

Chapter 1

Objectives:

1. Defining and listing the functions of accounting.
2. Recording transactions in the basic accounting equation.
3. Seeing how revenue, expenses, and withdrawals expand the basic accounting equation.
4. Preparing an income statement, a statement of owner's equity, and a balance sheet.

MULTIPLE CHOICE

1.1-1 The type of business organization that can continue indefinitely is known as a:

- a) sole proprietorship.
- b) partnership.
- c) corporation.
- d) None of the above

ANSWER: C

L.O.: 1-1

1.1-2 The purpose of the accounting process is to provide financial information about:

- a) sole proprietorships.
- b) small businesses.
- c) large corporations.
- d) All of these answers are correct.

ANSWER: D

L.O.: 1-1

1.1-3 Accounting provides information to:

- a) managers.
- b) government.
- c) investors.
- d) All of these answers are correct

ANSWER: D

L.O.: 1-1

1.1-4 Which of the following is a characteristic of a sole proprietorship?

- a) Business owned by more than one person
- b) Easy to form
- c) Each stockholder acts as an owner of the company
- d) Can continue indefinitely

ANSWER: B

L.O.: 1-1

1.1-5 A partnership is a business which is:

- a) easy to form.
- b) ends with the death of a partner .
- c) owned by more than one person.
- d) All of these answers are correct.

ANSWER: D

L.O.: 1-1

1.1-6 Which is an advantage of a sole proprietorship form of business?

- a) There is limited personal risk
- b) The business can continue indefinitely
- c) The owner makes all the decisions
- d) All of these answers are correct

ANSWER: C

L.O.: 1-1

1.1-7 Which of the following is not a type of business organization?

- a) Corporation
- b) Partnership
- c) Sole proprietorship
- d) Operation

ANSWER: D

L.O.: 1-1

1.1-8 A corporation:

- a) can continue indefinitely.
- b) is owned by stockholders.
- c) has limited risk to stockholders.
- d) all of the above.

ANSWER: D

L.O.: 1-1

1.1-9 The Sarbanes-Oxley Act was passed to:

- a) prevent fraud at public companies.
- b) replace all of the old accounting procedures with new ones.
- c) improve the accuracy of the company's financial reporting.
- d) Both "a" and "c" are correct.

ANSWER: D

L.O.: 1-1

1.1-10 A legal firm would be considered a:

- a) merchandise company.
- b) manufacturer.
- c) service company.
- d) None of the above are correct.

ANSWER: C

L.O.: 1-1

TRUE/FALSE

1.1-11 Generally Accepted Accounting Principles are the procedures and guidelines that must be followed during the accounting process.

ANSWER: True

L.O.: 1-1

1.1-12 The function of accounting includes analyzing, recording, classifying, summarizing, reporting, and interpreting financial information.

ANSWER: True

L.O.: 1-1

1.1-13 A sole proprietorship ends with the death of the owner.

ANSWER: True

L.O.: 1-1

ESSAY

1.1-14 Put the 7 main steps of the accounting process in order (from 1 -7) below:

- _____ Classifying
- _____ Analyzing
- _____ Recording
- _____ Interpreting
- _____ Reporting
- _____ Communication
- _____ Summarizing

ANSWER:

- 3 Classifying
- 1 Analyzing
- 2 Recording
- 6 Interpreting
- 5 Reporting
- 7 Communication
- 4 Summarizing

L.O.: 1-1

1.1-15 Discuss the advantages and disadvantages of sole proprietorships, partnerships and corporations.

ANSWER:

A sole proprietorship is a business that has one owner. The advantage of a sole proprietorship is that the owner makes all of the decisions for the business. Another advantage is ease of formation. A disadvantage is that if the business cannot pay its obligations, the business owner must pay them from personal assets. The business ends with the death of the owner or the closing of the business.

A partnership is a business owned by more than one person. Its advantage is ease of formation. The disadvantages are that partners could lose personal assets to meet obligations of the partnership and a partnership ends with death of a partner or exit of a partner.

A corporation is a business owned by stockholders. The advantages are that stockholders have limited personal risk which is limited to their investment in the company. The corporation has unlimited life and the disadvantage is that a corporation is more difficult to form.

L.O.: 1-1

1.1-16 What is the difference between Bookkeeping and Accounting?

ANSWER:

Bookkeeping is the recording function within the accounting process. A bookkeeper records the transactions into the company's books (more transactional) while an accountant reviews and analyzes the information that is reported. The accountant then takes the information and prepares the financial statements.

L.O.: 1-1

MULTIPLE CHOICE

1.2-1 Which of the following will be recorded in the owner's equity column as an increase?

- a) An exchange of assets
- b) The purchase of an asset on credit
- c) An investment by the owner
- d) A withdrawal by the owner

ANSWER: C

L.O.: 1-2

1.2-2 The purchase of supplies for cash would affect which account category?

- a) Assets
- b) Liabilities
- c) Capital
- d) Expense

ANSWER: A

L.O.: 1-2

1.2-3 Items owned by the business such as land, supplies and equipment are:

- a) assets.
- b) liabilities.
- c) owner's equity.
- d) revenue.

ANSWER: A

L.O.: 1-2

1.2-4 Which of the following is not an asset?

- a) Cash
- b) Accounts Receivable
- c) Accounts Payable
- d) Buildings

ANSWER: C

L.O.: 1-2

1.2-5 If total liabilities increased by \$8,000 and the assets increased by \$10,000 during the accounting period, what is the change in the owner's equity amount?

- a) increase of \$2,000
- b) decrease of \$2,000
- c) increase of \$10,000

d) decrease of \$10,000

ANSWER: A

L.O.: 1-2

1.2-6 The claims of creditors against the assets are:

- a) expenses.
- b) revenues.
- c) liabilities.
- d) owner's equity.

ANSWER: C

L.O.: 1-2

1.2-7 The Owner's Equity of Logan's Company is equal to one-quarter of the total assets.

Liabilities equal \$30,000. What is the amount of Owner's Equity?

- a) \$40,000
- b) \$10,000
- c) \$30,000
- d) None of these answers are correct.

ANSWER: B

L.O.: 1-2

1.2-8 Assets are equal to:

- a) liabilities + owner's equity.
- b) liabilities – owner's equity.
- c) liabilities – revenues.
- d) revenues – expenses.

ANSWER: A

L.O.: 1-2

1.2-9 The basic accounting equation is:

- a) $\text{Assets} = \text{Revenues} - \text{Expenses}$.
- b) $\text{Assets} = \text{Liabilities} - \text{Owner's Equity}$.
- c) $\text{Assets} = \text{Owner's Equity} - \text{Liabilities}$.
- d) $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$.

ANSWER: D

L.O.: 1-2

1.2-10 An acceptable variation of the accounting equation is:

- a) $\text{Assets} - \text{Liabilities} = \text{Owner's Equity}$.
- b) $\text{Assets} + \text{Owner's Equity} = \text{Liabilities}$.
- c) $\text{Assets} = \text{Liabilities} - \text{Owner's Equity}$.

d) All of these answers are correct.

ANSWER: A

L.O.: 1-2

1.2-11 If total liabilities are \$22,000 and owner's equity is \$17,000, the total assets must be:

- a) \$39,000.
- b) \$5,000.
- c) \$20,000.
- d) \$17,000

ANSWER: A

L.O.: 1-2

1.2-12 If total liabilities are \$3,000 and total assets are \$10,000, owner's equity must be:

- a) \$7,000.
- b) \$3,000.
- c) \$10,000.
- d) \$13,000.

ANSWER: A

L.O.: 1-2

1.2-13 How does the purchase of equipment on account affect the accounting equation?

- a) Assets increase; liabilities decrease
- b) Assets increase; owner's equity increases
- c) Assets increase; liabilities increase
- d) Liabilities increase; owner's equity decreases

ANSWER: C

L.O.: 1-2

1.2-14 Mary invested cash in her new business. What effect will this have?

- a) Increase an asset and increase a liability
- b) Decrease an asset and increase a liability
- c) Increase an asset and increase owner's equity
- d) Increase an asset and decrease owner's equity

ANSWER: C

L.O.: 1-2

1.2-15 A business paid \$4,000 to a creditor in payment of an amount owed. The effect of the transaction on the accounting equation was to:

- a) increase one asset, decrease another asset.
- b) increase an asset, increase a liability.

- c) decrease an asset, decrease a liability.
- d) increase an asset, increase owner's equity.

ANSWER: C

L.O.: 1-2

1.2-16 Strum Hardware has total assets of \$50,000. What are the total assets if new equipment is purchased for \$5,000 cash?

- a) \$45,000
- b) \$50,000
- c) \$55,000
- d) \$60,000

ANSWER: B

L.O.: 1-2

1.2-17 Harvest Moon Company has total assets of \$15,000. If \$2,000 cash is used to purchase a new computer, the total assets would be:

- a) \$15,000.
- b) \$13,000.
- c) \$17,000.
- d) \$2,000.

ANSWER: A

L.O.: 1-2

1.2-18 Katie's Vegetarian Restaurant, with total assets of \$80,000, borrows \$25,000 from the bank. Which of the following is a true statement upon borrowing the money?

- a) Total assets are now \$105,000.
- b) Total assets are now \$80,000.
- c) Total assets are now \$25,000.
- d) Total assets are now \$55,000.

ANSWER: A

L.O.: 1-2

1.2-19 Logan's Motor Sports buys \$20,000 of equipment on credit. Which of the following is a true statement?

- a) Total assets increase.
- b) Total assets are unchanged.
- c) Total liabilities decrease.
- d) Total liabilities are unchanged.

ANSWER: A

L.O.: 1-2

1.2-20 Bonnie's Baskets purchases \$3,000 worth of office equipment on account. This causes:

- a) Cash and Capital to decrease.
- b) Office Equipment and Accounts Payable to increase.
- c) Office Equipment to decrease and Accounts Payable to increase.
- d) Accounts Payable to increase and Capital to decrease.

ANSWER: B

L.O.: 1-2

1.2-21 Eileen's Corner Shoppe purchases a new computer for cash. This causes:

- a) Cash and Capital to increase.
- b) Computer Equipment and Cash to increase.
- c) Computer Equipment to increase and Cash to decrease.
- d) Accounts Payable to increase and Capital to increase.

ANSWER: C

L.O.: 1-2

1.2-22 Bob purchased a new computer for the company on account. The transaction will:

- a) increase Computer; increase Capital.
- b) decrease Cash; increase Accounts Payable.
- c) decrease Cash; increase Computer.
- d) increase Computer; increase Accounts Payable.

ANSWER: D

L.O.: 1-2

1.2-23 Katelyn purchased \$10,000 of new electronic equipment for her DJ Company on account.

The effect on the basic accounting equation was to:

- a) decrease Cash \$10,000 and increase Equipment \$10,000.
- b) increase Equipment \$10,000 and increase Accounts Payable \$10,000.
- c) decrease Cash \$10,000 and increase Accounts Payable \$10,000.
- d) increase Cash \$10,000 and increase Equipment \$10,000.

ANSWER: B

L.O.: 1-2

1.2-24 The balance sheet contains:

- a) liabilities, expenses and capital.
- b) assets, liabilities and revenues.
- c) expenses, assets and cash.
- d) assets, liabilities and owner's equity.

ANSWER: D

L.O.: 1-2

1.2-25 Which of the following items is not listed on the balance sheet?

- a) Accounts Payable
- b) Accounts Receivable
- c) Revenue
- d) Equipment

ANSWER: C

L.O.: 1-2

1.2-26 If total assets are \$20,000 and total liabilities are \$8,000, Capital must equal:

- a) \$12,000.
- b) \$28,000.
- c) \$8,000.
- d) \$20,000.

ANSWER: A

L.O.: 1-2

1.2-27 The purchase of equipment with both cash and on account was recorded as only a credit purchase. Due to this error:

- a) assets would be understated.
- b) liabilities would be overstated.
- c) owner's equity would be overstated.
- d) None of the above are correct

ANSWER: B

L.O.: 1-2

1.2-28 A purchase of a vehicle for cash would have what affect on the accounting equation?

- a) Total asset amount remains the same
- b) Total liabilities are overstated
- c) Total owner's equity is overstated
- d) Both "a" and "b" are correct

ANSWER: A

L.O.: 1-2

1.2-29 The cash purchase of a truck was recorded as a purchase on credit. Due to this error:

- a) assets were overstated.
- b) liabilities were overstated.
- c) answers "a" and "b" are both correct.
- d) None of the above are correct.

ANSWER: C

L.O.: 1-2

1.2-30 Which of the following transactions would cause one asset to increase and another asset to decrease?

- a) The owner invested cash in the business
- b) The business paid a creditor
- c) The business incurred an expense on credit
- d) The business bought supplies for cash

ANSWER: D

L.O.: 1-2

1.2-31 Which of the following transactions would cause an asset to increase and the owner's equity to increase?

- a) The owner invested cash in the business.
- b) The business incurred an expense on credit.
- c) The business bought supplies on account.
- d) The owner withdrew cash from the business.

ANSWER: A

L.O.: 1-2

1.2-32 Which of the following would result if the owner invested cash in the business?

- a) Cash would increase and Capital would decrease.
- b) Cash would increase and Capital would increase.
- c) Cash would decrease and Capital would increase.
- d) An investment by the owner is not a business transaction.

ANSWER: B

L.O.:1-2

1.2-33 Which of the following would result if the business purchased supplies on credit?

- a) Supplies would increase and Cash would decrease.
- b) Supplies would increase and Capital would increase.
- c) Supplies would increase and Accounts Payable would increase.
- d) The purchase of supplies is not a business transaction.

ANSWER: C

L.O.: 1-2

1.2-34 Which of the following would result if a business purchased Equipment paying a 50% down payment in cash?

- a) Equipment would increase and Cash would decrease.
- b) Accounts Payable would increase.
- c) Since the equipment has not been paid in full, there is nothing to record.
- d) Both "a" and "b" are correct.

ANSWER: D

L.O.: 1-2

TRUE/FALSE

1.2-35 The left side of the accounting equation shows what is owned by the business.

ANSWER: True

L.O.: 1-2

1.2-36 Cash is the same thing as Capital.

ANSWER: False

L.O.: 1-2

1.2-37 The balance sheet shows the company's financial position as of a particular date.

ANSWER: True

L.O.: 1-2

1.2-38 If the liabilities owed by a business total \$200,000, then the assets must also total \$200,000.

ANSWER: False

L.O.: 1-2

1.2-39 The left side of the accounting equation must always equal the right side of the equation.

ANSWER: True

L.O.: 1-2

1.2-40 If the assets owned by a business total \$100,000, owner's equity must also total \$100,000.

ANSWER: False

L.O.: 1-2

1.2-41 In a shift of assets, the composition of the assets changes but total assets do not change.

ANSWER: True

L.O.: 1-2

1.2-42 If the assets owned by a business total \$50,000 and liabilities total \$30,000, then owner's equity totals \$80,000.

ANSWER: False

L.O.: 1-2

1.2-43 To distinguish the total on a financial statement, use double underlines.

ANSWER: True

L.O.: 1-2

1.2-44 Creditors' claims against assets are called owner's equity.

ANSWER: False

L.O.: 1-2

1.2-45 The three elements that make up a balance sheet are assets, liabilities and expenses.

ANSWER: False

L.O.: 1-2

1.2-46 The accounting equation states that total assets must always equal total liabilities plus owner's equity.

ANSWER: True

L.O.: 1-2

1.2-47 If liabilities are \$10,000 and assets are \$15,000, owner's equity will be \$5,000.

ANSWER: True

L.O.: 1-2

ESSAY

1.2-48 Record the following transactions in the basic accounting equation:

- a. Brian invests \$15,000 cash to begin an accounting service.
- b. The company buys office furniture for cash, \$600.
- c. The company buys additional office furniture on account, \$300.
- d. The company makes a payment on the office furniture, \$200.

Brian's Accounting Service

ASSETS		=	LIABILITIES + OWNER'S EQUITY	
Cash +	Office Furniture	=	Accounts Payable	+ Brian's, Capital

a.

b.

c.

d.

Totals

ANSWER:

Brian's Accounting Service

	ASSETS		=	LIABILITIES	OWNER'S EQUITY
	Cash +	Office Furniture	=	Accounts Payable	Brian's Capital
a.	+\$15,000		=		+\$15,000
b.	- 600	+\$600	=		
c.		+ 300	=	+\$300	
d.	<u>- 200</u>	<u> </u>	=	<u>- 200</u>	<u> </u>
T	+\$14,200	+\$900	=	+\$100	+\$15,000

L.O.: 1-2

1.2-49 Tracey's Photography, completes the following transactions:

- Tracey invests \$10,000 cash in her company.
 - The company purchases equipment on account, \$500.
 - The company purchases additional equipment for cash, \$200.
 - The company makes a payment on account for the equipment, \$300.
- Required: Record the above transactions in the basic accounting equation.

Tracey's Photography

ASSETS	=	LIABILITIES +	OWNER'S EQUITY
Cash + Equipment	=	Accounts + Payable	Tracey's, Capital
a.	=		
b.	=		
c.	=		
d.	=		
Totals	=		

ANSWER:

Tracey's Photography

ASSETS	=	LIABILITIES +	OWNER'S EQUITY
Cash + Equipment	=	Accounts + Payable	Tracey's, Capital
a. +\$10,000	=		+\$10,000
b. +\$500	=	+\$500	
c. -200 +200	=		
d. <u>-300</u> <u> </u>	=	<u>-300</u>	<u> </u>
T +\$9,500 +\$700	=	+\$200	+\$10,000

L.O.: 1-2

MULTIPLE CHOICE

1.3-1 The net income or net loss is calculated on the:

- a) balance sheet.
- b) statement of owner's equity.
- c) income statement.
- d) none of these.

ANSWER: C

L.O.: 1-3

1.3-2 Owner's withdrawals:

- a) decrease assets.
- b) increase expenses.
- c) increase liabilities.
- d) decrease withdrawals.

ANSWER: A

L.O.: 1-3

1.3-3 Go Blue Retail Store collected \$12,000 of its accounts receivable. The expanded accounting equation changes include:

- a) Cash and Capital increase, \$12,000.
- b) Cash and Revenue increase \$12,000.
- c) Cash increases and Accounts Receivable decreases \$12,000.
- d) Accounts Receivable decreases and Capital increases \$12,000.

ANSWER: C

L.O.: 1-3

1.3-4 If beginning capital was \$100,000, ending capital is \$85,000, and the owner's withdrawals were \$10,000, the amount of net income or net loss was:

- a) net income of \$5,000.
- b) net income of \$15,000.
- c) net loss of \$15,000.
- d) net loss of \$5,000.

ANSWER: D

L.O.: 1-3

1.3-5 The payment of accounts payable would:

- a) increase both assets and liabilities.

- b) increase assets and decrease liabilities.
- c) decrease both assets and liabilities.
- d) decrease assets and increase liabilities.

ANSWER: C

L.O.: 1-3

1.3-6 Ryan withdrew cash from the business to pay his personal cell phone bill. The expanded accounting equation changes include:

- a) increase in both Cash and Withdrawal.
- b) decrease in both Cash and Withdrawal.
- c) decrease in Cash and increase in Withdrawal.
- d) increase in Cash and decrease in Withdrawal.

ANSWER: C

L.O.: 1-3

1.3-7 Revenue, expenses, and withdrawals are subdivisions of:

- a) assets.
- b) liabilities.
- c) owner's equity.
- d) All of these answers are correct.

ANSWER: C

L.O.: 1-3

1.3-8 Which of the following transactions has no effect on owner's equity?

- a) Paying salaries expense
- b) Equipment purchase
- c) Billing for services rendered
- d) A withdrawal

ANSWER: B

L.O.: 1-3

1.3-9 When services are rendered but payment is not made, which account would be increased?

- a) Accounts Receivable
- b) Accounts Payable
- c) Cash
- d) Withdrawal

ANSWER: A

L.O.: 1-3

1.3-10 If 'Ol Fashioned Toys' revenues are less than its expenses during the accounting period:

- a) owner's withdrawals decrease net income.

- b) net income causes liabilities to decrease.
- c) the business will incur a loss.
- d) owner's withdrawals increase owner's equity.

ANSWER: C

L.O.: 1-3

1.3-11 If 'Ol Fashioned Toys' revenues are greater than its expenses during the accounting period:

- a) assets will increase more than liabilities.
- b) liabilities will increase more than assets.
- c) the business will incur a loss.
- d) the business will earn a net income.

ANSWER: D

L.O.: 1-3

1.3-12 Carrie billed her legal clients \$5,000 for legal work completed during the month. This transaction will:

- a) cause a \$5,000 increase in revenues and liabilities.
- b) cause a \$5,000 increase in revenues and a decrease in liabilities.
- c) cause a \$5,000 increase in assets and revenues.
- d) not be recorded until the cash is collected.

ANSWER: C

L.O.: 1-3

1.3-13 Boxes R' Us paid \$2,000 in salaries and wages for February. This transaction will:

- a) increase expenses and decrease revenue.
- b) increase expenses and increase liabilities.
- c) decrease assets and increase expenses.
- d) decrease assets and expenses.

ANSWER: C

L.O.: 1-3

1.3-14 Crystal Clear Imagery received and paid a utility bill for \$350 for the month of November. This transaction will:

- a) increase Cash and increase Utility Expense.
- b) decrease Cash and increase Utility Expense.
- c) increase Cash and decrease Utility Expense.
- d) increase Utility Expense and decrease Withdrawal.

ANSWER: B

L.O.: 1-3

1.3-15 If a company's revenues are higher than its expenses, it will cause:

- a) an increase in owner's equity.
- b) a decrease in owner's equity.
- c) an increase in assets.
- d) no effect on owner's equity.

ANSWER: A

L.O.:1-3

1.3-16 Expenses:

- a) are costs the company incurs in carrying on operations.
- b) are a subdivision of owner's equity.
- c) record personal expenses not related to the business.
- d) both "a" and "b" are correct.

ANSWER: D

L.O.:1-3

1.3-17 An expense should be recorded when:

- a) the bill is paid.
- b) when the expense is incurred .
- c) a bill is received in the mail.
- d) None of the above are correct

ANSWER: B

L.O.: 1-3

1.3-18 A revenue should be recorded when:

- a) it is earned.
- b) when payment is received.
- c) when the invoice is sent to the customer.
- d) None of the above are correct.

ANSWER: A

L.O.: 1-3

1.3-19 Legal services were provided to a credit customer. How would this affect the accounting equation?

- a) Cash and Accounts Receivable increase
- b) Accounts Payable and Capital increase
- c) Accounts Receivable and Revenue increase
- d) None of the above are correct.

ANSWER: C

L.O.: 1-3

1.3-20 Which accounts are affected when the company pays salaries?

- a) Assets and Capital increase
- b) Liabilities and Capital increase
- c) Assets and Expenses increase
- d) None of the above are correct.

ANSWER: D

L.O.: 1-3

1.3-21 Which accounts are affected when the company buys supplies on account?

- a) Assets and Capital increase
- b) Liabilities and Capital increase
- c) Assets and Liabilities increase
- d) None of the above are correct.

ANSWER: C

L.O.: 1-3

1.3-22 Which accounts are affected when the company provides services to a cash customer?

- a) Assets and Capital increase
- b) Liabilities and Capital increase
- c) Assets and Revenue increase
- d) None of the above are correct

ANSWER: C

L.O.: 1-3

1.3-23 Which accounts are affected when the owner withdraws cash from the business?

- a) Assets decrease and Withdrawals increase
- b) Liabilities and Capital increase
- c) Assets and Liabilities increase
- d) None of the above are correct.

ANSWER: A

L.O.: 1-3

1.3-24 Which of the following transactions would cause an asset to decrease and the owner's equity to decrease?

- a) The business provided services to a cash customer.
- b) The business bought supplies for cash.
- c) The owner withdrew cash from the business.
- d) The business bought supplies on account.

ANSWER: C

L.O.: 1-3

1.3-25 Vic's Mart collects \$500 of its accounts receivable. The expanded accounting equation impact is:

- a) Cash and Capital increase \$500.
- b) Cash and Revenue increase \$500.
- c) Cash increases and Accounts Receivable decreases \$500.
- d) Accounts Receivable decreases and Capital increases \$500.

ANSWER: C

L.O.: 1-3

1.3-26 Mark paid \$500 cash to partially reduce the amount owed for equipment that was previously bought on account. This transaction would:

- a) increase both assets and liabilities.
- b) increase assets and decrease liabilities.
- c) decrease both assets and liabilities.
- d) decrease assets and increase liabilities.

ANSWER: C

L.O.: 1-3

1.3-27 Victoria received \$500 from customers in partial payment for accounting services performed previously. The recording of this transaction would:

- a) increase Cash and Victoria's Capital \$500.
- b) increase Cash and decrease Accounts Receivable \$500.
- c) increase Cash and increase Accounts Receivable \$500.
- d) decrease Accounts Receivable and increase Victoria's Capital \$500.

ANSWER: B

L.O.: 1-3

TRUE/FALSE

1.3-28 The owner of a business paid personal rent with a company check. This payment reduces Cash as well as increases the expenses of the firm.

ANSWER: False

L.O.: 1-3

1.3-29 Accounts Receivable results from earning revenue when cash is not yet received.

ANSWER: True

L.O.: 1-3

1.3-30 Expenses are recorded as costs of doing business whether cash was paid or not.

ANSWER: True

L.O.: 1-3

1.3-31 Withdrawals are considered an expense of doing business.

ANSWER: False

L.O.: 1-3

1.3-32 When expenses are greater than revenue, net income is the result.

ANSWER: False

L.O.: 1-3

1.3-33 The four parts of owner's equity include capital, withdrawals, revenue, and expenses.

ANSWER: True

L.O.: 1-3

1.3-34 Cash withdrawals by the owner decrease both equity and assets.

ANSWER: True

L.O.: 1-3

1.3-35 Cash investments by the owner increases both equity and assets.

ANSWER: True

L.O.: 1-3

1.3-36 Revenue and cash will always be the same amount.

ANSWER: False

L.O.: 1-3

1.3-37 Withdrawals are business expenses that are included on the balance sheet.

ANSWER: False

L.O.: 1-3

1.3-38 If expenses are more than revenue, a net loss is incurred.

ANSWER: True

L.O.: 1-3

ESSAY

1.3-39 Indicate whether each of the following represents (1) Asset, (2) Liability, or (3)

Owner's Equity:

1. _____ Office Supplies

2. _____ Accounts Payable
3. _____ Capital
4. _____ Cash
5. _____ Withdrawal
6. _____ Land
7. _____ Accounts Receivable
8. _____ Expense
9. _____ Equipment
10. _____ Revenue

ANSWER:

1. Asset
2. Liability
3. Owner's Equity
4. Asset
5. Owner's Equity
6. Asset
7. Asset
8. Owner's Equity
9. Asset
10. Owner's Equity

L.O.: 1-3

- 1.3-40 Record the following transactions into the expanded accounting equation for the Mayoras' Law Firm. Note that all titles have beginning balances. (You will need to determine the beginning capital balance.)
- a. Provided legal services for cash, \$1,200
 - b. Billed customers for services rendered, \$2,400
 - c. Received and paid the monthly utility bill, \$300
 - d. Collected \$600 on account from customers
 - e. Paid supplies expense, \$250
 - f. Withdrew \$300 cash for personal use

Mayoras' Law Firm

		ASSETS	=	LIAB.	OWNER'S EQUITY			
	Cash +	Accts.Rec.	=	Accts Payable	Mayoras Capital	+Rev.	-Exp	-Mayoras Withdrawal
beg.	\$900	\$100	=	\$300	??			
a.								
b.								
c.								

d.								
e.								
f.								
T								

ANSWER:

Mayoras' Law Firm

		ASSETS	=	LIAB.	OWNER'S EQUITY			
	Cash +	Accts.Rec.	=	Accts Payable	Mayoras, Capital	+Rev.	-Exp	-Mayoras Withdrawal
beg.	\$900	\$100	=	\$300	\$700			
a.	+1200		=			+1200		
b.		+2400	=			+2400		
c.	- 300		=				+300	
d.	+600	-600	=					
e.	-250		=				+250	
f.	-300		=					+300
T	\$1,850	\$1,900	=	\$300	\$700	\$3,600	\$550	\$300

L.O.: 1-3

1.3-41 Katie's Wedding Planning Service completed the following transactions:

- Billed clients for service, \$1,250.
- Completed work for clients who paid \$500 cash.
- Received a bill for utilities to be paid later, \$120.
- Collected cash on account from clients, \$700.
- Paid the amount due for utilities.
- Withdrew \$500 cash for personal use.

Required: Record the above transactions in the expanded accounting equation. Note that the items have beginning balances.

Katie's Wedding Planning Service

		ASSETS	=	LIAB.	OWNER'S EQUITY			
	Cash +	Accts.Rec.	=	Accts Payable	Katie, Capital	+Rev.	-Exp.	-Katie, With.
beg.	\$ 800	\$ 85	=	\$300	\$235	\$ 900	\$400	\$150
a.								

b.								
c.								
d.								
e.								
f.								
T								

ANSWER:

Katie's Wedding Planning

	ASSETS		=	LIAB.	OWNER'S EQUITY			
	Cash	Accts.Rec.	=	Accts Payable	Katie Capital	+Rev.	-Exp.	-Katie With
beg.	\$ 800	\$ 85	=	\$300	\$235	\$ 900	\$400	\$150
a.		1,250	=			1,250		
b.	500		=			500		
c.			=	120			120	
d.	700	-700	=					
e.	-120		=	-120				
f.	-500		=					500
T	\$1380	\$635	=	\$300	\$235	\$2650	\$520	\$650

L.O.: 1-3

MULTIPLE CHOICE

1.4-1 The increase or decrease in the owner's equity is reported on the:

- a) income statement.
- b) statement of owner's equity.
- c) balance sheet.
- d) All of these are correct

ANSWER: B

L.O.: 1-4

1.4-2 Which financial statement is prepared first?

- a) Statement of Owner's Equity
- b) Balance Sheet
- c) Income Statement
- d) None of the above

ANSWER: C

L.O.: 1-4

1.4-3 The financial statement that shows business results in terms of revenue and expenses is:

- a) an income statement.
- b) a balance sheet.
- c) a statement of owner's equity.
- d) the statement of cash flows.

ANSWER: A

L.O.: 1-4

1.4-4 An accounting report that shows the changes in capital during the accounting period is:

- a) a balance sheet.
- b) an income statement.
- c) a statement of owner's equity.
- d) All of these answers are correct.

ANSWER: C

L.O.: 1-4

1.4-5 Which of the following items are on both the balance sheet and the statement of owner's equity?

- a) Net loss
- b) Capital
- c) Additional owner's investments
- d) Owner's withdrawals

ANSWER: B

L.O.: 1-4

1.4-6 The financial statement that shows revenue and expenses for a period of time is the:

- a) balance sheet.
- b) income statement.
- c) statement of owner's equity.
- d) statement of cash flows.

ANSWER: B

L.O.: 1-4

TRUE/FALSE

1.4-7 The income statement is a financial statement showing business results in terms of revenues and expenses.

ANSWER: True
L.O.:1-4

1.4-8 Statement of owner's equity shows the change in capital.

ANSWER: True
L.O.: 1-4

1.4-9 The statement of owner's equity shows assets, liabilities and capital..

ANSWER: False
L.O.:1-4

1.4-10 Total assets are included in the statement of owner's equity.

ANSWER: False
L.O.: 1-4

1.4-11 The statement of owner's equity is the link between the income statement and balance sheet.

ANSWER: True
L.O.: 1-4

1.4-12 The income statement is the first financial statement completed.

ANSWER: True
L.O.: 1-4

ESSAY

1.4-13 Calculate the total Liabilities if the company has: Assets totaling \$500 and Capital of \$250.

\$ _____

ANSWER:
($\$250 = \$500 - \$250$)
(L.O. 4)

1.4-14 Calculate the total Assets if the company has: Cash \$100, Accounts Receivable \$300, Accounts Payable \$500, Equipment \$600.

\$ _____

ANSWER:

(\$1,000 = \$100+300+600)

L.O.: 1-4

1.4-15 Use the following information to prepare 1) an income statement, 2) a statement of owner's equity, and 3) a balance sheet for the month ended March 31, 200x for Bolthouse Company.

J. Bolthouse , Capital (beg.)	\$2,000
Revenue	900
Expenses	600
Withdrawals	150
Cash	3,000
Equipment	1,000
Accounts Receivable	150
Accounts Payable	2,000

ANSWER:

Bolthouse Company
INCOME STATEMENT
For the month ended March 31, 200x

Revenue	\$900
Expenses	<u>600</u>
Net Income	<u>\$300</u>

Bolthouse Company
STATEMENT OF OWNER'S EQUITY
For the month ended March 31, 200x

J. Bolthouse, Capital, March 1	\$2,000
Net Income	\$300
Less Withdrawals	<u>150</u>
Increase in Capital	<u>150</u>
J. Bolthouse Capital, March 31	<u>\$2,150</u>

Bolthouse Company
BALANCE SHEET
March 31, 200x

Assets Liabilities and Owner's Equity

		Liabilities	
Cash	\$3,000	Accounts Payable	\$2,000
Accounts Receivable	150	Owner's Equity	
Equipment	<u>1,000</u>	J. Bolthouse , Capital	<u>2,150</u>
Total Assets	<u>\$4,150</u>	Total Liabilities and Owner's Equity	<u>\$4,150</u>

L.O.: 1-4

1.4-16 Prepare the financial statements for H. Logan of Logan Motorcycles from the following account balances 1) an income statement, 2) a statement of owner's equity, and 3) a balance sheet for the month ended October 31, 200x. You will need to calculate the value of the Accounts Payable account (note: remember the basic accounting equation).

Cash	\$1,300
Accounts Receivable	500
Equipment	2,000
Accounts Payable	???
Travis, Capital	3,000
Revenue	1,000
Expenses	700
Travis, Withdrawal	100

ANSWER:

Logan Motorcycles
INCOME STATEMENT
For the month ended October 31, 200x

Revenue	\$1,000
Expenses	<u>700</u>
Net Income	<u>\$300</u>

Logan Motorcycles
STATEMENT OF OWNER'S EQUITY
For the month ended October 31, 200x

H. Logan , Capital, Oct. 1	\$3,000
Net Income	\$300
Less Withdrawals	<u>100</u>
Increase in Capital	<u>200</u>

H. Logan , Capital, Oct. 31 \$3,200

Logan Motorcycles
BALANCE SHEET
October 31, 200x

Assets		Liabilities and Owner's Equity	
		Liabilities	
Cash	\$1,300	Accounts Payable	\$ 600
Accounts Receivable	500	Owner's Equity	
Equipment	<u>2,000</u>	H. Logan , Capital	<u>3,200</u>
Total Assets	<u>\$3,800</u>	Total Liabilities & Owner's Equity	<u>\$3,800</u>

L.O.: 1-4

1.4-17 Determine the ending capital balance of a business which had a beginning capital balance of \$1,970, additional investments of \$530, withdrawals of \$750, revenue of \$3,790, and expenses of \$2,600.

\$ _____

ANSWER:

\$2,940 [$\$1,970 + \$530 - \$750 + \$3,790 - \$2,600$]

L.O.: 1-4

1.4-18 Determine the beginning capital balance of a business having a ending capital balance of \$10,900, no additional investments, withdrawals of \$2,500, and a net income of \$4,100.

\$ _____

ANSWER:

\$9,300 [$\$10,900 - \$4100 + \2500]

L.O.: 1-4

1.4-19 Given the following account balances, determine the total liabilities. Cash \$350, Accounts Receivable \$275, Equipment \$500 and Capital \$900.

\$ _____

ANSWER:

\$225 [$\$350 + \$275 + \$500 - \900]

L.O.: 1-4