

# Financial Accounting 1

# FORMAT

**ACCT\_130**

فورمات أكاونت 1 (مادة الفيرست)

**CH 1 + 2**

**ضياء الدين صبح**

# FORMAT

## CHAPTER 1

**Accounting in Action**

**المحاسبة في العمل**

## FORMAT ACCT\_130 CH1 (Diyaa Suboh)

### Q1: Circle the correct answer

1. The accounting process includes each of the following except
  - a. communication.
  - b. convergence.
  - c. identification.
  - d. recording.
2. Which of the following events cannot be quantified into dollars and cents and recorded as an accounting transaction?
  - a. The appointment of a new accounting firm to perform an audit.
  - b. The purchase of a new computer.
  - c. The sale of store equipment.
  - d. Payment of income taxes.
3. The accounting process involves all of the following except
  - a. identifying economic events that are relevant to the business.
  - b. communicating financial information to users by preparing financial reports.
  - c. recording non quantifiable economic events.
  - d. analyzing and interpreting financial reports.
4. Which of the following techniques is not used by accountants to interpret and report financial information?
  - a. Graphs.
  - b. Special memos for each class of external users.
  - c. Charts.
  - d. Ratios.
5. Bookkeeping primarily involves which of the following parts of the accounting process?
  - a. Identification.
  - b. Communication.
  - c. Recording.
  - d. Analysis.
6. Which of the following would **not** be considered internal users of accounting data for a company?
  - a. The president of a company.
  - b. The controller of a company.
  - c. Creditors of a company.
  - d. Salesmen of a company.
7. Which of the following is an external user of accounting information?
  - a. Labor unions.
  - b. Finance directors.
  - c. Company officers.
  - d. Managers.
8. Internal users of accounting information include all of following except the
  - a. CEO of Sony.
  - b. Human Resources department at Hyundai.
  - c. Marketing department at Braun.
  - d. Shareholders of Airbus.
9. External users of accounting information include the
  - a. International Accounting Standards Board.
  - b. shareholders of Ferragamo.
  - c. Marketing department at Olivetti.
  - d. CEO of Air Italy.

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10. Financial accounting provides economic and financial information for each of the following except
- creditors.
  - investors.
  - managers.**
  - other external users.
11. Ethics are the standards of conduct by which one's actions are judged as
- right or wrong.
  - honest or dishonest.
  - fair or unfair.
  - All of these answer choices are correct.**
12. The historical cost principle requires that companies record assets at their
- appraisal value.
  - cost.**
  - market price.
  - list price.
13. GAAP stands for
- Generally Accepted Auditing Procedures.
  - Generally Accepted Accounting Principles.**
  - Generally Accepted Auditing Principles.
  - Generally Accepted Accounting Procedures.
14. The Duce Company has five plants nationwide that cost \$200 million. The current fair value of the plants is \$500 million. The plants will be recorded and reported as assets at
- a. **\$200 million.**      b. \$700 million.      c. \$300 million.      d. \$500 million.
15. The fair value principle
- is one of the two costing principles followed by the IASB.
  - is more useful than the historical cost principle for valuing some assets.
  - dictates that an asset should be valued at the price at which it could be sold.
  - All of these answer choices are correct.**
16. Most assets should be valued at cost because fair values
- are not useful for decision-making.
  - may not be representationally faithful.**
  - are not relevant.
  - may be higher or lower than historical cost.
17. Harrod's Inc. purchased land for £55,000 in 2004. At December 31, 2014, an appraisal determined the fair value of the land is £65,000. If Harrod's follows the historical cost principle, in the 2014 financial statements, the land will be reported at
- £55,000 on the statement of financial position.**
  - £65,000 on the statement of financial position.
  - £55,000 on the income statement.
  - £65,000 on the income statement.
18. Hyundai Inc. purchased land for W118,000,000 in 2005. At December 31, 2014, an appraisal determined the fair value of the land is W136,000,000. If Hyundai follows the cost principle, the land will be reported on the statement of financial position at
- W100,000,000.
  - W118,000,000.**
  - W136,000,000.
  - W154,000,000.

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19. Bhumi Corporation purchased an investment in the ordinary shares of another corporation for \$250,000,000 in 2012. The shares are actively traded on the Indonesian Stock Exchange. The fair value of the investment at December 31, 2014 is \$268,000,000. If the company follows the fair value principle, the investment will be reported in the 2014 financial statement at
- \$250,000,000 on the statement of financial position.
  - \$268,000,000 on the statement of financial position.**
  - \$250,000,000 on the retained earnings statement.
  - \$268,000,000 on the retained earnings statement.
20. The proprietorship form of business organization
- must have at least three owners in most states.
  - requires that the owner be personally liable for all debts of the business.**
  - combines the records of the business with the personal records of the owner.
  - is characterized by a legal distinction between the business as an economic unit and the owner.
21. The economic entity assumption requires that the activities
- of different entities can be combined if all the entities are corporations.
  - must be reported to the Securities and Exchange Commission.
  - of a sole proprietorship cannot be distinguished from the personal economic events of its owners.
  - of an entity be kept separate from the activities of its owner.**
22. A business organized as a corporation
- is not a separate legal entity in most countries.
  - requires that shareholders be personally liable for the debts of the business.
  - is owned by its shareholders.**
  - terminates when one of its original shareholders dies.
23. The partnership form of business organization
- is a separate legal entity.
  - is a common form of organization for service-type businesses.**
  - enjoys an unlimited life.
  - has limited liability.
24. A basic assumption of accounting that requires activities of an entity be kept separate from the activities of its owner is referred to as the
- stand alone concept.
  - monetary unit assumption.
  - corporate form of ownership.
  - economic entity assumption.**
25. A business whose owners enjoy limited liability is a
- proprietorship.
  - partnership.
  - corporation.**
  - sole proprietorship.
26. Equity is best depicted by the following:
- Assets = Liabilities.
  - Liabilities + Assets.
  - Residual equity + Assets.
  - Assets – Liabilities.**

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### 27. Liabilities

- a. are future economic benefits.
- b. are existing debts and obligations.**
- c. possess service potential.
- d. are things of value used by the business in its operation.

### 28. Liabilities of a company would not include

- a. notes payable.
- b. accounts payable.
- c. wages payable.
- d. cash.**

### 29. Liabilities of a company are owed to

- a. debtors.
- b. benefactors.
- c. creditors.**
- d. underwriters.

### 30. Equity is often referred to as

- a. residual equity.**
- b. leftovers.
- c. spoils.
- d. second equity.

### 31. When assets are distributed to the shareholders of a corporation, these distributions are termed

- a. depletions.
- b. consumptions.
- c. dividends.**
- d. a credit line.

### 32. Revenues would not result from

- a. sale of merchandise.
- b. issuance of ordinary shares.**
- c. performance of services.
- d. rental of property.

### 33. Equity is decreased by all of the following except

- a. issuance of shares.**
- b. dividends.
- c. expenses.
- d. net losses.

### 34. If total liabilities increased by ¥35,000 and equity increased by ¥10,000 during a period of time, then total assets must change by what amount and direction during that same period?

- a. ¥45,000 decrease
- b. ¥45,000 increase**
- c. ¥60,000 increase
- d. ¥70,000 increase

### 35. If total liabilities decreased by ¥35,000 and equity decreased by ¥10,000 during a period of time, then total assets must change by what amount and direction during that same period?

- a. ¥45,000 increase
- b. ¥25,000 increase
- c. ¥45,000 decrease**
- d. ¥25,000 decrease

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36. On its December 31, 2014 statement of financial position, Adaro Corporation reported liabilities of \$5,132,000,000, share capital of \$2,662,000,000 and retained earnings of \$4,202,000,000. Total assets as of December 31, 2014 are
- \$1,732,000,000.
  - \$4,202,000,000.
  - \$6,864,000,000.
  - \$11,996,000,000.**
37. Benoit Corporation paid dividends totaling €295,000 to its shareholders. This transaction will decrease assets and
- decrease equity by €295,000.**
  - decrease liabilities by €295,000.
  - increase expenses by €295,000.
  - have no effect on the accounting equation.
38. Freirs Company paid the monthly rent of €6,000. This transaction will
- increase Cash and decrease Rent Expense by €6,000.
  - decrease Cash and decrease Rent Expense by €6,000.
  - decrease Cash and increase Rent Expense by €6,000.**
  - have no effect on the accounting equation.
39. On February 1, Potter Company paid £900 for advertisements to run during the month of February. This transaction will
- decrease Cash and increase Advertising Expense by £900.**
  - increase Advertising Expense and increase Accounts Payable by £900.
  - decrease Accounts Payable and decrease Cash by £900.
  - decrease Cash and decrease Advertising Expense by £900.
40. An investment of cash by an owner of a business increases assets and
- increases liabilities.
  - increases equity.**
  - decreases equity.
  - decreases liabilities.
41. The purchase of supplies on account increases assets and
- also decreases assets so there is no net change.
  - increases liabilities.**
  - decreases equity.
  - increases equity.
42. Equity is increased by
- dividends.
  - revenues.**
  - expenses.
  - liabilities.
43. If total liabilities increased by \$6,000, then
- assets must have decreased by \$6,000.
  - equity must have increased by \$6,000.
  - assets must have increased by \$6,000, or equity must have decreased by \$6,000.**
  - assets and equity each increased by \$3,000.
44. Net income results when
- Assets > Liabilities.
  - Revenues = Expenses.
  - Revenues > Expenses.**
  - Revenues < Expenses.
45. Which of the following is **not** part of the accounting process?
- Recording
  - Identifying
  - Financial decision making**
  - Communicating

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46. The first part of the accounting process is

- a. communicating.
- b. **identifying.**
- c. processing.
- d. recording.

47. Internal users of accounting information include all of the following except

- a. company officers.
- b. **investors.**
- c. marketing managers.
- d. production supervisors.

48. A proprietorship is a business

- a. **owned by one person.**
- b. owned by two or more persons.
- c. organized as a separate legal entity under state corporation law.
- d. owned by a governmental agency.

49. Fontaine Fox Company buys a \$12,000 van on credit. This transaction will affect the

- a. income statement only.
- b. **statement of financial position only.**
- c. income statement and retained earnings statement only.
- d. income statement, retained earnings statement, and statement of financial position.

50. A net loss will result during a time period when

- a. assets exceed liabilities.
- b. **assets exceed equity.**
- c. expenses exceed revenues.
- d. revenues exceed expenses.

**Q2: Indicate whether each of the following statements is true or false**

- False 1. Management of a business enterprise is the major external user of information.
- True 2. Accounting communicates financial information about a business enterprise to both internal and external users.
- False 3. Accounting information is used only by external users with a financial interest in a business enterprise
- True 4. Financial statements are the major means of communicating accounting information to interested parties.
- False 5. Bookkeeping and accounting are one and the same because the bookkeeping function includes the accounting process.
- True 6. The two primary accounting standard-setting bodies are the International Accounting Standards Board and the Financial Accounting Standards Board.
- True 7. The economic entity assumption requires that the activities of an entity be kept separate and distinct from the activities of its owner and all other economic entities
- True 8. The monetary unit assumption states that transactions that can be measured in terms of money should be recorded in the accounting records.
- False 9. Owners' claims to total business assets take precedence over the claims of creditors because owners invest assets in the business and are liable for losses.
- False 10. The basic accounting equation states that Assets = Liabilities.
- False 11. Expenses are increases in equity that result from operating the business.
- True 12. Accountants record both internal and external transactions.
- True 13. The purchase of office equipment on credit increases total assets and total liabilities.
- True 14. The statement of financial position is also known as the balance sheet.



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- False 15. Identifying is the process of keeping a chronological diary of events measured in dollars and cents
- False 16. Accountants do not have to worry about issues of ethics.
- False 17. The monetary unit assumption requires that all dollar amounts be rounded to the nearest dollar.
- True 18. The basic accounting equation is in balance when the creditor and ownership claims against the business equal the assets.
- True 19. External transactions involve economic events between the company and some other enterprise or party.
- False 20. In the retained earnings statement, revenues are listed first, followed by expenses, and net income (or net loss).

### Q3: Match the following terms and definitions.

- a. Accounts receivable                      c. Accounts payable  
b. Creditor                                      d. Note payable

- \_\_\_\_\_ (1) Amounts due from customers  
\_\_\_\_\_ (2) Amounts owed to suppliers for goods and services purchased  
\_\_\_\_\_ (3) Amounts owed to bank  
\_\_\_\_\_ (4) Party to whom money is owed

**Answer:** 1. a      2. c      3. d      4. b

### Q4: Indicate which of these items is an asset (A), liability (L) or equity (E) account.

- \_\_\_\_\_ (1) Supplies                              \_\_\_\_\_ (2) Dividends  
\_\_\_\_\_ (3) Buildings                              \_\_\_\_\_ (4) Note Payable                      \_\_\_\_\_ (5) Taxes Payable

**Answer:** 1. Assets (A)      2. Equity (E)      3. Asset (A)      4. Liability (L)      5. Liability (L)

### Q5: Match the following external users of financial accounting information with the type of decision that user will make with the information.

- a. Creditor      b. Investor      c. Regulatory Agency      d. Taxing Authority

- \_\_\_\_\_ (1) Is the company operating within prescribed guidelines?  
\_\_\_\_\_ (2) Is the company complying with tax laws?  
\_\_\_\_\_ (3) Is the company able to pay its debts?  
\_\_\_\_\_ (4) Is the company a good investment?

**Answer:** 1. c      2. d      3. a      4. b

### Q6: Use the accounting equation to answer the following questions.

- Force 10 Sails Co. has total assets of \$120,000 and total liabilities of \$65,000. What is equity?
- Marcy Fun Center has total assets of \$225,000 and equity of \$105,000. What are total liabilities?
- Franco's Restaurant has total liabilities of \$50,000 and equity of \$75,000. What are total assets?

**Answer:**

- $\$120,000 - \$65,000 = \$55,000$  equity
- $\$225,000 - \$105,000 = \$120,000$  total liabilities
- $\$50,000 + \$75,000 = \$125,000$  total assets

## FORMAT ACCT\_130 CH1 (Diyaa Suboh)

**Q7: Determine the missing items.**

Assets =	Liabilities +	Owners' equity
\$85,000	\$52,000	<b>(a)</b>
<b>(b)</b>	\$28,000	\$34,000
\$89,000	<b>(c)</b>	\$55,000

**Solution** a. \$33,000    b. \$62,000    c. \$34,000

**Q8: Classify each of these items as an asset (A), liability (L), or equity (E).**

- |                                 |                           |
|---------------------------------|---------------------------|
| _____ 1. Accounts receivable    | _____ 2. Accounts payable |
| _____ 3. Share capital-ordinary | _____ 4. Supplies         |
| _____ 5. Utilities expense      | _____ 6. Cash             |
| _____ 7. Note payable           | _____ 8. Equipment        |

**Answer:** 1. A    2. L    3. E    4. A    5. E    6. A    7. L    8. A

**Q9: Identify the impact on the accounting equation of each of the following transactions.**

- |   |  |
|---|--|
| 1. Purchase office supplies on account. | 2. Paid secretary weekly salary.                           |
| 3. Purchased office furniture for cash. | 4. Received monthly utility bill to be paid at later time. |

**Answer:**

- |  |  |
|--|--|
| 1. Increase assets and increase liabilities. | 2. Decrease assets and decrease equity.      |
| 3. Increase assets and decrease assets.      | 4. Increase liabilities and decrease equity. |

**Q10: For the items listed below, fill in the appropriate code letter to indicate whether the item is an asset, liability, or equity item.**

	Code
Asset	A
Liabilities	L
Equity	E

- |                                 |                              |
|---------------------------------|------------------------------|
| _____ 1. Rent Expense           | _____ 6. Cash                |
| _____ 2. Equipment              | _____ 7. Accounts Receivable |
| _____ 3. Accounts Payable       | _____ 8. Dividends           |
| _____ 4. Share Capital-Ordinary | _____ 9. Service Revenue     |
| _____ 5. Insurance Expense      | _____ 10. Notes Payable      |

**Solution** 1. E    2. A    3. L    4. E    5. E    6. A    7. A    8. E    9. E    10. L

**Q11: Compute the missing amount in each category of the accounting equation.**

	Assets	Liabilities	Equity
	\$279,000	\$ ?	\$143,000
	\$223,000	\$ 79,000	\$ ?
	\$ ?	\$173,000	\$325,000

**Solution:**

- (a) \$136,000 ( $\$279,000 - \$143,000 = \$136,000$ ).  
 (b) \$144,000 ( $\$223,000 - \$79,000 = \$144,000$ ).  
 (c) \$498,000 ( $\$173,000 + \$325,000 = \$498,000$ ).

## FORMAT ACCT\_130 CH1 (Diyaa Suboh)

**Q12: Analyze the transactions of a business organized as a proprietorship 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.**

		Assets	Liabilities	Equity
1	Received cash for services rendered.			
2	Purchased office equipment on credit.			
3	Paid employees' salaries.			
4	Received cash from customer in payment on account.			
5	Paid telephone bill for the month.			
6	Paid for office equipment purchased in transaction 2.			
7	Purchased office supplies on credit.			
8	Paid dividends.			
9	Obtained a loan from the bank.			
10	Billed customers for services rendered.			

**Solution:**

		Assets	Liabilities	Equity
1	Received cash for services rendered.	+		+
2	Purchased office equipment on credit.	+	+	
3	Paid employees' salaries.	-		-
4	Received cash from customer in payment on account.	+	-	
5	Paid telephone bill for the month.	-		-
6	Paid for office equipment purchased in transaction 2.	-		-
7	Purchased office supplies on credit.	+	+	
8	Paid dividends.	-		-
9	Obtained a loan from the bank.	+	+	
10	Billed customers for services rendered.	+		+

**Q13: Indicate in the space provided by each item whether it would appear on the Income Statement (IS), Statement of Financial Position (FP), or Retained Earnings Statement (RE):**

- |                                     |                                    |
|-------------------------------------|------------------------------------|
| a. _____ Service Revenue            | g. ____ Accounts Receivable        |
| b. _____ Utilities Expense          | h. ____ Retained Earnings (ending) |
| c. _____ Cash                       | i. ____ Equipment                  |
| d. _____ Accounts Payable           | j. __ Advertising Expense          |
| e. _____ Supplies                   | k. __ Dividends                    |
| f. _____ Salaries and Wages Expense | l. __ Notes Payable                |

**Solution**

- |       |           |
|-------|-----------|
| a. IS | g. FP     |
| b. IS | h. RE, FP |
| c. FP | i. FP     |
| d. FP | j. IS     |
| e. FP | k. RE     |
| f. IS | l. FP     |

## FORMAT ACCT\_130 CH1 (Diyaa Suboh)

**Q14: Match the items below by entering the appropriate code letter in the space provided.**

- |                               |                 |
|-------------------------------|-----------------|
| A. Convergence                | F. Corporation  |
| B. Bookkeeping                | G. Assets       |
| C. IASB                       | H. Equities     |
| D. Proprietorship             | I. Expenses     |
| E. Economic entity assumption | J. Transactions |

- \_\_\_\_\_ 1. Activities of an entity must be kept separate from its owner's activities.
- \_\_\_\_\_ 2. Consumed assets or services.
- \_\_\_\_\_ 3. Ownership is limited to one person.
- \_\_\_\_\_ 4. Process of reducing differences between IFRS and GAAP.
- \_\_\_\_\_ 5. Creditor and ownership claims against the assets of the business.
- \_\_\_\_\_ 6. A separate legal entity under state laws.
- \_\_\_\_\_ 7. Accounting organization that issues standards.
- \_\_\_\_\_ 8. Involves only the recording of economic events.
- \_\_\_\_\_ 9. Future economic benefits.
- \_\_\_\_\_ 10. Economic events recorded by accountants.

### Answers to Matching

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

# End Of Format CH1

## Extra Question Chapter 1

**Q: Find the following as required**

	Assets =	Liabilities +	Owners' equity
2021	\$300,000	\$120,000	A
2022	B	C	\$200,000
2023	D	E	F

**Required:**

- Find the A dependence Assets and liabilities for the year **2021**
- Find the B, C dependence Owners' equity, if you know the Notes Payable \$15,000, Accounts Payable \$10,000, Unearned Service Revenue \$8,000, Salaries and wages Payable \$12,000, and Interest Payable \$25,000 for the year **2022**
- Find the additional investment for the year 2022, if you know the total Revenue \$90,000, the total Expenses \$40,000, Owners Capital \$120,000 and the Owners Drawing \$5,000 For **2022**
- Find D, E, F, if you know the Cash \$180,000, the Accounts Receivable \$40,000, Supplies \$25,000, Equipment \$35,000, and Inventory 70,000, **The** Owners Capital \$130,000 and the Owners Drawing \$30,000, the Service Revenue 280,000, the Supplies Expense \$10,000, Depreciation Expense \$20,000, Insurance Expense \$15,000, Salaries and Wages Expense \$35,000, Rent Expense \$20,000, Utilities Expense \$20,000, and Interest Expense \$30,000 For **2023**

**Answers:**

- A = Assets – Liabilities = \$300,000 – 120,000 = \$180,000**
- C = Notes Payable+ Accounts Payable+ Unearned Service Revenue + Salaries and wages Payable + Interest Payable = \$15,000 + \$10,000 + \$8,000 + \$12,000 + \$25,000 = \$70,000**  
**B = C + Owners Equity = \$70,000 + \$200,000 = \$270,000**
- Owners' Equity = Owners Capital – Owners Drawing + Net income + Additional investment**  
**Owners' Equity = Owners Capital – Owners Drawing + (Revenue – Expense) + Additional investment**  
 $\$200,000 = \$120,000 - \$5,000 + (\$90,000 - \$40,000) + \text{Additional investment}$   
 $\$200,000 = \$115,000 + (\$50,000) + \text{Additional investment}$   
 $\$200,000 = \$165,000 + \text{Additional investment}$   
**Additional investment = \$200,000 – \$165,000 = \$35,000**
- D = Cash + Accounts Receivable + Supplies + Equipment + Inventory**  
 $= \$180,000 + \$40,000 + \$25,000 + \$35,000 + \$70,000 = \$350,000$   
**F = Owners Capital – Owners Drawing + Net income + Additional investment**  
**F = Owners Capital – Owners Drawing + (Revenue – Expense) + Additional investment**  
**F = Owners Capital – Owners Drawing + (Service Revenue – (Supplies Expense + Depreciation Expense + Insurance Expense + Salaries and Wages Expense + Rent Expense + Utilities Expense + Interest Expense) + Additional investment**  
 $F = \$130,000 - \$30,000 + (\$280,000 - (\$10,000 + \$20,000 + \$15,000 + \$35,000 + \$20,000 + \$20,000 + \$30,000)) + 0$   
 $F = \$100,000 + (\$280,000 - (\$150,000)) + 0$   
 $F = \$100,000 + \$130,000$   
**F = \$230,000**  
**E = D – F = \$350,000 – \$230,000 = \$120,000**

# FORMAT

## CHAPTER 2

**The Recording Process**

**عملية التسجيل**

## Format ACCT130\_CH2 (Diyaa Suboh)

### Q1. Circle the correct answer

1. **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.**
2. **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.
3. **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.
4. **Shareholders' equity is increased by**
  - (a) dividends declared.
  - (b) revenues.**
  - (c) expenses.
  - (d) liabilities.
5. **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.
6. **If services are performed on credit, then**
  - (a) assets will decrease.
  - (b) liabilities will increase.
  - (c) shareholders' equity will increase.
  - (d) liabilities will decrease**
7. **If services are performed on credit, then**
  - (a) assets will decrease.
  - (b) liabilities will increase.
  - (c) shareholders' equity will increase.**
  - (d) liabilities will decrease
8. **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.
9. **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.

## Format ACCT130\_CH2 (Diyaa Suboh)

### 10. 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.

### 11. 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.

### 12. 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

### 13. 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.**

### 14. 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.

### 15. 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.

### 16. 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

### 17. 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.

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

- (a) Assets = Liabilities + Common Shares + Retained Earnings + Revenues – Expenses – Dividends Declared.**
- (b) Assets + Liabilities = Dividends Declared + Expenses + Common Shares + Revenues.
- (c) Assets – Liabilities – Dividends Declared = Common Shares + Revenues – Expenses.
- (d) Assets = Revenues + Expenses – Liabilities.



## Format ACCT130\_CH2 (Diyaa Suboh)

19. 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.
20. 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.
21. 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.
22. 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.**
23. 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.
24. 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.
25. 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.
26. 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.
27. 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.

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**28. 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.**

**29. Transactions recorded in a journal are done in**

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

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

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

**31. 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.

**32. 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.

**33. 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.**

**34. The chart of accounts begins with**

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

**35. 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.**

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

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

**37. The ledger accounts should be arranged in**

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

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**38. 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.**

**39. 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.

**40. 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.

**Q2: Indicate whether each of the following statements is true or false**

- False** 1. Revenue is only recorded when cash is received.
- False** 2. Collection of an account receivable will increase total assets.
- False** 3. 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.
- True** 4. An individual accounting record for a specific asset, liability or shareholders' equity item is called an account.
- False** 5. A debit increases an account and a credit decreases an account.
- True** 6. If a revenue account is credited, this must increase shareholders' equity.
- False** 7. The normal balance of a liability account is a debit.
- False** 8. A credit means that an account has been increased.
- True** 9. A decrease in a liability account is recorded by a debit.
- True** 10. An increase in an asset is recorded by a debit.
- False** 11. The normal balance of an asset is a credit.
- True** 12. Assets are decreased with a credit.
- False** 13. The first step in the recording process is entering the transaction into the general journal.
- False** 14. Entering transactions into the journal is called posting.
- False** 15. The account to be credited is entered first in a journal entry.
- False** 16. Posting is the process of proving the equality of debits and credits in the trial balance
- True** 17. A trial balance can still balance even if an entry is posted to the wrong account.
- True** 18. The main purpose of the trial balance is to check that debits equal credits.
- False** 19. If a journal entry is posted twice, this will be discovered by preparing a trial balance.
- True** 20. Revenues are a subdivision of shareholders' equity.

**Q3: 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			

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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:

		<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	+		+

**Q4: 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:

		<b>Type of Account</b>	<b>Normal Balance</b>
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.

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**Q5: 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**

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.

**Q6: For the accounts listed below, indicate if the normal balance of the account is a debit or credit:**

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

**Q7: 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.

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5. Receipt for the purchase of his car for \$6,000.
6. Receipt from the garage for maintenance for \$450.00.
7. Receipt from Japan Town 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:

#### (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.**

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#### (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.		

**Q8: Journalize the following business transactions in general journal form. Identify each transaction by number. You may omit explanations.**

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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

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

**Q9: 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: Record the transactions for September 2018. You may omit explanations.**

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

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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

**Q10: 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

**Solution:**

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

# End OF Format CH2