Shares	Retained Earnings
								+ Revenue	- Expenses	
1.	+\$25,000						+\$25,000			
2.	-\$3,000		+\$5,000		+\$2,000					
3.	-\$1,200			+\$1,200						
4.					+\$300					-\$300
5.	+\$1,600							+\$1,600		
6.	-\$300									-\$300
7.		+\$100						+\$100		
8.	-\$300				-\$300					
9.	-\$700									-\$700
10.					+\$200					-\$200
Totals	\$21,100	\$100	\$5,000	\$1,200	\$2,200	\$25,000	\$1,700	-\$800		-\$700

**Ex. 146**

Analyze the following transactions in terms of their effect on the basic accounting equation. Record each transaction by increasing (+) or decreasing (-) the dollar amount of each item affected.

1. Issued shares to investors for \$25,000 cash.

2. Purchased supplies on credit for \$1,500.
3. Billed customers \$2,500 for services provided.
4. Paid for supplies purchased in transaction 2.
5. Paid dividends of \$400 cash to shareholders.
6. Received half of the money from customers billed in transaction 3.
7. Received and paid utility bill for \$75.

Trans-	Assets			=	Liabilities	+	Shareholders' Equity		
	Cash	Accounts +Receivable	Supplies				Accounts Payable	Common Shares	Retained Earnings
1.									
2.									
3.									
4.									
5.									
6.									
7.									
Totals									

**Solution 146 (15 min.)**

Trans-	Assets			=	Liabilities	+	Shareholders' Equity			
	Cash	Accounts +Receivable	Supplies				Accounts Payable	Common Shares	Retained Earnings	
1.	+\$25,000						+\$25,000			
2.			+\$1,500		+\$1,500					
3.		+\$2,500						+\$2,500		
4.	-\$1,500				-\$1,500					
5.	-\$400								-\$400	
6.	+\$1,250	-\$1,250								
7.	-\$75								-\$75	
Totals	\$24,275	\$1,250	\$1,500		\$0		\$25,000	\$2,500	-\$75	-\$400

**Ex. 147**

For each of the following:

- (a) Identify what type of account it is (Asset, Liability, Shareholders' Equity, Revenue, or Expense); and
- (b) its normal balance (debit or credit).

1. Supplies
2. Mortgage Payable
3. Service Revenue
4. Accounts Payable
5. Salaries Expense

6. Common Shares
7. Accounts Receivable
8. Unearned Revenue
9. Income Tax Expense

**Solution 147** (10 min.)

	(a) Type of <u>Account</u>	(b) Normal <u>Balance</u>
1. Supplies.....	Asset	Dr.
2. Mortgage Payable.....	Liability	Cr.
3. Service Revenue.....	Revenue	Cr.
4. Accounts Payable.....	Liability	Cr.
5. Salaries Expense.....	Expense	Dr.
6. Common Shares.....	Shareholders' Equity	Cr.
7. Accounts Receivable.....	Asset	Dr.
8. Unearned Revenue.....	Liability	Cr.
9. Income Tax Expense.....	Expense	Dr.

**Ex. 148**

For each item below, indicate whether the account will be debited or credited:

1. Decrease in Accounts Payable
2. Increase in Dividends Declared
3. Increase in Common Shares
4. Increase in Unearned Revenue
5. Decrease in Mortgage Payable
6. Increase in Prepaid Insurance
7. Decrease in Salaries Expense
8. Decrease in Supplies
9. Increase in Revenues
10. Decrease in Accounts Receivable

**Solution 148** (5 min.)

- |                                   |     |
|-----------------------------------|-----|
| 1. Decrease in Accounts Payable   | Dr. |
| 2. Increase in Dividends Declared | Dr. |
| 3. Increase in Common Shares      | Cr. |
| 4. Increase in Unearned Revenue   | Cr. |
| 5. Decrease in Mortgage Payable   | Dr. |

- |                                     |     |
|-------------------------------------|-----|
| 6. Increase in Prepaid Insurance    | Dr. |
| 7. Decrease in Salaries Expense     | Cr. |
| 8. Decrease in Supplies             | Cr. |
| 9. Increase in Revenues             | Cr. |
| 10. Decrease in Accounts Receivable | Cr. |

**Ex. 149**

For each item below, indicate whether the account will be debited or credited:

1. Decrease in Prepaid Rent
2. Decrease in Revenues
3. Decrease in Unearned Revenues
4. Decrease in Dividends Declared
5. Decrease in Inventory
6. Increase in Salaries Payable
7. Increase in Supplies
8. Increase in Salaries Expense
9. Increase in Accounts Receivable

**Solution 149** (5 min.)

- |                                    |     |
|------------------------------------|-----|
| 1. Decrease in Prepaid Rent        | Cr. |
| 2. Decrease in Revenues            | Dr. |
| 3. Decrease in Unearned Revenues   | Dr. |
| 4. Decrease in Dividends Declared  | Cr. |
| 5. Decrease in Inventory           | Cr. |
| 6. Increase in Salaries Payable    | Cr. |
| 7. Increase in Supplies            | Dr. |
| 8. Increase in Salaries Expense    | Dr. |
| 9. Increase in Accounts Receivable | Dr. |

**Ex. 150**

For each item below, indicate whether the account will be debited or credited:

1. Increase in Salary Expense
2. Decrease in Accounts Payable
3. Increase in Prepaid Insurance
4. Increase in Common Shares



5. Decrease in Supplies
6. Increase in Dividends Declared
7. Increase in Service Revenue
8. Decrease in Accounts Receivable
9. Increase in Rent Expense
10. Decrease in Equipment

**Solution 150** (5 min.)

- |                                    |     |
|------------------------------------|-----|
| 1. Increase in Salary Expense      | Dr. |
| 2. Decrease in Accounts Payable    | Dr. |
| 3. Increase in Prepaid Insurance   | Dr. |
| 4. Increase in Common Shares       | Cr. |
| 5. Decrease in Supplies            | Cr. |
| 6. Increase in Dividends Declared  | Dr. |
| 7. Increase in Service Revenue     | Cr. |
| 8. Decrease in Accounts Receivable | Cr. |
| 9. Increase in Rent Expense        | Dr. |
| 10. Decrease in Equipment          | Cr. |

**Ex. 151**

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

<u>Accounts</u>	<u>Normal Balance</u> <u>Debit or Credit</u>
1. Service Revenue	_____
2. Rent Expense	_____
3. Accounts Receivable	_____
4. Accounts Payable	_____
5. Common Shares	_____
6. Supplies	_____
7. Insurance Expense	_____
8. Dividends Declared	_____
9. Buildings	_____
10. Bank Loan Payable	_____

**Solution 151** (5 min.)

<u>Accounts</u>	<u>Normal Balance</u> <u>Debit or Credit</u>
1. Service Revenue	Credit
2. Rent Expense	Debit

3. Accounts Receivable	<u>Debit</u>
4. Accounts Payable	<u>Credit</u>
5. Common Shares	<u>Credit</u>
6. Supplies	<u>Debit</u>
7. Insurance Expense	<u>Debit</u>
8. Dividends Declared	<u>Debit</u>
9. Buildings	<u>Debit</u>
10. Bank Loan Payable	<u>Credit</u>

**Ex. 152**

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

- |                        |                       |
|------------------------|-----------------------|
| 1. Advertising Expense | 6. Dividends Declared |
| 2. Service Revenue     | 7. Cash               |
| 3. Accounts Payable    | 8. Salaries Expense   |
| 4. Accounts Receivable | 9. Bank Loan Payable  |
| 5. Common Shares       | 10. Insurance Expense |

**Solution 152** (5 min.)

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

**Ex. 153**

Eight transactions are recorded in the following T accounts:

<p style="text-align: center;"><u>Cash</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black; padding-right: 5px;">1. 35,000</td> <td style="width: 50%; padding-left: 5px;">2. 3,500</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;">7. 22,500</td> <td style="padding-left: 5px;">3. 1,950</td> </tr> <tr> <td style="border-right: 1px solid black;"></td> <td style="padding-left: 5px;">4. 2,225</td> </tr> <tr> <td style="border-right: 1px solid black;"></td> <td style="padding-left: 5px;">6. 8,000</td> </tr> <tr> <td style="border-right: 1px solid black;"></td> <td style="padding-left: 5px;">8. 4,500</td> </tr> </table>	1. 35,000	2. 3,500	7. 22,500	3. 1,950		4. 2,225		6. 8,000		8. 4,500	<p style="text-align: center;"><u>Accounts Receivable</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black; padding-right: 5px;">5. 27,500</td> <td style="width: 50%; padding-left: 5px;">7. 22,500</td> </tr> </table>	5. 27,500	7. 22,500
1. 35,000	2. 3,500												
7. 22,500	3. 1,950												
	4. 2,225												
	6. 8,000												
	8. 4,500												
5. 27,500	7. 22,500												
<p style="text-align: center;"><u>Supplies</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black; padding-right: 5px;">3. 1,950</td> <td style="width: 50%;"></td> </tr> </table>	3. 1,950		<p style="text-align: center;"><u>Equipment</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black; padding-right: 5px;">2. 13,500</td> <td style="width: 50%;"></td> </tr> </table>	2. 13,500									
3. 1,950													
2. 13,500													
<p style="text-align: center;"><u>Common Shares</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%; border-left: 1px solid black; padding-left: 5px;">1. 35,000</td> </tr> </table>		1. 35,000	<p style="text-align: center;"><u>Service Revenue</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%; border-left: 1px solid black; padding-left: 5px;">5. 27,500</td> </tr> </table>		5. 27,500								
	1. 35,000												
	5. 27,500												
<p style="text-align: center;"><u>Accounts Payable</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black; padding-right: 5px;">6. 8,000</td> <td style="width: 50%; padding-left: 5px;">2. 10,000</td> </tr> </table>	6. 8,000	2. 10,000	<p style="text-align: center;"><u>Dividends Declared</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black; padding-right: 5px;">8. 4,500</td> <td style="width: 50%;"></td> </tr> </table>	8. 4,500									
6. 8,000	2. 10,000												
8. 4,500													
<p style="text-align: center;"><u>Salaries Expense</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black; padding-right: 5px;">4. 2,225</td> <td style="width: 50%;"></td> </tr> </table>	4. 2,225												
4. 2,225													

Indicate for each debit and each credit: (a) whether an Asset, Liability, Common Shares, Dividends Declared, Revenue, or Expense account was affected and (b) whether the account was increased (+) or (–) decreased. Answers should be presented in the following chart form, in which the first one has been done for you as an example:

Transaction No.	<u>Account Debited</u>		<u>Account Credited</u>	
	Type	Effect	Type	Effect
1.	Asset	+	Common Shares	+
2.				
3.				
4.				
5.				
6.				
7.				
8.				

**Solution 153** (15 min.)

Transaction No.	<u>Account Debited</u>		<u>Account Credited</u>	
	Type	Effect	Type	Effect

1.	(Example)	Asset	+	Common Shares	+
2.		Asset	+	Asset	-
				Liability	+
3.		Asset	+	Asset	-
4.		Expense	+	Asset	-
5.		Asset	+	Revenue	+
6.		Liability	-	Asset	-
7.		Asset	+	Asset	-
8.		Dividends Declared	+	Asset	-

**Ex. 154**

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

Example

0. Cash            (a) Asset account  
                       (b) Debit increases, credit decreases  
                       (c) Normal balance – debit

Accounts

- |                        |                      |
|------------------------|----------------------|
| 1. Accounts Payable    | 5. Service Revenue   |
| 2. Accounts Receivable | 6. Insurance Expense |
| 3. Common Shares       | 7. Bank Loan Payable |
| 4. Dividends Declared  | 8. Equipment         |

**Solution 154** (15 min.)

- |   |  |
|---|--|
| 1. (a) Liability Account<br>(b) Debit decreases, credit increases<br>(c) Normal balance – credit            | 5. (a) Revenue Account<br>(b) Debit decreases, credit increases<br>(c) Normal balance – credit   |
| 2. (a) Asset Account<br>(b) Debit increases, credit decreases<br>(c) Normal balance – debit                 | 6. (a) Expense Account<br>(b) Debit increases, credit decreases<br>(c) Normal balance – debit    |
| 3. (a) Shareholders' Equity Account<br>(b) Debit decreases, credit increases<br>(c) Normal balance – credit | 7. (a) Liability Account<br>(b) Debit decreases, credit increases<br>(c) Normal balance – credit |
| 4. (a) Shareholders' Equity Account<br>(b) Debit increases, credit decreases<br>(c) Normal balance – debit  | 8. (a) Asset Account<br>(b) Debit increases, credit decreases<br>(c) Normal balance – debit      |

**Ex. 155**

Now that you are taking an accounting course, your brother decided to ask you to help him with his own finances. He has kept his receipts, automated teller machine (ATM) slips, and other information for the last week and is ready for you to record the information.

1. Pay stub from his part time job showing net pay of \$249.98 and ATM slip showing deposit of \$249.98.
2. Receipts from grocery store for \$45.89 and \$15.32.
3. Receipt from video store for \$3.44.
4. Notice from the bank that the \$5,500 loan he applied for has been deposited to his account.
5. Receipt for the purchase of his car for \$6,000.
6. Receipt from the garage for maintenance for \$450.00.
7. Receipt from JapanTown Restaurant for \$12.45.
8. Notice of overdue books from the library—the fine is \$5.00.
9. Receipt from the coffee shop for \$4.55.
10. Notice that there is a package for him at the post office.

**Instructions**

- (a) Prepare a list of accounts that you will require and indicate whether each account is a(n) Asset (A), Liability (L), Revenue (R) or Expense (E).
- (b) Prepare journal entries to record the above transactions, identifying them by number. Use cents in your answer. You may omit explanations.

**Solution 155** (15 min.)

(a) List of accounts:

- Cash (A)
- Food/Groceries Expense (E)
- Entertainment Expense (E)
- Car Maintenance Expense (E)
- Miscellaneous Expense (E)
- Car (A)
- Bank Loan Payable (L)
- Account Payable (L)
- Employment Income (R)

Note: Account names may have different titles.

(b) Journal Entries

1. Cash.....	249.98	
Employment Income.....		249.98
2. Food/Groceries Expense (\$45.89 + \$15.32).....	61.21	
Cash.....		61.21
3. Entertainment Expense.....	3.44	
Cash.....		3.44
4. Cash.....	5,500.00	
Bank Loan Payable.....		5,500.00
5. Car.....	6,000.00	
Cash.....		6,000.00

6.	Car Maintenance Expense.....	450.00	
	Cash.....		450.00
7.	Food/Groceries (or Entertainment) Expense.....	12.45	
	Cash.....		12.45
8.	Miscellaneous Expense.....	5.00	
	Accounts Payable.....		5.00
9.	Entertainment Expense.....	4.55	
	Cash.....		4.55
10.	No entry.		

**Ex. 156**

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

CHART OF ACCOUNTS

100	Cash	280	Unearned Revenue
120	Accounts Receivable	300	Common Shares
150	Supplies	350	Retained Earnings
170	Prepaid Insurance	370	Dividends Declared
180	Equipment	400	Service Revenue
220	Accounts Payable	510	Advertising Expense
250	Bank Loan Payable	530	Rent Expense

	Number(s) of account(s) debited	Number(s) of account(s) credited
1. Shareholders invested \$75,000 cash to start the corporation.		
<hr/>		
2. Purchased three photocopier machines for \$120,000, paying \$60,000 cash and signing a 5-year, 3% bank loan for the remainder.		
<hr/>		
3. Purchased \$3,000 paper supplies on credit.		
<hr/>		
4. Cash photocopier revenue received was \$15,000.		
<hr/>		
5. Paid \$250 cash for radio advertising.		
<hr/>		
6. Paid \$800 on account for paper supplies purchased in transaction 3.		
<hr/>		
7. Paid a \$200 cash dividend to shareholders.		

8. Paid \$1,500 cash for rent for the current month.

---

9. Received \$1,200 cash advance from a customer for future copying.

---

10. Billed a customer for \$750 for photocopy work done.

---

11. Paid \$1,800 for a one-year insurance policy.

---

12. Hired four employees to begin work in one month. Weekly salary is \$600 per week.

**Solution 156** (15 min.)

	Number(s) of account(s) debited	Number(s) of account(s) credited
1. Shareholders invested \$75,000 cash to start the corporation.	100	300
2. Purchased three photocopy machines for \$120,000, paying \$60,000 cash and signing a 5-year, 3% bank loan for the remainder.	180	100, 250
3. Purchased \$3,000 paper supplies on credit.	150	220
4. Cash photocopy revenue received was \$15,000.	100	400
5. Paid \$250 cash for radio advertising.	510	100
6. Paid \$800 on account for paper supplies purchased in transaction 3.	220	100
7. Paid a \$200 cash dividend to shareholders.	370	100
8. Paid \$1,500 cash for rent for the current month.	530	100
9. Received \$1,200 cash advance from a customer for future copying.	100	280
10. Billed a customer for \$750 for photocopy work done.	120	400
11. Paid \$1,800 for a one-year insurance policy.	170	100
12. Hired four employees to begin work in one month. Weekly salary is \$600 per week.	no entry	no entry

**Ex. 157**

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

1. Invested \$25,000 in exchange for common shares of the corporation.

2. Hired an employee to be paid \$400 per week, starting tomorrow.
3. Paid six months' rent in advance, \$6,000.
4. Paid the worker's weekly salary.
5. Recorded service revenue earned and received for the week, \$1,750.

**Solution 157** (8 min.)

1. Cash.....	25,000	
Common Shares.....		25,000
2. No entry		
3. Prepaid Rent.....	6,000	
Cash.....		6,000
4. Salaries Expense.....	400	
Cash.....		400
5. Cash.....	1,750	
Service Revenue.....		1,750

**Ex. 158**

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

1. Received \$50,000 from shareholders in payment for common shares issued.
2. Purchased equipment for \$90,000, paying \$30,000 in cash and signing a bank loan for the balance.
3. Paid \$1,200 for a one-year insurance policy.
4. Recorded \$25,000 for services provided on account.
5. Paid salaries of \$6,500.
6. Received \$15,000 in cash for services provided.
7. Collected \$4,000 from customers on account.
8. Received \$2,000 from a new customer for services to be provided next month.

**Solution 158** (8 min.)

1. Cash.....	50,000	
Common Shares.....		50,000
2. Equipment.....	90,000	
Cash.....		30,000
Bank Loan Payable.....		60,000
3. Prepaid Insurance.....	1,200	
Cash.....		1,200
4. Accounts Receivable.....	25,000	
Service Revenue.....		25,000
5. Salaries Expense.....	6,500	
Cash.....		6,500



6.	Cash.....	15,000	
	Service Revenue.....		15,000
7.	Cash.....	4,000	
	Accounts Receivable.....		4,000
8.	Cash.....	2,000	
	Unearned Revenue.....		2,000

**Ex. 159**

The August transactions for AllenKey Limited are presented below:

1. Cash of \$100,000 was invested in AllenKey Limited in exchange for 50,000 common shares.
2. Purchased equipment costing \$25,000 in exchange for a \$15,000 bank loan and paid \$10,000 cash for the remainder.
3. Purchased land costing \$50,000 for cash.
4. Paid \$2,400 cash for a one-year insurance policy.
5. Received \$3,500 cash for services to be performed in September.
6. Received \$5,000 for services previously performed on account.
7. Paid employee salaries for \$13,500.
8. Declared and paid dividends of \$500.

**Instructions**

Prepare the journal entry for each transaction.

**Solution 159**

1.	Cash.....	100,000	
	Common Shares.....		100,000
2.	Equipment.....	25,000	
	Bank Loan Payable.....		15,000
	Cash.....		10,000
3.	Land.....	50,000	
	Cash.....		50,000
4.	Prepaid Insurance.....	2,400	
	Cash.....		2,400
5.	Cash.....	3,500	
	Unearned Revenue.....		3,500
6.	Cash.....	5,000	
	Accounts Receivable.....		5,000
7.	Salaries Expense.....	13,500	
	Cash.....		13,500
8.	Dividends Declared.....	500	
	Cash.....		500

**Ex. 160**

A tabular analysis of the transactions made during December 2018 by Sacha Enterprises Ltd. is shown below. Each increase and decrease in shareholders' equity is explained.

	Assets				=	Shareholders' Equity				
	Cash	Accounts Receivable	Supplies	Inventory		Accounts Payable	Common Shares	Revenues	Expenses	Dividends Declared
Nov.30 Bal.	\$11,000	\$2,800	\$200	\$9,000	\$2,900	\$20,000	\$5,600	\$5,500	\$0	
1.	+10,000					+10,000				Common Shares
2.	-5,000			+15,000	+10,000					
3.	-950		+950							
4.	+2,500	+4,800					+7,300			Service Revenue
5.	-1,000				-1,000					
6.	-500									
7.	-800							-800		-500 Dividend Supplies Expense
8.	+1,250	-1,250								
9.	-1,900							-1,900		Salaries Expense
10.	-1,040							-1,040		Advertising Expense
11.					+1,500			-1,500		Repair & Maintenance expense
12.	-960							-960		Income Tax Expense

**Instructions**

- (a) For each transaction, record the appropriate journal entry.
- (b) Using T Accounts, calculate the ending balance for each account. Note that the opening balance for Expenses is comprised of the following: Salaries Expense of \$3,800, Depreciation Expense of \$1,000, and Supplies Expense of \$700.
- (c) Prepare a trial balance as at December 31, 2018.

**Solution 160**

(a)

1.	Cash.....	10,000	
	Common Shares.....		10,000
2.	Inventory.....	15,000	
	Cash.....		5,000
	Accounts Payable.....		10,000
3.	Supplies.....	950	
	Cash.....		950
4.	Cash.....	2500	
	Accounts Receivable.....	4,800	
	Service Revenue.....		7,300
5.	Accounts Payable.....	1,000	
	Cash.....		1,000
6.	Dividends Declared.....	500	
	Cash.....		500

7.	Supplies Expense.....	800	
	Cash.....		800
8.	Cash.....	1,250	
	Accounts Receivable.....		1,250
9.	Salaries Expense.....	1,900	
	Cash.....		1,900
10.	Advertising Expense.....	1,040	
	Cash.....		1,040
11.	Repair and Maintenance Expense.....	1,500	
	Accounts Payable.....		1,500
12.	Income Tax Expense.....	960	
	Cash.....		960

(b)

<u>Cash</u>		<u>Accounts Receivable</u>		<u>Nov 30 Bal</u>		<u>2,800</u>	
Nov 30 Bal	11,000	(2)	5,000	(4)	4,800	(8)	1,250
(1)	10,000	(3)	950	Dec 31 Bal	6,350		
(4)	2,500	(5)	1,000				
		(6)	500				
		(7)	800				
(8)	1,250	(9)	1,900				
		(10)	1,040				
		(12)	960				
Dec 31 Bal	12,600						

<u>Supplies</u>	
Nov 30 Bal	200
(3)	950
Dec 31 Bal	1,150

<u>Inventory</u>	
Nov 30 Bal	9,000
(2)	15,000
Dec 31 Bal	24,000

<u>Accounts Payable</u>	
	Nov 30 Bal 2,900
(5)	1,000 (2) 10,000
	(11) 1,500
	Dec 31 Bal 13,400

<u>Common Shares</u>	
	Nov 30 Bal 20,000
(1)	10,000
	Dec 31 Bal 30,000

<u>Dividends Declared</u>	
(6)	500
Dec 31 Bal	500

<u>Service Revenue</u>	
	Nov 30 Bal 5,600
(4)	7,300
	Dec 31 Bal 12,900

<u>Salaries Expense</u>	
Nov 30 Bal	3,800
(9)	1,900
Dec 31 Bal	5,700

<u>Repair and Maintenance Expense</u>	
Nov 30 Bal	1,000
(11)	1,500
Dec 31 Bal	2,500

<u>Supplies Expense</u>	
Nov 30 Bal	700
(7)	800
Dec 31 Bal	1,500

Advertising Expense	Income Tax Expense								
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;">(10)</td> <td style="width: 10%; border-bottom: 1px solid black;">1,040</td> </tr> <tr> <td>Dec 31 Bal</td> <td>1,040</td> </tr> </table>	(10)	1,040	Dec 31 Bal	1,040	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;">(12)</td> <td style="width: 10%; border-bottom: 1px solid black;">960</td> </tr> <tr> <td>Dec 31 Bal</td> <td>960</td> </tr> </table>	(12)	960	Dec 31 Bal	960
(10)	1,040								
Dec 31 Bal	1,040								
(12)	960								
Dec 31 Bal	960								

(c)

**SACHA ENTERPRISES LTD.**  
**Trial Balance**  
**December 31, 2018**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$12,600	
Accounts receivable.....	6,350	
Supplies.....	1,150	
Inventory.....	24,000	
Accounts payable.....		\$13,400
Common shares.....		30,000
Dividends declared.....	500	
Service revenue.....		12,900
Salaries expense.....	5,700	
Depreciation expense.....	2,500	
Supplies expense.....	1,500	
Advertising expense.....	1,040	
Income tax expense.....	960	
	<u>\$56,300</u>	<u>\$56,300</u>

**Ex. 161**

You have been hired as the accountant for a newly formed real estate company called Antsy Real Estate Limited. The following business transactions occurred during the month of September, 2018:

1. Shareholders invested \$35,000 in cash for 35,000 common shares to start the corporation.
2. Signed a lease for office space, at \$9,500 per year for five years.
3. Paid \$250 cash for supplies.
4. Purchased equipment for \$12,000, paying \$7,000 in cash and signing a 30-day bank loan payable for the balance.
5. Purchased \$200 of supplies on account.
6. Real estate commission fees billed to clients totalled \$9,700.
7. Paid \$700 cash for the current month's rent.
8. Paid \$100 cash on account for supplies purchased in transaction 5.
9. Received a bill for \$500 for advertising for the current month.
10. Paid \$3,500 cash for office salaries.
11. Paid \$1,000 cash dividends to shareholders.
12. Received a cheque for \$5,000 from a client in payment on account for commissions billed in transaction 6.

**Instructions**

- (a) Record the transactions for September 2018. You may omit explanations.
- (b) Prepare a trial balance.

**Solution 161** (15 min.)

(a)

1. Cash.....	50,000	
Common Shares.....		50,000
2. No entry (not a transaction)		
3. Supplies.....	400	
Cash.....		400
4. Equipment.....	12,000	
Cash.....		5,000
Bank Loan Payable.....		7,000
5. Supplies.....	200	
Accounts Payable.....		200
6. Accounts Receivable.....	9,700	
Fees Earned.....		9,700
7. Rent Expense.....	700	
Cash.....		700
8. Accounts Payable.....	100	
Cash.....		100
9. Advertising Expense.....	500	
Accounts Payable.....		500
10. Salaries Expense.....	3,500	
Cash.....		3,500
11. Dividends Declared.....	1,000	
Cash.....		1,000
12. Cash.....	5,000	
Accounts Receivable.....		5,000

(b)

**ACTION REAL ESTATE LIMITED**  
**Trial Balance**  
**September 30, 2018**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$44,300	
Accounts receivable.....	4,700	
Supplies.....	600	
Equipment.....	12,000	
Accounts payable.....		\$ 600
Bank loan payable.....		7,000
Common shares.....		50,000
Dividends declared.....	1,000	
Fees earned.....		9,700
Rent expense.....	700	

Advertising expense.....	500	
Salaries expense.....	<u>3,500</u>	
Totals.....	<u>\$67,300</u>	<u>\$67,300</u>

**Ex. 162**

The transactions of Finkel Brothers Limited are recorded in the general journal below. You are to post the journal entries to the accounts in the general ledger (use T accounts). After all entries have been posted, you are to prepare a trial balance at September 30, 2018.

General Journal

Date <u>2018</u>	Account Titles and Explanation	<u>Debit</u>	<u>Credit</u>
Sep 1	Cash..... Common Shares..... (Shareholders invested cash in business)	20,000	20,000
4	Vehicles..... Cash..... Bank Loan Payable..... (Paid cash and issued 2-year, 9% bank loan for balance)	40,000	15,000 25,000
8	Rent Expense..... Cash..... (Paid September rent)	1,200	1,200
15	Prepaid Insurance..... Cash..... (Paid one-year liability insurance)	500	500
18	Cash..... Service Revenue..... (Received cash for delivery services)	3,200	3,200
20	Salaries Expense..... Cash..... (Paid salaries for current period)	750	750
25	Utilities Expense..... Accounts Payable..... (Received a bill for September utilities)	125	125
30	Dividends Declared..... Cash..... (Paid dividends)	800	800
30	Accounts Receivable..... Service Revenue..... (Billed customer for delivery service)	1,450	1,450

**Solution 162** (25 min.)

General Ledger

Cash	
9/1	20,000
9/18	3,200
9/30 Bal.	4,950

Accounts Receivable	
9/30	1,450
9/30 Bal.	1,450

Prepaid Insurance	
9/15	500
9/30 Bal.	500

Vehicles	
9/4	40,000
9/30 Bal.	40,000

Accounts Payable	
	9/25 125
	9/30 Bal. 125

Bank Loan Payable	
	9/4 25,000
	9/30 Bal. 25,000

Common Shares	
	9/1 20,000
	9/30 Bal. 20,000

Dividends Declared	
	9/30 800
	9/30 Bal. 800

Service Revenue	
	9/18 3,200
	9/30 1,450
	9/30 Bal. 4,650

Rent Expense	
	9/8 1,200
	9/30 Bal. 1,200

Salaries Expense	
	9/20 750
	9/30 Bal. 750

Utilities Expense	
	9/25 125
	9/30 Bal. 125

**FINKEL BROTHERS LIMITED**  
**Trial Balance**  
**September 30, 2018**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 4,950	
Accounts receivable.....	1,450	
Prepaid insurance.....	500	
Vehicles.....	40,000	
Accounts payable.....		\$ 125
Bank loan payable.....		25,000
Common shares.....		20,000
Dividends declared.....	800	



Service revenue.....		4,650
Rent expense.....	1,200	
Salaries expense.....	750	
Utilities expense.....	125	
Totals.....	<u>\$49,775</u>	<u>\$49,775</u>

**Ex. 163**

Although the trial balance of Howcome Limited shown below is in balance, upon further investigation a number of errors were discovered

**HOWCOME LIMITED  
Trial Balance  
July 31, 2018**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 3,200	
Accounts receivable.....	13,200	
Supplies.....	1,200	
Equipment.....	16,600	
Accounts payable.....		\$19,500
Common shares.....		3,000
Dividends declared.....	3,000	
Service revenue.....		29,500
Salaries expense.....	7,600	
Repair and maintenance expense.....	3,200	
Income tax expense.....	4,000	
Totals.....	<u>\$52,000</u>	<u>\$52,000</u>

An examination of the ledger and journal reveals the following:

1. Each of the above listed accounts has a normal balance.
2. Cash of \$240 received from a customer on account was debited to Cash as \$420 and credited to Accounts Receivable as \$420.
3. Dividends of \$450 paid to shareholders were posted as a credit to Dividends Declared of \$450 and a credit to Cash of \$450.
4. Salaries Expense was posted as \$7,600 rather than the correct amount of \$6,668 to the general ledger.
5. The purchase of equipment on account for \$900 was recorded as a debit to Repair and Maintenance Expense and a credit to Accounts Payable.
6. Services were performed on account for a customer for \$820. Accounts Receivable was debited \$820 and Service Revenue was credited \$82.
7. A payment on account for \$340 was credited to Cash for \$340 and credited to Accounts Payable for \$430.

**Instructions**

Prepare a correct trial balance.

**Solution 163** (25 min.)

**HOWCOME LIMITED  
Trial Balance  
July 31, 2018**

	<u>Debit</u>	<u>Credit</u>
Cash [\$3,200 – \$180 (2)].....	\$ 3,020	
Accounts receivable [\$13,200 + \$180 (2)].....	13,380	
Supplies.....	1,200	
Equipment [\$16,600 + \$900 (5)].....	17,500	
Accounts payable [\$19,500 – \$430– \$340 (7)].....		\$ 18,730
Common shares.....		3,000
Dividends declared [\$3,000 + \$450 + \$450 (3)].....	3,900	
Service revenue [\$29,500 + \$738 (6)].....		30,238
Salaries expense (4).....	6,668	
Repair and maintenance expense [\$3,200 – \$900 (5)].....	2,300	
Income tax expense.....	<u>4,000</u>	
Totals.....	<u>\$51,968</u>	<u>\$51,968</u>

**Ex. 164**

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

1. A payment of \$600 to a creditor was recorded by a debit to Accounts Payable of \$60 and a credit to Cash of \$600.
2. A \$480 payment for a printer was recorded by a debit to Computer Equipment of \$48 and a credit to Cash of \$48.
3. An account receivable in the amount of \$2,000 was collected in full. The collection was recorded by a debit to Cash of \$2,000 and a debit to Accounts Payable of \$2,000.
4. An account payable was paid by issuing a cheque for \$800. The payment was recorded by debiting Accounts Payable \$800 and crediting Accounts Receivable \$800.

**Solution 164** (5 min.)

1. The trial balance totals will be unequal. The credit column will be \$540 higher than the debit column.
2. The trial balance totals will be misstated but not unequal.
3. The trial balance totals will be unequal. The debit column will be \$4,000 higher than the credit column.
4. The trial balance totals will be misstated but not unequal.

**Ex. 165**

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

1. A collection on account of \$550 was journalized and posted as a debit to Cash \$550 and a credit to Service Revenue \$550.
2. A \$1,500 purchase of supplies on account was recorded as a debit of \$1,500 to Equipment and a credit of \$1,500 to Accounts Payable.
3. A purchase of equipment for \$6,000 on account was not recorded.
4. A \$720 receipt on account was recorded as a \$270 debit to Cash and a \$720 credit to

Accounts Receivable.

**Solution 165**

1. The trial balance totals will be misstated but not unequal.
2. The trial balance totals will be misstated but not unequal.
3. The trial balance totals will be misstated but not unequal.
4. The trial balance totals will be unequal. The debit column will be \$450 higher than the credit column.

**Ex. 166**

Archer Corporation is a financial planning service. The account balances at December 31, 2018 are shown below, in alphabetical order:

Accounts Payable.....	\$ 4,000
Accounts Receivable.....	18,000
Bank Loan Payable.....	95,000
Building.....	120,000
Cash.....	18,500
Common Shares.....	149,700
Equipment.....	26,200
Inventory.....	8,100
Land.....	59,600
Retained Earnings.....	30,000
Supplies.....	800
Vehicles.....	27,500

**Instructions**

Prepare a trial balance with the accounts arranged in the correct financial statement order. Include the appropriate heading. Assume all accounts have a normal balance.

**Solution 166** (10 min.)

**ARCHER CORPORATION**  
**Trial Balance**  
**December 31, 2018**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 18,500	
Accounts receivable.....	18,000	
Inventory.....	8,100	
Supplies.....	800	
Equipment.....	26,200	
Vehicles.....	27,500	
Building.....	120,000	
Land.....	59,600	
Accounts payable.....		\$ 4,000
Bank loan payable.....		95,000
Common shares.....		149,700
Retained earnings.....		30,000

Totals.....	<u>\$278,700</u>	<u>\$278,700</u>
-------------	------------------	------------------

**Ex. 167**

The ledger accounts of the Fitness Guru Limited at October 31, 2018 are shown below, in alphabetical order:

Accounts Payable.....	\$ 9,200
Accounts Receivable.....	3,050
Bank Loan Payable.....	29,000
Building.....	64,500
Cash.....	11,800
Common Shares.....	57,100
Dividends Declared.....	4,500
Equipment.....	51,900
Fees Earned.....	6,000
Office Expense.....	3,500
Rent.....	3,500
Retained Earnings.....	43,700
Supplies.....	2,250

**Instructions**

Prepare a trial balance with the ledger accounts arranged in the correct financial statement order. Include the appropriate heading. Assume all accounts have a normal balance.

**Solution 167** (10 min.)

**FITNESS GURU LIMITED  
Trial Balance  
October 31, 2018**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 11,800	
Accounts receivable.....	3,050	
Supplies.....	2,250	
Equipment.....	51,900	
Building.....	64,500	
Accounts payable.....		\$ 9,200
Bank loan payable.....		29,000
Common shares.....		57,100
Dividends declared.....	4,500	
Retained earnings.....		43,700
Fees earned.....		6,000
Rent.....	3,500	
Office expense.....	3,500	
Totals.....	<u>\$145,000</u>	<u>\$145,000</u>

**Ex. 168**

The adjusted trial balance at October 31, 2018 is presented below for Carnegie & Hurst Limited:

**CARNEGIE & HURST LIMITED**

**Trial Balance  
October 31, 2018**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 5,200	
Accounts receivable.....	70,100	
Prepaid insurance.....	19,100	
Supplies.....	2,150	
Equipment.....	34,000	
Accumulated depreciation—equipment.....		\$ 1,700
Building.....	81,785	
Accumulated depreciation—building.....		8,179
Accounts payable.....		39,200
Unearned revenue.....		42,600
Bank loan payable.....		37,100
Common shares.....		69,500
Retained earnings.....		13,700
Service revenue.....		113,300
Salaries expense.....	58,099	
Rent expense.....	25,200	
Insurance expense.....	13,100	
Utilities expense.....	6,650	
Supplies expense.....	4,500	
Depreciation expense.....	3,745	
Interest expense.....	1,500	
Income tax expense.....	150	
Totals.....	<u>\$325,279</u>	<u>\$325,279</u>

**Instructions**

Prepare an income statement, statement of changes in equity, and statement of financial position for the year ended October 31, 2018.

**Solution 168**

**CARNEGIE & HURST LIMITED  
Income Statement  
Year Ended October 31, 2018**

<b>Revenues</b>		
Service revenue.....		\$113,300
<b>Expenses</b>		
Salaries expense.....	\$58,099	
Rent expense.....	25,200	
Insurance expense.....	13,100	
Utilities expense.....	6,650	
Supplies expense.....	4,500	
Depreciation expense.....	3,745	
Interest expense.....	1,500	
Total expenses.....		<u>112,794</u>
Income before income tax.....		506
Income tax expense.....		<u>150</u>
Net income.....		<u>\$ 356</u>

<b>CARNEGIE &amp; HURST LIMITED</b>			
<b>Statement of Changes in Equity</b>			
<b>Year Ended October 31, 2018</b>			
	<u>Common Shares</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
Balance, November 1, 2017	\$69,500	\$13,700	\$83,200
Net income		<u>356</u>	<u>356</u>
Balance, October 31, 2018	<u>\$69,500</u>	<u>\$14,056</u>	<u>\$83,556</u>

**CARNEGIE & HURST LIMITED**  
**Statement of Financial Position**  
**October 31, 2018**

<u>Assets</u>			
<b>Current assets</b>			
Cash.....		\$ 5,200	
Accounts receivable.....		70,100	
Prepaid insurance.....		19,100	
Supplies .....		<u>2,150</u>	
Total current assets.....			\$ 96,550
<b>Property, plant and equipment</b>			
Equipment.....	\$34,000		
Less: Accumulated depreciation.....	<u>1,700</u>	\$32,300	
Building.....	\$81,785		
Less: Accumulated depreciation.....	<u>8,179</u>	<u>73,606</u>	
Total property, plant and equipment.....			<u>105,906</u>
Total assets .....			<u>\$202,456</u>
<u>Liabilities and Shareholders' Equity</u>			
<b>Current liabilities</b>			
Accounts payable.....		\$39,200	
Unearned revenue.....		<u>42,600</u>	
Total current liabilities.....			\$ 81,800
<b>Non-current liabilities</b>			
Bank loan payable.....			<u>37,100</u>
Total liabilities.....			118,900
<b>Shareholders' equity</b>			
Common shares.....		\$69,500	
Retained earnings.....		<u>14,056</u>	<u>83,556</u>
Total liabilities and shareholders' equity.....			<u>\$202,456</u>

**Ex. 169**

The following trial balance for McMurtry Ltd. does *not* balance at December 31, 2018:

**MCMURTRY LTD.**  
**Trial Balance**  
**December 31, 2018**

Debit      Credit

Cash.....	\$15,400	
Accounts receivable.....	6,530	
Supplies.....	1,800	
Building.....	7,350	
Accumulated depreciation—building.....		\$ 2,940
Accounts payable.....		1,980
Salaries payable.....		900
Unearned revenue.....		200
Common shares.....	15,000	
Dividends declared.....		500
Retained earnings.....		8,649
Service revenue.....		8,650
Salaries expense.....	3,700	
Depreciation expense.....	1,270	
Supplies expense.....	1,100	
Income tax expense.....	669	
Totals.....	<u>\$52,819</u>	<u>\$23,819</u>

**Additional Information:**

1. A journal entry to record a \$320 purchase of supplies on account was not recorded or posted.
2. A journal entry to record a customer deposit of \$350 for services not yet performed was debited to Cash and credited to Service Revenue.

**Instructions**

Prepare a corrected trial balance. Journal entries are not required.

**Solution 169**

**MCMURTRY LTD.  
Trial Balance  
December 31, 2018**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$15,400	
Accounts receivable.....	6,530	
Supplies (\$1,800 + \$320).....	2,120	
Equipment.....	7,350	
Accumulated depreciation—equipment.....		\$ 2,940
Accounts payable (\$1,980 + \$320).....		2,300
Salaries payable.....		900
Unearned revenue (\$200 + \$350).....		550
Common shares (normal credit balance).....		15,000
Dividends declared (normal debit balance).....	500	
Retained earnings.....		8,649
Service revenue (\$8,650 – \$350).....		8,300
Salaries expense.....	3,700	
Depreciation expense.....	1,270	
Supplies expense.....	1,100	
Income tax expense.....	669	
Totals.....	<u>\$38,639</u>	<u>\$38,639</u>

**Ex. 170**

The trial balance shown below for Cohen’s Inc. does not balance:

**COHEN’S INC.  
Trial Balance  
October 31, 2018**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 7,710	
Accounts receivable.....	24,650	
Supplies.....	800	
Equipment.....	36,200	
Accumulated depreciation - equipment.....		\$ 6,520
Accounts payable.....		26,020
Salaries payable.....		900
Unearned revenue.....		200
Retained earnings.....		21,847
Service revenue.....		47,221
Salaries expense.....	16,785	
Rent expense.....	12,000	
Depreciation expense.....	3,260	
Supplies expense.....	700	
Income tax expense.....	4,442	
Totals.....	<u>\$106,547</u>	<u>\$102,708</u>

Upon review of the ledger accounts the following errors were identified:

1. A payment on account for \$234 was credited to Cash for \$324 and debited to Accounts Payable for \$234.



2. Supplies expense of \$200 was posted as a credit rather than a debit.
3. Services performed on account for \$810 was posted as a debit to Accounts Receivable for \$810 and a credit to Service Revenue for \$81.
4. The cost of equipment is \$32,600, not \$36,200.
5. A journal entry to record a \$400 purchase of supplies on account was recorded as a debit to Supplies and a credit to Cash.

**Instructions**

Prepare a corrected trial balance. Journal entries are not required.

**Solution 170**

**COHEN'S INC.  
Trial Balance  
October 31, 2018**

	<u>Debit</u>	<u>Credit</u>
Cash (\$7,710 + \$324 – \$234 + \$400).....	\$ 8,200	
Accounts receivable.....	24,650	
Supplies.....	800	
Equipment (report \$32,600 rather than \$36,200).....	32,600	
Accumulated depreciation—equipment.....		\$ 6,520
Accounts payable (\$26,020 + \$400).....		26,420
Salaries payable.....		900
Unearned revenue.....		200
Retained earnings.....		21,847
Service revenue (\$47,221 – \$81 + \$810).....		47,950
Salaries expense.....	16,785	
Rent expense.....	12,000	
Depreciation expense.....	3,260	
Supplies expense (\$700 + \$200 + \$200).....	1,100	
Income tax expense.....	4,442	
Totals.....	<u>\$103,837</u>	<u>\$103,837</u>

**MATCHING QUESTIONS**

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

- |                    |                      |
|--------------------|----------------------|
| A. Account         | F. Journal           |
| B. Normal balance  | G. Posting           |
| C. Debit           | H. Chart of accounts |
| D. Revenue account | I. Trial balance     |
| E. Ledger          | J. Source document   |

- \_\_\_\_ 1. The entire group of accounts maintained by a company
- \_\_\_\_ 2. Transferring journal entries to ledger accounts
- \_\_\_\_ 3. The side which increases an account
- \_\_\_\_ 4. A list of all the accounts used by a company
- \_\_\_\_ 5. An accounting record of increases and decreases in specific assets, liabilities, and shareholders' equity items
- \_\_\_\_ 6. Left side of an account
- \_\_\_\_ 7. Evidence that a transaction has taken place
- \_\_\_\_ 8. Shows the debit and credit effects of specific transactions
- \_\_\_\_ 9. A list of accounts and their balances at a given time
- \_\_\_\_ 10. An account with a normal credit balance

## ANSWERS TO MATCHING

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

## SHORT-ANSWER ESSAY QUESTIONS

### S-AE 172

Provide an explanation for each of the following:

1. Why are investments made by shareholders not recorded as revenue? How should they be recorded?
2. Why is interest not recorded when borrowing and signing a bank loan?
3. Why is an increase in an expense shown as a negative number in the accounting equation?
4. Why is cash received before services are performed not regarded as revenue?
5. Why are dividends declared not recorded as an expense?

### Solution 172

1. Investments made by shareholders are not recorded as revenue because they are not generated from the ordinary operating activities of the company. Instead they are recorded as common shares of the company.
2. No interest is owed at the time that the bank loan is signed. Interest is recorded as it accumulates, which requires the passage of time.
3. Increases in expenses are shown as a negative number in the accounting equation because expenses decrease retained earnings, which in turn decreases shareholders' equity.
4. Cash received before services are performed is regarded as unearned revenue which is a liability account. An obligation or liability exists until the service is performed. Revenue recognition criteria will be covered in Chapter 4.
5. Dividends declared are not an expense because they are not incurred for the purpose of generating revenue. Consequently, they should not be matched against revenues on the income statement. Dividends declared are distributions of retained earnings to shareholders. They are reported on the statement of changes in equity, separately from net income.

### S-A E 173

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

### Solution 173

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

### S-A E 174

Your friend Sheila Student is puzzled about these debits and credits you are both studying in accounting class. “I always thought that debits were bad and credits were good,” she says. “After all, if the bank debits my account, this reduces it, which to my mind is bad, but if they credit it, this increases it, which is good. But according to our accounting instructor, they just mean left and right sides of an account. Can you explain this to me?”

### Instructions

Explain what debits and credits are to your friend.

### Solution 174

Sheila is correct in that, in accounting, “debit” means “left,” and “credit” means “right.” However they are merely directional signals used when recording transactions. So if you enter a number on the left side of an account, you are debiting it, and if you enter a number on the right side, you are crediting the account. This does not mean “good” or “bad,” or even that a credit increases and a debit decreases. Whether a credit increases (or decreases) the account depends on what type of account you are dealing with.

### S-A E 175

Holly Hayweather started her own gardening business a year ago. She knows you are taking an accounting course so you get into a conversation about the details of accounting for transactions. She tells you that because her business is so small she doesn't use a journal but just posts directly to the general ledger. She goes on to say that she doesn't bother with revenue and expense accounts but just records these items in the retained earnings account because that is where they really belong anyway.

### Instructions

Comment on Holly's method of recording information. Include in your response the reasons for, and benefits of, using journals and revenue and expense accounts.

### Solution 175

Even though Holly's business is small, using a journal is a good idea. It will make recording easier—both sides of a transaction will be shown together and it will be easier to find any errors. Holly needs to use revenue and expense accounts so that she will be able to prepare an income statement. She is right that the net amount (net income) will go to retained earnings, but by recording it there initially she does not capture information in a way that is useful and provides information necessary to evaluate the business. If she records everything in the retained earnings account, it will be a lot of work to go back and determine the amount of revenue and expenses. She will need the information on revenue and expenses to help manage her business.

### S-A E 176

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

### Solution 176

The process of preparing a trial balance consists of (1) listing the account titles and their debit or credit balances in the order in which they appear in the general ledger, (2) totalling the debit and credit columns, and (3) proving the equality of the total debits and total credits. The primary purpose of the trial balance is to prove the equality of the debits and credits in the ledger. A trial balance may also uncover errors in journalizing and posting because some errors in journalizing

and posting cause a trial balance to be out of balance. A trial balance does not prove that all transactions have been recorded or that the ledger is correct. The trial balance may balance even when (1) an entire transaction is not journalized, (2) a correct journal entry is not posted, (3) a journal entry is posted twice, (4) incorrect accounts are used in journalizing or posting, or (5) offsetting errors are made in recording the amount of a transaction or posting to the ledger.

### S-A E 177

The following trial balance was obtained from Cloverdale Ltd.'s computer system at the end of the first month of operations, November 30, 2018.

RPT	TR BAL
DPT	ACC MGR
PRIORITY	2
RUN BY	R.HAMES
SEQUENCE	997411
ACCOUNT	BAL
CASH	17700
SUPPLIES	5600
ACC PAY	7500-
BANK LOAN PAY	1200-
COMMON SHARES	5000-
DIVIDENDS DECLARED	500
SERVICE REVENUE	15000-
SALARIES EXP	3500
RENT EXP	900
OFFICE EXP	500
BAL	0 ***TR BAL IS IN BALANCE***

### Instructions

- What features make this report difficult to read?
- Prepare a trial balance in the format shown in the chapter.
- Describe some of the features of a computerized accounting system.

### Solution 177

- The trial balance is difficult to read because
  - The title is not explanatory,
  - Account abbreviations are used,
  - The numbers are not shown in standard currency format,
  - Debits and credits are not separately shown, but are indicated by a "-" for credits,
  - Extraneous information is provided.

(b)

**CLOVERDALE LTD.**  
**Trial Balance**  
**November 30, 2018**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$17,700	
Supplies.....	5,600	
Accounts payable.....		\$ 7,500
Bank loan payable.....		1,200
Common shares.....		5,000
Dividends declared.....	500	
Service revenue.....		15,000
Salaries expense.....	3,500	
Rent expense.....	900	
Office expenses.....	500	
Totals.....	<u>\$28,700</u>	<u>\$28,700</u>

(c) Some of the features of a computerized accounting system include:

1. Journals are kept as files and accounts are maintained in computer databases.
2. Posting of journal entries is usually performed simultaneously after each journal entry is prepared.
3. The computer is usually programmed to flag violations of the normal balance and to print out error or exception reports.
4. Accounts can easily be rearranged in whatever order is wanted.
5. The trial balance is usually balanced because the system will not let you enter an unbalanced journal entry.

**OBJECTIVE FORMAT QUESTIONS**

178. Indicate all of the following that would be recorded in the accounting records:

- (a) Great Escapes Corporation signed a contract to hire Michel Durand to manage their operations in Nice, France.
- (b) The Grey Foxes Ltd., a national baseball team located in Ontario, signed on a new player. A signing bonus of \$200,000 was paid to the player at the time of signing the contract. He will begin playing in six months.
- (c) Show Time Industries Ltd. issued new common shares totalling \$200,000.
- (d) Sage Wick Inc. purchased equipment on account for \$5,000.
- (e) Hillcrest Ltd. received an offer from another company to purchase their old factory site for \$1.6M.
- (f) Tough Corp. signed a contract with Brittle Inc. to purchase \$4,000 in inventory, payable in 30 days.
- (g) Lucky Fabricators Ltd. presented a bid to make a \$56,000 piece of customized equipment to Jill Hill Company Inc.
- (h) Lucky Fabricators Ltd. won the bid to make a \$56,000 piece of customized equipment for Jill Hill Company Inc. The equipment was fabricated and delivered. Jill Hill will pay for the equipment in instalments over six months.

**Solution 178**

Answers (b), (c), (d), (f), and (h) would require an accounting transaction as they all reflect an economic event that changed the company's financial position (assets, liabilities, or shareholders' equity) in a measurable way.

- (a) In this case an accounting transaction has not occurred. Signing a contract to hire an employee does not change the company's financial position. When the employee starts work, an exchange of his service for monetary pay will necessitate a transaction to occur.
- (e) Since Hillcrest Ltd. has not yet accepted the offer, a transaction has not occurred.
- (g) No transaction has occurred. Making a bid does not impact the company's financial position. When the company wins the bid and fabricates the equipment, an accounting transaction will then occur.

179. Select each of the following statements that are always true with regards to financial statements and the relationships between financial statements.

- (a) Retained earnings is reported on both the Statement of Financial Position and the Statement of Changes in Equity.
- (b) Dividends declared is reported on the Statement of Financial Position only.
- (c) The opening balance of common shares is only reported on the Statement of Changes in Equity.
- (d) The ending balances of common shares, retained earnings and total equity are transferred from the Statement of Changes in Equity to the Statement of Financial Position.
- (e) The ending balance of retained earnings is calculated on the Statement of Changes of Equity by adding the net income to the beginning retained earnings balance.
- (f) An accountant must first complete the Statement of Changes in Equity so that they are able to complete the Income Statement.



- (g) The following balances are shown on more than one financial statement: net income, ending retained earnings and ending common shares.
- (h) The order of financial statement preparation is: (1) Statement of Changes in Equity, (2) Income Statement and (3) Statement of Financial Position.

**Solution 179**

- (a), (c), (d), and (g) are correct; (b), (e), (f), and (h) are incorrect.
- (b) Dividends declared is reported on the Statement of Changes in Equity.
- (e) The ending balance of retained earnings is calculated by adding the net income to the beginning balance of retained earnings and then subtracting dividends declared, if any have been declared during the period.
- (f) An accountant must first complete the Income Statement before completing the Statement of Changes in Equity. The net income amount is transferred to the Statement of Changes in Equity in order to calculate the ending balance of retained earnings.
- (h) The correct order of financial statement preparation is (1) Income Statement, (2) Statement of Changes in Equity, and (3) Statement of Financial Position.

180. The following is a selection of journal entries that Canadian Enterprises Ltd. recorded in its first month of operations. Indicate all of the entries that were correctly recorded.

(a)	June 1	Cash Common Shares Cash of \$125,000 was invested in exchange for 12,500 common shares	125,000	125,000
(b)	June 2	Salaries Expense Salaries Payable Hired a new employee with a salary of \$2,000 per month to be paid at the end of each month	2,000	2,000
(c)	June 5	Prepaid Insurance Cash Paid \$2,700 for a one-year insurance policy	2,700	2,700
(d)	June 15	Supplies Accounts Receivable Purchased two months of supplies on account from Biggy Industries for \$450	450	450
(e)	June 22	Cash Sales Sold \$5,000 of merchandise for cash	5,000	5,000
(f)	June 31	Salaries Expense Cash Paid salaries totalling \$5000 to staff	5,000	5,000

(g)	June 31	Utilities Expense	400	
		Cash		400
		Received a bill from Atticus Utilities for \$400 for electricity for June		

**Solution180**

(a), (c), (e), and (f) are correct; (b), (d), and (g) are incorrect.

(b) Hiring an employee does not require an accounting transaction. An accounting transaction will occur when the employee has worked and is paid. No entry should be recorded for this event.

(d) When purchases are made on account, this increases accounts payable, not accounts receivable. The journal entry should be:

Supplies	450	
Accounts Payable		450

(g) Since they only received the bill but have not yet paid it, the transaction should be recorded as follows:

Utilities Expense	450	
Accounts Payable		450

181. Select each of the following statements that are true with regards to journalizing transactions.

- (a) The information recorded in a journal entry includes the date the transaction occurred, the debit account name(s), the credit account name(s), the amounts debited and credited, and a brief explanation of the transaction.
- (b) In a journal, the account to be debited is indented.
- (c) The amounts debited are recorded in the right column and the amounts to be credited are recorded in the left column.
- (d) A compound entry is one where three or more accounts are required in the journal entry.
- (e) Account names should be as specific as possible and may contain a description of the transaction (such as equipment purchased).
- (f) Debit entries are recorded first and then credit entries.
- (g) Companies generally maintain only one type of ledger.
- (h) If debits do not equal credits in a journal entry, an error must have been made.

**Solution 181**

(a), (d), (f), and (h) are correct; (b), (c), (e), and (g) are incorrect.

(b) In a journal entry, the account that is credited is indented.

(c) The amounts debited are recorded in the left column, while the amounts credited are recorded in the right column.

(e) Account names can be specific but not so specific that they describe the transaction that has taken place. All transactions related to vehicles, for instance, should be recorded the vehicle account. It would be confusing if transactions were recorded to truck purchased, car purchased, car sold or other accounts. Using a common name for all transactions related to vehicles will simplify analysis and reporting.

- (g) There can be multiple types of ledgers maintained by companies. For instance, companies can have subsidiary ledgers related to customers and creditors, in addition to their general ledger.

182. The following trial balance was provided for the month of July for Elevated Inc.:

<b>Elevated Inc.</b>			
<b>Trial Balance</b>			
<b>July 31, 2018</b>			
	<u>Debit</u>		<u>Credit</u>
Cash	\$ 8,500		
Accounts Receivable	1,250		
Supplies	500		
Unearned Revenue	3,000		
Equipment	50,580		
Accounts Payable		\$ 1,580	
Bank Loan Payable		24,870	
Common Shares		28,000	
Dividends Declared		500	
Service Revenue		8,500	
Salaries Expense	1,200		
Rent Expense	2,000		
Utilities Expense	480		
	<u>\$ 67,510</u>		<u>\$ 63,450</u>

The accountant for Elevated is concerned that the trial balance is not balancing. Upon further research, the accountant also compiled the following information:

1. A payment on the bank loan of \$5,000 was made on July 31, but not recorded in the journal.
2. A journal entry to record service revenue on account was accidentally recorded as revenue for \$1,250 when it should be \$2,150.
3. The equipment depreciation expense account totalling \$940 was accidentally excluded from the trial balance.
4. The journal entry to record the cash payment of rent totalling \$1,000 for the month was recorded twice.
5. The above trial balance also does not reflect prepaid insurance that was purchased on July 31 totalling \$400. The company must pay this invoice in 30 days.

### Instructions

Select all of the statements that are correct.

- (a) The correct balance for the debit and credit columns should be \$62,250.
- (b) Dividends declared are correctly reflected on the trial balance.
- (c) Both the Accounts Receivable and the Service Revenue account balances need to be increased by \$900.
- (d) The cash balance should be \$3,500.

- (e) Unearned revenue should be credited on the trial balance.
- (f) The accounts payable balance should be \$1,980.
- (g) The bank loan should have a balance of \$24,870.
- (h) The equipment balance on the trial balance should be adjusted.

**Solution 182**

(a), (c), (e), and (f) are correct; (b), (d), (g), and (h) are incorrect.

The following is the corrected trial balance for Elevate Inc.

<b>Elevated Inc.</b>		
<b>Trial Balance</b>		
<b>July 31, 2018</b>		
	<u>Debit</u>	<u>Credit</u>
Cash	\$ 4,500	
Accounts Receivable	2,150	
Supplies	500	
Prepaid Insurance	400	
Equipment	50,580	
Unearned Revenue		\$ 3,000
Accounts Payable		1,980
Bank Loan Payable		19,870
Common Shares		28,000
Dividends Declared	500	
Service Revenue		9,400
Salaries Expense	1,200	
Depreciation Expense	940	
Rent Expense	1,000	
Utilities Expense	480	
	\$ 62,250	\$ 62,250

- (b) As shown above, Dividends Declared should have a debit balance.
- (d) The cash balance should be \$4,500. Original balance = \$8,500 – \$5,000 (payment of loan) + \$1,000 (remove double entry for rent) = \$4,500.
- (g) The bank loan balance should be \$19,870. Original Balance \$24,870 – \$5,000 (payment of loan) = \$19,870.
- (h) The equipment balance is correct on the trial balance. The journal entry to record accumulated depreciation was recorded correctly. The accountant simply forgot to include the accumulated depreciation account on the trial balance.

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