

CHAPTER 2

THE RECORDING PROCESS

CHAPTER LEARNING OBJECTIVES

1. ***Describe how accounts, debits, and credits are used to record business transactions.*** Debit means left and credit means right. The normal balance of an asset is a debit because assets are on the left side of the accounting equation. Assets are increased by debits and decreased by credits. The normal balance of liabilities and owner's capital is a credit because they are on the right side of the accounting equation. Liabilities and owner's capital are increased by credits and decreased by debits. Revenues increase owner's equity and therefore are recorded as credits because credits increase owner's equity. Credits increase revenues and debits decrease revenues. Expenses and drawings decrease owner's equity and therefore are recorded as debits because debits decrease owner's equity. Expenses and drawings are increased by debits and decreased by credits.
2. ***State how a journal is used in the recording process and journalize transactions.*** The steps in the recording process are the first three steps in the accounting cycle. These steps are: (a) analyze each transaction for its effect on the accounts, (b) record the transaction in a journal, and (c) transfer the journal information to the correct accounts in the ledger.
A journal: (a) discloses the complete effect of a transaction in one place, (b) provides a chronological record of transactions, (c) helps to prevent and locate errors because the debit and credit amounts for each entry can be easily compared, and (d) explains the transaction and, if there is one, identifies the source document.
3. ***Explain how a ledger helps in the recording process and post transactions.*** The entire group of accounts maintained by a company is called the ledger. The ledger keeps in one place all the information about changes in each of the specific account balances. Posting is the procedure of transferring journal entries to the ledger accounts. After the journal entries have been posted, the ledger will show all of the increases and decreases that have been made to each account.
4. ***Prepare a trial balance.*** A trial balance is a list of the accounts in the ledger and the account balances at a specific time. Its main purpose is to prove that debits and credits are equal after posting. A trial balance uncovers certain types of errors in journalizing and posting, and is useful in preparing financial statements. Preparing a trial balance is the fourth step in the accounting cycle.

TRUE-FALSE STATEMENTS

1. An account can have debit entries and credit entries.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

2. A debit to an asset account indicates an increase in that account.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

3. The normal balance of all liability accounts is a debit.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

4. An asset is increased by a debit.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

5. The double-entry system of accounting ensures that all the debits will equal all the

credits in an entry.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

6. The normal balance in an asset account is a debit.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

7. The drawings account is a subdivision of the owner's capital account and appears as an expense on the income statement.

Answer: False

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

8. The normal balance of a revenue account is a credit.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

9. The normal balance for the cash account is a credit.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.
Section Reference: The Account
CPA: Financial Reporting

10. Each time a transaction is recorded; one side of the entry will be to cash.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: State how a journal is used in the recording process and journalize transactions.
Section Reference: Analyzing and Recording Transactions
CPA: Financial Reporting

11. The use of different accounts is necessary to allow users to analyze the information.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: State how a journal is used in the recording process and journalize transactions.
Section Reference: Analyzing and Recording Transactions
CPA: Financial Reporting

12. For transactions to be recorded correctly, debits must always be greater than credits.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: State how a journal is used in the recording process and journalize transactions.
Section Reference: Analyzing and Recording Transactions
CPA: Financial Reporting

13. Source documents can provide evidence that a transaction has occurred.

Answer: True

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: State how a journal is used in the recording process and journalize

transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

14. A transaction must be analyzed to determine which accounts it will effect.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

15. Transactions are entered in the trial balance and then transferred to journals.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

16. All business transactions must have a corresponding journal entry.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

17. The first step in the recording process is to enter the transaction information in a journal.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

18. The number and types of accounts used by different business enterprises are the same if generally accepted accounting principles are being followed by the enterprises.

Answer: False

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

19. The accounting cycle is a series of steps followed by accountants in preparing financial statements.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

20. A simple journal entry requires only one debit to an account and one credit to an account.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

21. A compound journal entry may require debits to several accounts and credits to several accounts.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

22. Transactions are recorded in alphabetical order in a journal.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

23. Transactions are entered in the ledger first and then they are analyzed in terms of their effect on the accounts.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: Analyzing and Recording Transactions

Section Reference: The Ledger

CPA: Financial Reporting

24. Posting is the transfer of journal entries to the ledger accounts.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

25. The chart of accounts is list of all the accounts in a company.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

26. A chart of accounts should be arranged in alphabetical order for easier reference.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

27. A ledger is the entire group of accounts maintained by a company.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

28. Posting must be completed before a trial balance can be done.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

29. For the trial balance to balance, the debits must equal the credits.

Answer: True

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

30. If the trial balance balances, it proves that all of the entries have been made correctly.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Prepare a trial balance.
Section Reference: The Trial Balance
CPA: Financial Reporting

31. If an entry has been posted to the accounts twice, the trial balance will still balance.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Prepare a trial balance.
Section Reference: The Trial Balance
CPA: Financial Reporting

32. Preparing the trial balance is the first step in the accounting cycle.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Prepare a trial balance.
Section Reference: The Trial Balance
CPA: Financial Reporting

33. A transposition error involves the reversing of numbers in the posting process.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Prepare a trial balance.
Section Reference: The Trial Balance
CPA: Financial Reporting

34. After a transaction has been posted, the trial balance will balance.

Answer: False

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Prepare a trial balance.
Section Reference: The Trial Balance
CPA: Financial Reporting

35. A trial balance does NOT prove that all transactions have been recorded or that the ledger is correct.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

36. If a journal entry is posted twice, then this error will be found when the trial balance is produced.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

37. If the trial balance is out of balance and the difference between the debits and the credits is divisible evenly by nine then there is a transposition error.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

38. Errors in a trial balance may only be caused by an error in posting the journal entries to the accounts.

Answer: False

Bloomcode: Evaluation

Difficulty: Medium

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

39. If a journal entry is NOT posted to an account, then the trial balance will NOT balance.

Answer: False

Bloomcode: Evaluation

Difficulty: Medium

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

40. A trial balance that balances proves only that the debit accounts equal the credit accounts.

Answer: True

Bloomcode: Evaluation

Difficulty: Medium

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

41. A trial balance may be done at any time during the accounting cycle.

Answer: True

Bloomcode: Evaluation

Difficulty: Medium

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

MULTIPLE CHOICE QUESTIONS

42. The left side of an account is
- a) the date.
 - b) a description of the account.
 - c) the debit side.
 - d) the balance of the account.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

43. Which one of the following is NOT a part of an account?
- a) credit side
 - b) trial balance
 - c) date
 - d) title

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

44. An account is used as part of the recording process and is described by all **except** which one of the following?
- a) An account can have either a debit or credit balance.
 - b) An account is a source document.
 - c) An account may be part of a manual or a computerized accounting system.
 - d) An account has a title.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

45. The right side of an account
- a) is the date.
 - b) reflects all transactions for the accounting period.
 - c) is the debit side.
 - d) is the credit side.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

46. An 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.

Answer: c

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

47. A T account
- a) is a way of depicting the basic form of an account.
 - b) is listed in alphabetical order.
 - c) has the debit transactions equal to the credit transactions.
 - d) is used for accounts that have both a debit and credit balance.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

48. Which of the following statements about the tabular summary and account form of the cash account is correct?
- a) All negative amounts in a tabular summary are cash payments and are recorded as debits under the account form.

- b) All positive amounts in the tabular summary are cash receipts and are recorded as credits under the account form.
- c) A positive cash balance in a tabular summary is reflected as a debit balance under the account form.
- d) Companies are required to use both a tabular summary and the account form.

Answer: c

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

49. A debit to an asset account always indicates

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

Answer: d

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

50. A debit to a liability account always indicates

- a) a liability has been incurred.
- b) an expense has been incurred.
- c) the liability has been decreased.
- d) a liability has been paid.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

51. The normal balance of any account is the

- a) left side.
- b) right side.
- c) side which increases that account.

d) side which decreases that account.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

52. The side of the account where increases are recorded

a) is always the left side.

b) is always the right side.

c) always creates a negative balance.

d) is the same side as the normal balance for that account.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

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

a) in at least two different accounts.

b) twice.

c) in a journal and in a ledger.

d) as an asset and as a liability.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

54. A credit is NOT the normal balance for which account listed below?

a) Capital account

b) Revenue account

c) Liability account

d) Drawings account

Answer: d

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

55. A debit is NOT the normal balance for

- a) an expense account.
- b) a supplies account.
- c) an accounts payable account.
- d) a drawings account.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

56. Which one of the following is equivalent to the expanded basic accounting equation?

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

Answer: b

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

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

- a) Assets Debit
Liabilities Credit
Owner's Equity Credit
Revenues Debit
Expenses Credit
- b) Assets Debit
Liabilities Credit
Owner's Equity Credit
Revenues Credit
Expenses Credit
- c) Assets Credit

	Liabilities	Debit
	Owner's Equity	Debit
	Revenues	Credit
	Expenses	Debit
d)	Assets	Debit
	Liabilities	Credit
	Owner's Equity	Credit
	Revenues	Credit
	Expenses	Debit

Answer: d

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

58. To increase a liability account, the account is
- debited.
 - credited.
 - posted.
 - journalized.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

59. Which of the following is NOT true about an asset?
- Its normal balance is a debit.
 - To increase an asset a debit entry would be made.
 - To increase it, a credit entry should be made.
 - To decrease it, a credit entry should be made.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

60. 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 increase assets.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

61. An awareness of the normal balances of accounts would help you spot which of the following as an error in recording?
- a) a debit balance in an asset 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

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

62. Which account below is NOT a subdivision of owner's equity?
- a) Drawings
 - b) Revenues
 - c) Expenses
 - d) Liabilities

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

63. When an owner makes a withdrawal
- a) it doesn't have to be cash, it could be another asset.
 - b) the drawings account will be increased with a credit.

- c) the capital account will be directly increased with a debit.
- d) the drawings account will be decreased with a debit.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

64. The drawings 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 owner's equity.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

65. Which of the following statements is NOT true?

- a) Expenses increase owner's equity.
- b) Expenses have normal debit balances.
- c) Expenses decrease owner's equity.
- d) Expenses are a negative factor in the calculation of profit.

Answer: a

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

66. A credit to the accounts receivable account

- a) indicates an increase in the amount owed by customers.
- b) indicates a decrease in the amount owed by customers.
- c) is an error.
- d) must be accompanied by a debit to an liability account.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

67. Funds received before the delivery of goods and services would be shown as

- a) unearned revenue on the statement of earnings.
- b) unearned revenue on the balance sheet.
- c) a credit to cash.
- d) sales or service revenue on the statement of earnings.

Answer: b

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

68. Of the following accounts, the one that normally has a debit balance is

- a) Accounts Payable.
- b) Interest Expense.
- c) L. Darnell, Capital.
- d) Consulting Revenue.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

69. An account balance is

- a) not relevant in the accounting cycle.
- b) the sum of all credit transactions within an account.
- c) The net difference between the increases (including the beginning balance) and decreases recorded in the account.
- d) the sum of all debit transactions within an account.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

70. Transactions are recorded for all of the following reasons **except**

- a) when the transaction causes a change in the financial position of the company.
- b) to make all of the accounts balance.
- c) when evidence of the transaction is available.
- d) when there is a specific effect on the accounting equation.

Answer: b

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

71. All of the following transactions should be recorded **except** for

- a) providing services to customers.
- b) purchasing supplies on account.
- c) ordering equipment.
- d) incurring expenses.
- e) All of the above should be recorded.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

72. A debit to an expense account

- a) decreases the owner's equity.
- b) increases owner's equity.
- c) directly affects the drawings account.
- d) has no effect on the balance sheet.

Answer: a

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

73. Which of the following statements is NOT true? The book of original entry

- a) provides a chronological record of transactions.
- b) helps prevent and locate errors.
- c) is the same as the chart of accounts.
- d) helps ensure debits equal credits.

Answer: c

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

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

- a) the number of debit accounts must equal the number of credit accounts.
- 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.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

75. The withdrawal of cash for personal use by the owners of a business requires a ____ to the drawings account and a ____ to the cash account.

- a) debit; debit
- b) debit; credit
- c) credit; credit
- d) credit; debit

Answer: b

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

76. An accountant has debited an asset account for \$1,000 and credited a liability account for \$500. What can be done to complete the recording of the transaction?
- a) Nothing further must be done.
 - b) Debit an owner's equity account for \$500.
 - c) Debit another asset account for \$500.
 - d) Credit a different asset account for \$500.

Answer: b

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

77. An accountant has debited an expense account for \$1,000 and credited an asset account for \$500. Which of the following would be a correct way to complete the recording of the transaction?
- a) Debit an asset account for \$500.
 - b) Credit a liability account for \$500.
 - c) Debit an owner's equity account for \$500.
 - d) Debit a liability account for \$500.

Answer: b

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

78. A company pays \$5,000 to its creditor. This would
- a) increase both the company's assets and liabilities.
 - b) decrease both the company's assets and liabilities.
 - c) decrease the company's liquidity.
 - d) increase the company's owner's equity.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

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

must

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

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

80. A company receives a year's worth of rent in advance. Which of the following statements pertaining to this event is NOT correct?

- a) The company's assets will decrease.
- b) The company's assets will increase.
- c) The company's total equity will remain unchanged.
- d) The company's liabilities will increase.

Answer: a

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

81. If a company has received a payment from a customer, then

- a) its cash account will be debited.
- b) its cash account will be credited.
- c) the cash account debits will exceed the cash account credits.
- d) accounts receivable would be debited.

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

82. The usual 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.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

83. In recording business transactions, evidence that an accounting transaction has taken place is obtained from

- a) source documents of the business.
- b) the Canada Revenue Agency.
- c) the marketing department.
- d) the trial balance.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

84. 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.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

85. All of the following activities are performed on a daily basis **except** for

- a) collecting source documents.

- b) determining the impact of a transaction on the company's financial position.
- c) preparing the journal entries.
- d) preparing the trial balance.

Answer: d

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

86. Basic transaction analysis is

- a) reflected in the accounting records.
- b) required before journalizing an entry.
- c) eliminates mistakes.
- d) all of the above.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

87. The recording process occurs

- a) once a week.
- b) once a month.
- c) repeatedly during the accounting period.
- d) at the end of the accounting period.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

88. 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.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

89. When three or more accounts are required in one journal entry, the entry is referred to as a

- a) compound entry.
- b) double entry.
- c) multiple entry.
- d) simple entry.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

90. The journal entry to record the investment of cash by the owners of a business would require a debit to the Cash account and a credit to

- a) Investments.
- b) Revenue.
- c) Owner's Capital.
- d) Accounts Receivable.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

91. Another name for journal is

- a) listing.
- b) book of original entry.
- c) book of accounts.
- d) book of source documents.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

92. A journal is useful for

- a) disclosing in one place the complete effect of a transaction.
- b) locating and preventing errors.
- c) providing a record of transactions.
- d) all of the above.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

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

- a) debiting.
- b) listing.
- c) posting.
- d) journalizing.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

94. A journal entry

- a) must have the same number of debit entries as credit entries.
- b) must have a debit to an asset and a credit to a liability.
- c) only affect balance sheet accounts.
- d) must have the total of the debit entries equal to the credit entries.

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions
CPA: Financial Reporting

95. Journal entries are prepared

- a) only at the end of the month.
- b) only when cash is received or disbursed.
- c) whenever there is a business transaction which will generate an entry.
- d) only when financial statements are prepared.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

96. Which of the following journal entries records the cash collection for sales and outstanding accounts receivable?

a)	Accounts receivable.....	1,250	
	Cash.....		250
	Sales.....		1,000
b)	Accounts receivable.....	1,000	
	Cash.....	250	
	Sales.....		1,250
c)	Cash.....	1,250	
	Sales.....		1,000
	Accounts receivable.....		250
d)	Sales.....	1,250	
	Accounts receivable.....		1,000
	Cash.....		250

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

97. On June 1, 2017, Joanne White buys a copier machine for her business and finances this purchase with cash and a note. When journalizing this transaction, she will

- a) use two journal entries.
- b) make a compound entry.
- c) make a simple entry.
- d) wait until the end of the month to record the entry.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

98. Which of the following journal entries correctly records the cash payment of salaries and advertising expenses?

a) Advertising Expense.....	1,500	
Wages Expense.....		550
Cash.....		950
b) Wages Expense.....	1,500	
Advertising Expense.....		950
Cash.....		550
c) Cash.....	1,500	
Wages Expense.....		550
Advertising Expense.....		950
d) Wages Expense.....	550	
Advertising Expense.....	950	
Cash.....		1,500

Answer: d

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

99. A journal entry will NOT include

- a) account names.
- b) date of the transaction.
- c) the dollar amount of the transaction.
- d) account balance.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

100. Walker Company sells merchandise on credit to Felix Company. The entry for this

transaction will include a

- a) credit to Accounts Payable for Walker Company.
- b) credit to Accounts Receivable for Felix Company.
- c) debit to Accounts Payable for Felix Company.
- d) debit to Accounts Receivable for Walker Company.

Answer: d

Bloomcode: Application

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

101. Which of the following journal entries would NOT be considered a compound journal entry?

a) Land	60,500	
Building.....	105,500	
Cash		166,000
b) Wages Expense	1,500	
Wages Payable.....		950
Cash		550
c) Equipment	10,500	
Notes Payable		10,500
d) Wages Expense	550	
Advertising Expense	950	
Cash		1,500

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

102. A chart of accounts is

- a) is only necessary for manual systems.
- b) used only in companies with a complex business structure.
- c) the first step in designing an accounting system.
- d) a relatively simplistic way of classifying accounts.

Answer: c

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger
CPA: Financial Reporting

103. The following is a record that contains all of the company's accounts.

- a) journal
- b) tabular summary
- c) trial balance
- d) ledger

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

104. In the first month of operations, the total of the debit entries to the cash account amounted to \$900 and the total of the credit entries to the cash account amounted to \$500. The cash account has a

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

Answer: c

Bloomcode: Application

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

105. In the second month of operations, the total of the debit entries to the cash account amounted to \$900 and the total of the credit entries to the cash account amounted to \$500. The opening balance of the cash account was \$200. The cash account has a

- a) \$500 credit balance.
- b) \$900 debit balance.
- c) \$600 debit balance.
- d) \$400 credit balance.

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger
CPA: Financial Reporting

106. In the second month of operations, the total of the debit entries to the accounts receivable account amounted to \$500 and the total of the credit entries to the accounts receivable account amounted to \$300. The opening balance of the accounts receivable account was \$200. The accounts receivable account has a

- a) \$500 debit balance.
- b) \$300 debit balance.
- c) \$400 debit balance.
- d) \$0 balance.

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

107. After a business transaction has been analyzed and entered in the book of original entry, the next step in the recording process is to transfer the information to

- a) the trial balance.
- b) owner's equity.
- c) ledger accounts.
- d) the journal.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

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

- a) trial balance.
- b) balance sheet.
- c) posting journal.
- d) ledger.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post

transactions.

Section Reference: The Ledger

CPA: Financial Reporting

109. The final step in the recording process is to transfer the journal information to the

- a) trial balance.
- b) financial statements.
- c) ledger.
- d) general journal.

Answer: c

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

110. A chart of accounts does NOT include

- a) account balances.
- b) account numbers.
- c) account titles.
- d) list of all accounts.

Answer: a

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

111. A chart of accounts for a company

- a) is a graph of the financial position of the company.
- b) indicates the amount of profit or loss for the period.
- c) lists the accounts and account numbers that identify their location in the ledger.
- d) shows the balance of each account in the general ledger.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

112. A numbering system for a chart of accounts
- a) is prescribed by GAAP.
 - b) is uniform for all businesses.
 - c) usually starts with income statement accounts.
 - d) usually starts with balance sheet accounts.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

113. The first step in designing an accounting system is the creation of the
- a) general ledger.
 - b) general journal.
 - c) trial balance.
 - d) chart of accounts.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

114. For a sole proprietorship, the usual ordering of accounts in the general ledger is
- a) assets, liabilities, owner's capital, drawings, revenues, and expenses.
 - b) assets, liabilities, drawings, owner's capital, expenses, and revenues.
 - c) liabilities, assets, owner's capital, revenues, expenses, and drawings.
 - d) owners' capital, assets, liabilities, drawings, expenses, and revenues.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

115. Management could determine the amounts due from customers by examining which ledger account?
- a) Service Revenue

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

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

116. Management could determine the amounts owing to suppliers by examining which ledger account?

- a) Supplies
- b) Cash
- c) Accounts Payable
- d) Supplies expense

Answer: c

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

117. The ledger accounts should be arranged in

- a) chronological order.
- b) alphabetical order.
- c) statement order.
- d) debit accounts first and then credit accounts.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

118. A three-column form of account is so named because it has columns for

- a) debit, credit, and account name.
- b) debit, credit, and reference.
- c) debit, credit, and balance.
- d) debit, credit, and date.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

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

a) journalizing.

b) analyzing.

c) reporting.

d) posting.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

120. Posting

a) is only done in a manual accounting system.

b) accumulates the effects of journalized transactions in the individual accounts.

c) involves transferring all debits and credits on a journal page to the trial balance.

d) is accomplished by examining ledger accounts and seeing which ones need updating.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

121. After journal entries are posted, the reference column

a) of the general journal will show the account balance.

b) of the general ledger will show journal page numbers.

c) of the general journal will show "Dr" or "Cr".

d) of the general ledger will show account numbers.

Answer: b

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

122. Posting to the general ledger in a manual accounting system is usually performed

- a) when the accountant is in the office.
- b) when the transaction is recorded.
- c) when financial statements are being prepared.
- d) when Canada Revenue Agency performs an audit.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

123. Which of the following is a correct numbering system to identify accounts within the chart of accounts?

- a) 101–Cash; 201–Accounts Payable; 301–K. Clarke; Capital; 401–Consulting Revenue
- b) 101–K. Clarke, Capital; 201–Consulting Revenue; 301–Cash; 401–Accounts Payable
- c) 101–Cash; 201–Consulting Revenue; 301–Accounts Payable; 401–K. Clarke, Capital
- d) 101–Accounts Payable; 201–K. Clarke, Capital; 301–Consulting Revenue; 401–Cash

Answer: a

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

124. Which of the following is typically NOT included within a manual record general ledger?

- a) transaction date
- b) explanation
- c) posting reference
- d) account balance

Answer: b

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: Explain how a ledger helps in the recording process and post

transactions.

Section Reference: The Ledger

CPA: Financial Reporting

125. A trial balance does NOT include

- a) account names.
- b) account balances.
- c) journal entries details.
- d) date of trial balance.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

126. The following types of error(s) still allow the trial balance debit and credit columns to be equal.

- a) missed entries
- b) transposed numbers
- c) addition errors
- d) missed accounts

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

127. A listing of the balances of all assets, liabilities, and owner's equity accounts is called a

- a) compound entry.
- b) general journal.
- c) trial balance.
- d) chart of accounts.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

128. A list of accounts and their balances at a given time is called

- a) a journal.
- b) a posting.
- c) a trial balance.
- d) an income statement.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

129. 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) all entries have been posted.
- d) the mathematical equality of the accounting equation.

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

130. A trial balance is a listing of

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

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

131. Customarily, a trial balance in a manual system 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 at the inception of the business.

Answer: c

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Prepare a trial balance.
Section Reference: The Trial Balance
CPA: Financial Reporting

132. A trial balance would 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) a transposition error when transferring the debit side of a journal entry to the ledger

Answer: d

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Prepare a trial balance.
Section Reference: The Trial Balance
CPA: Financial Reporting

133. Sebastian Piel is the accountant for the Canadian Athletic Association. He has just prepared the company's trial balance and discovered that the total debits are \$9,257 and total credits are \$9,230. Sebastian has likely made which of the following errors?
- a) Posted the journal entries to the wrong accounts.
 - b) Posted a debit as a credit.
 - c) Transposed two numbers during posting.
 - d) Forgotten to make a journal entry.

Answer: c

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Prepare a trial balance.
Section Reference: The Trial Balance
CPA: Financial Reporting

134. Which of the following statements about errors or irregularities is INCORRECT?
- a) Irregularities are unintentional errors.
 - b) An error is neither ethical nor unethical.
 - c) An error is the result of an unintentional mistake.
 - d) Irregularities are the result of an intentional mistake and are generally considered unethical.

Answer: a

Bloomcode: Knowledge
Difficulty: Medium

Learning Objective: Prepare a trial balance.
Section Reference: The Trial Balance
CPA: Financial Reporting

135. Ladybug Creamery is producing its first financial statements for its bank. The trial balance does NOT balance. The company should
- a) create a new account called "Suspense" and use it to balance the trial balance.
 - b) give the incorrect trial balance to the bank.
 - c) ask the bank for more time to find the error.
 - d) increase one of the larger accounts so that the trial balance will balance.

Answer: c

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Prepare a trial balance.
Section Reference: The Trial Balance
CPA: Financial Reporting

136. Frank's Sports Adventures has hired a new accountant. When she reviewed the financial statements for the previous year, she found a significant error which would mean that the statements were wrong. She should NOT
- a) create a new account called "Suspense" and use it to correct the error.
 - b) notify the Management of the company immediately of the problem.
 - c) research the journal entries to try and find the error.
 - d) review all of the transactions for the past year for reasonableness.

Answer: a

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Prepare a trial balance.
Section Reference: The Trial Balance
CPA: Financial Reporting

137. Flinn's Forest Products showed the following account balances at the end of 2017:

Cash.....	\$ 62,000
Accounts Receivable	21,000
Accounts Payable.....	16,600
Unearned Revenue	1,200
Sales	112,000
Flinn, Capital	71,500
Flinn, Withdrawals	62,000
Office Supplies	2,800
Wages Expense	45,000
Utilities Expense.....	8,500

Assuming all accounts have normal balances, what are the totals for the debit and credit columns in the trial balance?

- a) \$201,300

- b) \$200,100
- c) \$139,300
- d) \$129,800

Answer: a

Bloomcode: Application

Difficulty: Hard

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

138. Which of the following is NOT a valid reason for a trial balance to be considered "out of balance"?

- a) an error in copying an account balance from the ledger to the trial balance
- b) a transposition error
- c) posting equally to both sides of an entry
- d) posting only one side of an entry

Answer: c

Bloomcode: Knowledge

Difficulty: Medium

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

MATCHING QUESTIONS

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

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

139. The side which increases an account. _____

Answer: B

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

140. An accounting record of increases and decreases in
Specific assets, liabilities, and owner's equity items. _____

Answer: A

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

141. Left side of an account. _____

Answer: C

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

142. Has a credit normal balance. _____

Answer: D

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.
Section Reference: The Account
CPA: Financial Reporting

143. An entry that involves three or more accounts. _____

Answer: E

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: State how a journal is used in the recording process and journalize transactions.
Section Reference: Analyzing and Recording Transactions
CPA: Financial Reporting

144. An entry that involves only two accounts. _____

Answer: J

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: State how a journal is used in the recording process and journalize transactions.
Section Reference: Analyzing and Recording Transactions
CPA: Financial Reporting

145. A book of original entry. _____

Answer: F

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: State how a journal is used in the recording process and journalize transactions.
Section Reference: Analyzing and Recording Transactions
CPA: Financial Reporting

146. A list of all the accounts used by an enterprise. _____

Answer: H

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Explain how a ledger helps in the recording process and post

transactions.

Section Reference: The Ledger

CPA: Financial Reporting

147. Transferring journal entries to ledger accounts. _____

Answer: G

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

148. A list of accounts and their balances at a given time. _____

Answer: I

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

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CHAPTER 2

THE RECORDING PROCESS

CHAPTER LEARNING OBJECTIVES

1. ***Describe how accounts, debits, and credits are used to record business transactions.*** Debit means left and credit means right. The normal balance of an asset is a debit because assets are on the left side of the accounting equation. Assets are increased by debits and decreased by credits. The normal balance of liabilities and owner's capital is a credit because they are on the right side of the accounting equation. Liabilities and owner's capital are increased by credits and decreased by debits. Revenues increase owner's equity and therefore are recorded as credits because credits increase owner's equity. Credits increase revenues and debits decrease revenues. Expenses and drawings decrease owner's equity and therefore are recorded as debits because debits decrease owner's equity. Expenses and drawings are increased by debits and decreased by credits.
2. ***State how a journal is used in the recording process and journalize transactions.*** The steps in the recording process are the first three steps in the accounting cycle. These steps are: (a) analyze each transaction for its effect on the accounts, (b) record the transaction in a journal, and (c) transfer the journal information to the correct accounts in the ledger.
A journal: (a) discloses the complete effect of a transaction in one place, (b) provides a chronological record of transactions, (c) helps to prevent and locate errors because the debit and credit amounts for each entry can be easily compared,

and (d) explains the transaction and, if there is one, identifies the source document.

3. ***Explain how a ledger helps in the recording process and post transactions.***

The entire group of accounts maintained by a company is called the ledger. The ledger keeps in one place all the information about changes in each of the specific account balances. Posting is the procedure of transferring journal entries to the ledger accounts. After the journal entries have been posted, the ledger will show all of the increases and decreases that have been made to each account.

4. ***Prepare a trial balance.*** A trial balance is a list of the accounts in the ledger and the account balances at a specific time. Its main purpose is to prove that debits and credits are equal after posting. A trial balance uncovers certain types of errors in journalizing and posting, and is useful in preparing financial statements. Preparing a trial balance is the fourth step in the accounting cycle.

EXERCISES

Exercise 1

Identify each of the following accounts as an asset, liability, equity, revenue or expense.

1. L. Ralph, Capital _____
2. Consulting Revenue _____
3. Accounts Payable _____
4. Office Supplies _____
5. Prepaid Advertising _____
6. Machinery _____
7. Cash _____
8. L. Ralph, Withdrawals _____
9. Salaries Expense _____
10. Repairs & Maintenance _____
11. Accounts Receivable _____
12. Unearned Revenue _____
13. Rent Revenue _____

Solution 1 (5 min.)

1. Equity
2. Revenue
3. Liability
4. Asset
5. Asset
6. Asset
7. Asset
8. Equity
9. Expense
10. Expense
11. Asset
12. Liability
13. Revenue

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account
CPA: Financial Reporting

Exercise 2

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

<u>Accounts</u>	<u>Normal Balance Debit or Credit</u>
1. Repairs & Maintenance	_____
2. Interest Receivable	_____
3. Prepaid Insurance	_____
4. Unearned Revenue	_____
5. Insurance Expense	_____
6. Fees Earned	_____
7. Machinery	_____
8. Notes Payable	_____
9. Land	_____
10. Owner Withdrawals	_____

Solution 2 (5 min.)

<u>Accounts</u>	<u>Normal Balance Debit or Credit</u>
1. Repairs & Maintenance	<u>Debit</u>
2. Interest Receivable	<u>Debit</u>
3. Prepaid Insurance	<u>Debit</u>
4. Unearned Revenue	<u>Credit</u>
5. Insurance Expense	<u>Debit</u>
6. Fees Earned	<u>Credit</u>
7. Machinery	<u>Debit</u>
8. Notes Payable	<u>Credit</u>
9. Land	<u>Debit</u>
10. Owner Withdrawals	<u>Debit</u>

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

Exercise 3

The following accounts relate to Harold's Pool & Spas Co.:

1. Land
2. Installation Revenue
3. Land
4. Notes Receivable
5. Harold, Capital
6. Sales
7. Prepaid Insurance
8. Interest Payable
9. Commission Expense
10. Salaries Payable
11. Unearned Revenue
12. Harold, Withdrawals

Instructions

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

	Type of Account			Normal Balance	
	<u>Asset</u>	<u>Liability</u>	<u>Equity</u>	<u>Debit</u>	<u>Credit</u>
1.	<u> X </u>	<u> </u>	<u> </u>	<u> X </u>	<u> </u>
2.	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
3.	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
4.	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
5.	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
6.	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
7.	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
8.	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
9.	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
10.	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
11.	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
12.	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Solution 3 (10 min.)

	Type of Account			Normal Balance	
	<u>Asset</u>	<u>Liability</u>	<u>Equity</u>	<u>Debit</u>	<u>Credit</u>
1.	<u> X </u>	<u> </u>	<u> </u>	<u> X </u>	<u> </u>
2.	<u> </u>	<u> </u>	<u> X </u>	<u> </u>	<u> X </u>
3.	<u> X </u>	<u> </u>	<u> </u>	<u> X </u>	<u> </u>
4.	<u> X </u>	<u> </u>	<u> </u>	<u> X </u>	<u> </u>
5.	<u> </u>	<u> </u>	<u> X </u>	<u> </u>	<u> X </u>
6.	<u> </u>	<u> </u>	<u> X </u>	<u> </u>	<u> X </u>
7.	<u> X </u>	<u> </u>	<u> </u>	<u> X </u>	<u> </u>

8.	<u> </u>	<u> X </u>	<u> </u>	<u> </u>	<u> X </u>
9.	<u> </u>	<u> </u>	<u> X </u>	<u> X </u>	<u> </u>
10.	<u> </u>	<u> X </u>	<u> </u>	<u> </u>	<u> X </u>
11.	<u> </u>	<u> X </u>	<u> </u>	<u> </u>	<u> X </u>
12.	<u> </u>	<u> </u>	<u> X </u>	<u> X </u>	<u> </u>

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

Exercise 4

The chart of accounts used by Fortier Copy Company is listed below:

10	Cash	30	D. Fortier, Capital
12	Accounts Receivable	35	D. Fortier, Drawings
15	Paper Supplies	40	Photocopy Revenue
18	Copy Machines	51	Advertising Expense
22	Accounts Payable	53	Rent Expense
25	Notes Payable	54	Wages Expense
28	Unearned Revenue		

Instructions

Indicate the proper accounts to be debited and credited for the following transactions by writing the account number(s) in the appropriate columns.

_____	Number(s) of account(s)	Number(s) of
account(s)	debited	credited
1. Dan Fortier invests \$90,000 cash to start the business.		
2. Purchased three photocopy machines for \$200,000, paying \$50,000 cash and signing a 5-year, 6% note for the remainder.		
3. Purchased \$5,000 paper supplies on credit.		

4. Cash photocopy revenue amounted to \$7,000.

5. Paid \$500 cash for radio advertising.

6. Paid \$800 on account for paper supplies purchased in transaction 3.

7. Dan Fortier withdrew \$1,500 from the business for personal expenses.

8. Paid \$1,200 cash for rent for the current month.

9. Received \$2,000 cash advance from a customer for future copying.

10. Billed a customer for \$450 for photocopy work done.

11. Paid \$400 for wages for the month.

Solution 4 (15 min.)

account(s)	Number(s) of account(s) debited	Number(s) of credited
1. Dan Fortier invests \$90,000 cash to start the business.	10	30
2. Purchased three photocopy machines for \$200,000, paying \$50,000 cash and signing a 5-year, 6% note for the remainder.	18	10, 25
3. Purchased \$5,000 paper supplies on credit.	15	22

4. Cash photocopy revenue amounted to \$7,000.	10	40
5. Paid \$500 cash for radio advertising.	51	10
6. Paid \$800 on account for paper supplies purchased in transaction 3.	22	10
7. Dan Fortier withdrew \$1,500 from the business for personal expenses.	35	10
8. Paid \$1,200 cash for rent for the current month.	53	10
9. Received \$2,000 cash advance from a customer for future copying.	10	28
10. Billed a customer for \$450 for photocopy work done.	12	40
11. Paid \$400 for wages for the month.	54	10

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

Exercise 5

Indicate whether you would use a debit or a credit to record the following changes:

	<u>Debit or Credit</u>
1. An increase in Salary Expense	_____
2. A decrease in Accounts Payable	_____
3. An increase in Prepaid Insurance	_____
4. An increase in Owner's Capital	_____
5. A decrease in Office Supplies	_____
6. An increase in Owner's Drawings	_____
7. An increase in Service Revenue	_____
8. A decrease in Accounts Receivable	_____
9. An increase in Rent Expense	_____

10. A decrease in Store Equipment	_____
Solution 5 (5 min.)	
1. An increase in Salary Expense	_____ Debit _____
2. A decrease in Accounts Payable	_____ Debit _____
3. An increase in Prepaid Insurance	_____ Debit _____
4. An increase in Owner's Capital	_____ Credit _____
5. A decrease in Office Supplies	_____ Credit _____
6. An increase in Owner's Drawings	_____ Debit _____
7. An increase in Service Revenue	_____ Credit _____
8. A decrease in Accounts Receivable	_____ Credit _____
9. An increase in Rent Expense	_____ Debit _____
10. A decrease in Store Equipment	_____ Credit _____

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

Exercise 6

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

<u>Accounts</u>	<u>Normal Balance Debit or Credit</u>
1. Service Revenue	_____
2. Cash	_____
3. Accounts Receivable	_____
4. Accounts Payable	_____
5. Owner's Capital	_____
6. Prepaid Insurance	_____
7. Insurance Expense	_____
8. Owner's Drawings	_____
9. Office Building	_____
10. Notes Receivable	_____

Solution 6 (5 min.)

<u>Accounts</u>	<u>Normal Balance Debit or Credit</u>
1. Service Revenue	_____ Credit _____

2. Cash	<u>Debit</u>
3. Accounts Receivable	<u>Debit</u>
4. Accounts Payable	<u>Credit</u>
5. Owner's Capital	<u>Credit</u>
6. Prepaid Insurance	<u>Debit</u>
7. Insurance Expense	<u>Debit</u>
8. Owner's Drawings	<u>Debit</u>
9. Office Building	<u>Debit</u>
10. Notes Receivable	<u>Debit</u>

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

Exercise 7

Using the accounts listed below, state the account to be debited and the account to be credited for each of the following transactions:

1. Owner invested cash in the business.
2. Purchased equipment for cash.
3. Earned revenue on account.
4. Purchased supplies on account.
5. Paid for supplies purchased in 4.
6. Received payment from customer in 3.
7. Paid employee salaries.
8. Owner withdrew cash for personal use.
9. Purchased equipment on credit.
10. Owner used personal funds to purchase a new computer for use in the business.

ACCOUNTS

Cash	Owner's Capital
Accounts Receivable	Owner's Drawings
Supplies	Revenue
Equipment	Salaries Payable
Accounts Payable	Salaries Expense

Solution 7 (10 min.)

<u>Debit</u>	<u>Credit</u>
--------------	---------------

1.	Cash	Owner's Capital
2.	Equipment	Cash
3.	Accounts Receivable	Revenue
4.	Supplies	Accounts Payable
5.	Accounts Payable	Cash
6.	Cash	Accounts Receivable
7.	Salaries Expense	Cash
8.	Owner's Drawings	Cash
9.	Equipment	Accounts Payable
10.	Equipment	Owner's Capital

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

Exercise 8

Identify the account to be debited and the account to be credited for each of the following transactions:

1. Purchased equipment for cash and a note payable.
2. Accepted a cash deposit from a customer for a service to be provided next month.
3. Provided services on account.
4. Purchased supplies on account.
5. Received payment from the client in 3.
6. Provided services to customer in 2 and collected cash for the remaining work done.
7. Owner paid himself.
8. Paid in full for equipment purchased in 1.

Solution 8 (10 min.)

	<u>Debit</u>	<u>Credit</u>
1.	Equipment	Cash, Note Payable
2.	Cash	Unearned Revenue
3.	Accounts Receivable	Revenue / Sales
4.	Supplies	Accounts Payable
5.	Cash	Accounts Receivable

6.	Unearned Revenue, Cash	Revenue / Sales
7.	Owner's Drawings	Cash
8.	Note Payable	Cash

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

Exercise 9

Eight transactions are recorded in the following T accounts:

Cash				Accounts Receivable	
(1)	35,000	(2)	3,500	(5)	27,500
(7)	22,500	(3)	1,950	(7)	22,500
		(4)	2,225		
		(6)	8,000		
		(8)	4,500		
Supplies				Equipment	
(3)	1,950	(2)	13,500		
T. Shaw, Capital				Service Revenue	
		(1)	35,000	(5)	27,500
Accounts Payable				T. Shaw, Drawings	
(6)	8,000	(2)	10,000	(8)	4,500
Salaries Expense					
(4)	2,225				

Instructions

Indicate for each debit and each credit:

- whether an asset, liability, capital, drawings, revenue, or expense account was affected, and
- whether the account was increased (+) or decreased (-).

Answers should be presented in the following chart form:

Transaction No.	<u>Account Debited</u>		<u>Account Credited</u>	
	Type	Effect	Type	Effect
(1) (Example)	Asset	+	Capital	+
(2)				
(3)				
(4)				
(5)				
(6)				
(7)				
(8)				

Solution 9 (15 min.)

Transaction No.	<u>Account Debited</u>		<u>Account Credited</u>	
	Type	Effect	Type	Effect
(1) (Example)	Asset	+	Capital	+
(2)	Asset	+	Asset Liability	- +
(3)	Asset	+	Asset	-
(4)	Expense	+	Asset	-
(5)	Asset	+	Revenue	+
(6)	Liability	-	Asset	-
(7)	Asset	+	Asset	-

(8)	Drawings +	Asset -
-----	------------	----------------------------

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

Exercise 10

Mary Bartlett has operated a lawn care business for 3 months. The following transactions occurred in the fourth month:

1. Mary decides that the business needs a new vehicle. A truck is purchased for \$20,000 and financed by a note payable for the full amount.
2. Mary invested \$5,000 of her own funds in the business.
3. Invoices to customers were issued for services completed. The total invoices amount to \$4,500.
4. Paid \$350 on account for supplies purchased the prior month.
5. Collected \$3,750 from customers for work completed and invoiced the prior month.
6. Paid wages of \$250 to an assistant.
7. Received \$300 deposit from a new customer for whom work will not be performed until next month.

For each transaction, complete the information in the following table:

Transaction:	1	2	3	4	5	6	7
Account debited (name)							
Type of account (asset, liability, owner's equity)							
Normal balance of the account							
Is the account increased or decreased?							
Account credited (name)							
Type of account (asset, liability, owner's equity)							
Normal balance of the account							

Is the account increased or decreased?							
--	--	--	--	--	--	--	--

Solution 10 (15 min.)

Transaction:	1	2	3	4	5	6	7
Account debited (name)	Vehicle/equipment	Cash	Accounts Receivable	Accounts Payable	Cash	Wages Expense	Cash
Type of account (asset, liability, owner's equity)	Asset	Asset	Asset	Liability	Asset	Owner's equity	Asset
Normal balance of the account	DR	DR	DR	CR	DR	DR	DR
Is the account increased or decreased?	Increase	Increase	Increase	Decrease	Increase	Increase	Increase
Account credited (name)	Note Payable	M. Bartlett, Capital	Service Revenue	Cash	Accounts Receivable	Cash	Unearned Revenue
Type of account (asset, liability, owner's equity)	Liability	Owner's equity	Owner's equity	Asset	Asset	Asset	Liability
Normal balance of the account	CR	CR	CR	DR	DR	DR	CR
Is the account increased or decreased?	Increase	Increase	Increase	Decrease	Decrease	Decrease	Increase

Bloomcode: Comprehension

Difficulty: Hard

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

Exercise 11

For each of the following accounts indicate:

- the type of account (Asset, Liability, Owner's capital, Owner's drawings, Revenue, Expense),
- the debit and credit effects, and
- the normal account balance.

Example

- Cash
 - Asset account
 - Debit increases, credit decreases
 - Normal balance – debit

ACCOUNTS

- | | |
|------------------------|----------------------|
| 1. Accounts Payable | 5. Service Revenue |
| 2. Accounts Receivable | 6. Insurance Expense |

- | | |
|-------------------------|------------------|
| 3. D. Chester, Capital | 7. Notes Payable |
| 4. D. Chester, Drawings | 8. Equipment |

Solution 11 (15 min.)

- | | |
|--|---|
| 1. a) Liability account.
b) Debit decreases, credit increases.
increases.
c) Normal balance – credit. | 5. a) Revenue account.
b) Debit decreases, credit
increases.
c) Normal balance – credit. |
| 2. a) Asset account.
b) Debit increases, credit decreases.
decreases.
c) Normal balance – debit. | 6. a) Expense account.
b) Debit increases, credit
increases.
c) Normal balance – debit. |
| 3. a) Owner's capital account.
b) Debit decreases, credit increases.
increases.
c) Normal balance – credit. | 7. a) Liability account.
b) Debit decreases, credit
increases.
c) Normal balance – credit. |
| 4. a) Owner's drawings account.
b) Debit increases, credit decreases.
decreases.
c) Normal balance – debit. | 8. a) Asset account.
b) Debit increases, credit
increases.
c) Normal balance – debit. |

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

Exercise 12

Shadow's Magic Store has balances in the following accounts at the end of May:

- | | |
|------------------------|----------------------|
| 1. Supplies | 6. Owner's Capital |
| 2. Accounts Receivable | 7. Prepaid Insurance |
| 3. Unearned Revenue | 8. Equipment |
| 4. Salaries Payable | 9. Accounts Payable |
| 5. Commission Revenue | 10. Notes Payable |

Instructions

For each of the accounts indicate:

- the type of account (Asset, Liability, Owner's capital, Owner's drawings, Revenue, Expense),
- the debit and credit effects, and
- the normal account balance.

Solution 12 (15 min.)

- | | |
|---|--|
| 1. a) Asset account.
b) Debit increases, credit decreases. | 6. a) Owner's Capital account.
b) Debit decreases, credit
increases. |
|---|--|

increases.

- | | |
|--|--|
| c) Normal balance – debit. | c) Normal balance – credit. |
| 2. a) Asset account.
b) Debit increases, credit decreases.
decreases.
c) Normal balance – debit. | 7. a) Asset account.
b) Debit increases, credit
decreases.
c) Normal balance – debit. |
| 3. a) Liability account.
b) Debit decreases, credit increases.
decreases.
c) Normal balance – credit. | 8. a) Asset account.
b) Debit increases, credit
decreases.
c) Normal balance – debit. |
| 4. Liability account.
b) Debit decreases, credit increases.
increases.
c) Normal balance – credit. | 9. a) Liability account.
b) Debit decreases, credit
increases.
c) Normal balance – credit. |
| 5. Revenue account.
b) Debit decreases, credit increases.
increases.
c) Normal balance – credit. | 10. a) Liability account.
b) Debit decreases, credit
increases.
c) Normal balance – credit. |

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

Exercise 13

For each transaction given, enter in the tabulation given below a "D" for debit and a "C" for credit to reflect the increases and decreases of the assets, liabilities, and owner's equity accounts. In some cases there may be a "D" and a "C" in the same column. If there is not a transaction which needs to be recorded, leave the column blank.

Transactions:

1. Owner invests cash in the business.
2. Pays insurance in advance for six months.
3. Hires new administrative assistant.
4. Purchases office supplies on account.
5. Pays electricity bill.
6. Borrows money from local bank.
7. Makes payment on account.
8. Receives cash from customers on account.
9. Provides services to customers on account.
10. Owner withdraws assets from the business.

	Transaction #									
	1	2	3	4	5	6	7	8	9	10
Assets										
Liabilities										
Owner's Capital										
Owner's Drawings										
Revenues										
Expenses										

Solution 13 (15 min.)

	Transaction #									
	1	2	3	4	5	6	7	8	9	10
Assets	D	D,C		D	C	D	C	D,C	D	C
Liabilities				C		C	D			
Owner's Capital	C									
Owner's Drawings										D
Revenues									C	
Expenses					D					

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Describe how accounts, debits, and credits are used to record business transactions.

Section Reference: The Account

CPA: Financial Reporting

Exercise 14

The listing below includes all steps in the accounting cycle:

Journalize/Post adjusting entries.

Analyze business transactions.
Journalize/Post-closing entries.
Journalize the transactions.
Post to ledger accounts.
Prepare adjusted trial balance.
Prepare post-closing trial balance.
Prepare financial statements.
Prepare unadjusted trial balance.

Instructions

Place the steps of the accounting cycle stated above in the correct order.

Solution 14 (5 min.)

1. Analyze business transactions.
2. Journalize the transactions.
3. Post to ledger accounts.
4. Prepare unadjusted trial balance.
5. Journalize/Post adjusting entries.
6. Prepare adjusted trial balance.
7. Prepare financial statements.
8. Journalize/Post-closing entries.
9. Prepare post-closing trial balance.

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

Exercise 15

Nicole Brighten started a painting business in November. Prepare journal entries to record the transactions during the month of November detailed below. You may omit explanations of the transactions.

1. Nicole started the business by investing cash of \$20,000, equipment with a fair value of \$5,000 and painting supplies with a fair value of \$800.
2. Entered into a painting contract with a client for a total of \$2,500 that provided a deposit of \$500 prior to commencing any work.
3. Purchased painting supplies for \$320 on account.
4. Received cash of \$1,200 for painting services rendered.
5. Paid for one year insurance in advance, \$2,400.

6. Completed the painting contract in (2) above and received the balance owing in cash of \$2,000.
7. Paid cash of \$400 from the business bank account for Nicole's personal expenses.
8. Paid for the supplies purchase in (3) above.

Solution 15 (15 min.)

1. Cash.....	20,000	
Equipment.....	5,000	
Painting supplies.....	800	
N. Brighten, Capital.....		25,800
2. Cash.....	500	
Unearned Revenue.....		500
3. Painting Supplies.....	320	
Accounts Payable.....		320
4. Cash.....	1,200	
Painting Revenue.....		1,200
5. Prepaid Insurance.....	2,400	
Cash.....		2,400
6. Unearned Revenue.....	500	
Cash.....	2,000	
Painting Revenue.....		2,500
7. N. Brighten, Withdrawals.....	400	
Cash.....		400
8. Accounts Payable.....	320	
Cash.....		320

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

Exercise 16

Dennis' Concrete Finishing completed the following transactions during the month of August of the current year:

- Aug 1 Purchased a new mixing machine for \$22,500 paying cash of \$2,500 and signing a note payable for the remainder.
- Aug 4 Dennis (owner) purchased a new snowmobile for personal use which he funded with excess cash held by the company, \$12,000.
- Aug 4 Completed finishing work for \$1,700 on account.
- Aug 5 Purchased finishing tools for \$1,100 on account.
- Aug 10 Received payment of \$800 in advance for work to be performed next month.

- Aug 15 Paid annual insurance premiums of \$3,500 which provides coverage for a one-year period expiring next year.
- Aug 17 Received payment in full from the work completed on August 4.
- Aug 21 Paid for items purchased on August 5.
- Aug 23 Dennis invested additional cash of \$10,000 into the business.
- Aug 25 Paid cash of \$400 for an oil change and minor repairs to the company vehicle.
- Aug 31 Paid the August utility bills for a total of \$250.

Instructions

Prepare journal entries to record the transactions. You may omit explanations of the transactions.

Solution 16 (15 min.)

Aug 1	Mixing Machine	22,500	
	Cash		2,500
	Note Payable		20,000
Aug 4	Dennis, Withdrawals	12,000	
	Cash		12,000
Aug 4	Accounts Receivable	1,700	
	Finishing Revenue		1,700
Aug 5	Finishing Tools	1,100	
	Accounts Payable		1,100
Aug 10	Cash	800	
	Unearned Revenue		800
Aug 15	Prepaid Insurance	3,500	
	Cash		3,500
Aug 17	Cash	1,700	
	Accounts Receivable		1,700
Aug 21	Accounts Payable	1,100	
	Cash		1,100
Aug 23	Cash	10,000	
	Dennis, Capital		10,000
Aug 25	Vehicle Repairs & Maintenance	400	
	Cash		400
Aug 31	Utilities Expense	250	
	Cash		250

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

Exercise 17

On January 22, 2017, Christine Gainer invested the following assets in a new sole proprietorship: cash of \$18,000; office equipment with a value of \$8,000; land with a value of \$80,000; building with a value of \$150,000. Gainer also transferred to the company a note payable of \$25,000 that is secured by the land and building.

Instructions

Prepare the journal entry to record Gainer's investments in the new business.

Solution 17 (5 min.)

2017

Jan 22	Cash.....	18,000	
	Office Equipment.....	8,000	
	Land.....	80,000	
	Building	150,000	
	Note Payable.....		25,000
	C. Gainer, Capital.....		231,000

Bloomcode: Application

Difficulty: Easy

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

Exercise 18

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

1. The owner, Donna Rivers, invests \$35,000 in cash to start a real estate office operating as a sole proprietorship.
2. Purchased \$400 of office supplies on credit.
3. Purchased office equipment for \$6,000, paying \$2,500 in cash and signed a 30-day, \$3,500, note payable.
4. Real estate commissions billed to clients amounted to \$4,000.
5. Paid \$700 in cash for the current month's rent.
6. Paid \$200 cash on account for office supplies purchased in transaction 2.
7. Received a bill for \$500 for advertising for the current month.
8. Paid \$2,200 cash for office salaries.
9. Donna Rivers withdrew \$1,200 from the business for living expenses.
10. Received a cheque for \$3,000 from a client in payment on account for commissions billed in transaction 4.

Solution 18 (15 min.)

1.	Cash.....	35,000	
	D. Rivers, Capital.....		35,000
2.	Office Supplies	400	

	Accounts Payable.....		400
3.	Office Equipment.....	6,000	
	Cash.....		2,500
	Notes Payable.....		3,500
4.	Accounts Receivable.....	4,000	
	Real Estate Commission Revenue.....		4,000
5.	Rent Expense.....	700	
	Cash.....		700
6.	Accounts Payable.....	200	
	Cash.....		200
7.	Advertising Expense.....	500	
	Accounts Payable.....		500
8.	Office Salaries Expense.....	2,200	
	Cash.....		2,200
9.	D. Rivers, Drawings.....	1,200	
	Cash.....		1,200
10.	Cash.....	3,000	
	Accounts Receivable.....		3,000

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

Exercise 19

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

- Received \$25,000 cash as investment from Clay Gordon, the company's owner.
- Purchased equipment for \$40,000, paying \$15,000 in cash and giving a note payable for the remainder.
- Paid \$3,000 for a one-year insurance policy.
- Billed customers for \$22,500 of services provided on account.
- Paid monthly rent of \$1,500.
- Performed \$6,500 of services and immediately received \$6,500 cash.
- Collected \$2,000 from customers on account.
- Hired a secretary.
- Paid the secretary his first week's salary of \$700.

Solution 19 (10 min.)

- Cash..... 25,000

	C. Gordon, Capital.....		25,000
2.	Equipment.....	40,000	
	Cash.....		15,000
	Note Payable.....		25,000
3.	Prepaid Insurance.....	3,000	
	Cash.....		3,000
4.	Accounts Receivable.....	22,500	
	Service Revenue.....		22,500
5.	Rent Expense.....	1,500	
	Cash.....		1,500
6.	Cash.....	6,500	
	Service Revenue.....		6,500
7.	Cash.....	2,000	
	Accounts Receivable.....		2,000
8.	No transaction		
9.	Wage Expense.....	700	
	Cash.....		700

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

Exercise 20

- a) Journalize the following business transactions in general journal form. Identify each transaction by number. You may omit explanations of the transactions.
1. The owner, Robbie Cobalt, invested \$50,000 to start a record company operating as a sole proprietorship.
 2. Received a \$10,000 deposit from a customer to produce a record.
 3. Purchased \$15,000 of sound equipment using cash and a \$10,000 loan.
 4. Paid 6 months rent in advance. Monthly rent is \$750.
 5. Provided services for \$12,500, half of which was collected in cash at the time of the sale.
 6. Paid staff salaries of \$3,000.
 7. Paid himself \$2,500.
 8. Collected the remaining outstanding balance on customer accounts.
 9. Paid the outstanding loan, in full, from the purchase of the sound equipment.
- b) What is the cash balance that would appear on the trial balance at the end of the period?

Solution 20 (10 min.)

a)

1.	Cash.....	50,000	
	R. Cobalt, Capital		50,000
2.	Cash.....	10,000	
	Unearned Revenue		10,000
3.	Equipment.....	15,000	
	Cash.....		5,000
	Note Payable.....		10,000
4.	Prepaid Rent	4,500	
	Cash.....		4,500
	(\$750 * 6 mths)		
5.	Accounts Receivable.....	6,250	
	Cash.....	6,250	
	Service Revenue		12,500
6.	Salaries Expense	3,000	
	Cash.....		3,000
7.	R. Cobalt, Drawings	2,500	
	Cash.....		2,500
8.	Cash.....	6,250	
	Accounts Receivable.....		6,250
9.	Note Payable.....	10,000	
	Cash.....		10,000

b) The balance in the cash account on the trial balance is \$47,500.

Cash	
(1) 50,000	5,000 (3)
(2) 10,000	4,500 (4)
(5) 6,250	3,000 (6)
	2,500 (7)
(8) 6,250	10,000 (10)
Balance 47,500	

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

Exercise 21

Transactions for the Far North Hauling Company for the month of November are presented below:

1. Chris Thompson invested an additional \$66,000 cash in the business.
2. Purchased land costing \$48,000 for cash.
3. Purchased equipment costing \$45,000 for \$14,500 cash and the remainder on account.
4. Purchased supplies on account for \$1,800.
5. Paid \$3,250 for a one-year insurance policy.
6. Received \$6,000 cash for services performed.
7. Received \$2,200 for services previously performed on account.
8. Paid wages to employees for \$2,500.
9. Paid \$400 to Chris Thompson, the company's owner.

Instructions

Journalize each transaction and identify each transaction by number. You may omit journal explanations.

Solution 21 (10 min.)

1.	Cash.....	66,000	
	C. Thompson, Capital.....		66,000
2.	Land.....	48,000	
	Cash.....		48,000
3.	Equipment.....	45,000	
	Cash.....		14,500
	Accounts Payable.....		30,500
4.	Supplies	1,800	
	Accounts Payable.....		1,800
5.	Prepaid Insurance	3,250	
	Cash.....		3,250
6.	Cash.....	6,000	
	Service Revenue		6,000
7.	Cash.....	2,200	
	Accounts Receivable		2,200
8.	Wages Expense	2,500	
	Cash.....		2,500
9.	C. Thompson, Drawings	400	
	Cash.....		400

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

Exercise 22

Mike's Bike Repairs opened for business on November 1, 2014. The following transactions occurred in November:

- Nov 1 Mike Smith invested \$5,000 cash in the business and contributed equipment valued at \$2,300.
- Nov 3 Purchased supplies for cash \$560.
- Nov 5 Completed services for customers who paid cash \$400.
- Nov 6 Paid \$660 for a one-year insurance policy. The policy takes effect November 1 and will expire October 31, 2015.
- Nov 8 Completed services for a major customer and invoiced the customer \$1,000.
- Nov 15 Paid for printing advertising brochures \$125. The brochures were distributed the same day.
- Nov 20 Received a bill from the utilities company for November utilities in the amount of \$70. The amount is due December 4.
- Nov 25 Entered into a contract with a new customer who will use Mike's services for repairs on their entire fleet of rental bikes. The customer paid \$800 in advance for repairs to be completed in December.
- Nov 30 Mike withdrew \$1,200 for personal use.
- Nov 30 Received \$600 cash from the customer billed on November 8.

Instructions

Journalize the above transactions. Explanations are not required.

Solution 22 (10 min.)

Nov 1	Cash.....	5,000	
	Equipment.....	2,300	
	M. Smith, Capital.....		7,300
3	Supplies.....	560	
	Cash.....		560
5	Cash.....	400	
	Service Revenue.....		400
6	Insurance Expense.....	55	
	Prepaid Insurance.....	605	
	Cash.....		660
8	Accounts Receivable.....	1,000	
	Service Revenue.....		1,000
15	Advertising Expense.....	125	
	Cash.....		125
20	Utilities Expense.....	70	
	Accounts Payable.....		70
25	Cash.....	800	

	Unearned Revenue		800
30	M. Smith, Drawings	1,200	
	Cash.....		1,200
30	Cash.....	600	
	Accounts Receivable		600

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

Exercise 23

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

- Jennie Beagle invests \$45,000 cash to start a law firm, Legal Beagles, operating as a proprietorship.
- Paid \$2,700 cash for the first three month's rent.
- Purchased office equipment for \$25,000, paying \$8,500 in cash and signed a 30-day, 5% note payable for \$16,500.
- Paid \$660 cash for the purchase of office supplies.
- Received a bill for \$700 for advertising for the current month.
- Billed \$10,000 to clients for legal services.
- Paid \$700 cash on account for the advertising in transaction 5.
- Paid \$4,500 cash for office salaries.
- Jennie withdrew \$6,200 cash.
- Received a cheque for \$5,000 from a client in payment on account for services billed in transaction 6.

Solution 23 (15 min.)

1.	Cash.....	45,000	
	J. Beagle, Capital.....		45,000
2.	Prepaid Rent	2,700	
	Cash		2,700
3.	Office Equipment	25,000	
	Cash		8,500
	Notes Payable		16,500
4.	Office Supplies	660	
	Cash		660
5.	Advertising Expense	700	
	Accounts Payable		700
6.	Accounts Receivable	10,000	

Service Revenue		10,000
7. Accounts Payable	700	
Cash		700
8. Office Salaries Expense	4,500	
Cash		4,500
9. J. Beagle, Drawings.....	6,200	
Cash		6,200
10. Cash.....	5,000	
Accounts Receivable		5,000

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Section Reference: Analyzing and Recording Transactions

CPA: Financial Reporting

Exercise 24

The chart of accounts used by Presto Printing is listed below:

1 Cash	8 Interest Payable
2 Accounts Receivable	9 S. Presto, Capital
3 Paper Supplies	10 S. Presto, Drawings
4 Copy Machines	11 Service Revenue
5 Accounts Payable	12 Rent Expense
6 Note Payable	13 Utilities Expense
7 Unearned Revenue	

Instructions

Indicate the proper accounts to be debited and credited for the following transactions by writing the account number(s) in the appropriate columns.

	Account number(s) debited	Account number(s) credited
1. Sophia Presto invests \$120,000 cash to start the business.		
2. Purchased three digital copy machines for \$400,000, paying \$100,000 cash and signing a 5-year, 6% note for the remainder.		
3. Purchased \$10,000 paper supplies on credit.		
4. Paid \$1,200 cash for rent for the current		

month.

-
5. Paid \$400 cash for utilities for the current month.

 6. Paid \$2,000 on account for paper supplies purchased in transaction 3.

 7. Sophia Presto withdrew \$1,500 for personal expenses.

 8. Received \$9,000 cash for printing services.

 9. Received \$2,000 cash advance from a customer for future printing.

 10. Billed a customer for \$450 for printing services completed.

Solution 24 (15 min.)

	Account number(s) debited	Account number(s) credited
1. Sophia Presto invests \$120,000 cash to start the business.	1	9
2. Purchased three digital copy machines for \$400,000, paying \$100,000 cash and signing a 5-year, 6% note for the remainder.	4	1, 6
3. Purchased \$10,000 paper supplies on credit.	3	5
4. Paid \$1,200 cash for rent for the current month.	12	1
5. Paid \$400 utilities cash for the current month.	13	1
6. Paid \$2,000 on account for paper supplies purchased in transaction 3.	5	1
7. Sophia Presto withdrew \$1,500 for personal expenses.	10	1
8. Received \$9,000 cash for printing services.	1	11
9. Received \$2,000 cash advance from a customer for future printing.	1	7
10. Billed a customer for \$450 for printing services completed.	2	11

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: Analyzing and Recording Transactions

Section Reference: The Ledger

CPA: Financial Reporting

Exercise 25

The transactions of the Got It Now Store are recorded in the general journal below.

General Journal

Date	Account Titles and Explanation	Debit	Credit
2014			
Aug 5	Accounts Receivable	2,800	
	Service Revenue.....		2,800
10	Cash	3,000	
	Service Revenue.....		3,000
19	Rent Expense	1,000	
	Cash		1,000
25	Cash	1,400	
	Accounts Receivable		1,400

Instructions

Post the journal entries to the following T accounts and calculate the August 31 balances.

General Ledger

<u>Cash</u>	<u>Accounts Receivable</u>
Bal fwd. 1,250	Bal fwd. 800
<u>J. Jackson, Capital</u>	
Bal fwd. 2,050	
<u>Service Revenue</u>	<u>Rent Expense</u>

Solution 25 (5 min.)General Ledger

Cash			
Bal fwd	1,250	8/19	1,000
8/10	3,000		
8/25	1,400		
8/31 Bal.	4,650		

Accounts Receivable			
Bal fwd	800	8/25	1,400
8/5	2,800		
8/31 Bal.	2,200		

J. Jackson, Capital	
	Bal fwd. 2,050
	8/31 Bal. 2,050

Service Revenue		
	8/5	2,800
	8/10	3,000
	8/31 Bal.	5,800

Rent Expense		
8/19	1,000	
8/31 Bal.	1,000	

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: Analyzing and Recording Transactions

Section Reference: The Ledger

CPA: Financial Reporting

Exercise 26

Al's Plumbing Services has the following account balances as of March 31:

Cash.....	\$1,500
Accounts Receivable	2,100
Accounts Payable.....	650
A. Plumber, Capital.....	2,950

The following transactions take place during April:

- Services of \$3,100 were made on account.
- Paid April rent of \$1,100.
- Bought \$650 of supplies on account.
- Collected \$4,000 cash on outstanding customer accounts.
- Made payments on account \$500.

Instructions

- Journalize April's transactions.

b) What are the April 30 account balances? Hint: You may wish to use T accounts.

Solution 26 (15 min.)

a)

1. Accounts Receivable	3,100	
Service Revenue		3,100
2. Rent Expense.....	1,100	
Cash.....		1,100
3. Supplies.....	650	
Accounts Payable		650
4. Cash.....	4,000	
Accounts Receivable		4,000
5. Accounts Payable.....	500	
Cash		500

b)

Cash		Accounts Receivable	
Bal fwd.	1,500	Bal fwd.	2,100
	1,100		4,000
	<u>4,000</u>		<u>3,100</u>
	500	Bal	1,200
Bal	3,900		

A. Plumber Capital	
	<u>Bal fwd. 2,950</u>
	Bal 2,950

Service Revenue	
	Bal. 3,100

Rent Expense	
	Bal. 1,100

Accounts Payable	
	Bal fwd 650
	650
500	
	<u>Bal. 800</u>

Supplies	
	650
	<u>Bal. 650</u>

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: Analyzing and Recording Transactions

Section Reference: The Ledger

CPA: Financial Reporting

Exercise 27

The following transactions occurred for Carlos Computer Repair Company during the month of March 2017:

- Mar 2 Carlos Button (owner) repaired a computer and immediately collected \$140.
- Mar 4 Carlos hired a new secretary who will begin working for Carlos starting next month and will be paid \$2,500 per month.
- Mar 8 Computer supplies were purchased for \$600 on credit.
- Mar 11 Completed work for a customer on account - \$1,000
- Mar 16 Paid \$600 regarding supplies purchased on March 8.
- Mar 17 Purchased some used computers for \$500 to be used as supplies.
- Mar 19 Paid subscription fees of \$170 that will expire in March 2018.
- Mar 23 Collected \$1,700 regarding a customer's account.
- Mar 27 Rented specialized equipment from Programming Wizards; \$920 on account.
- Mar 30 Carlos withdrew \$2,000 cash for personal use.

Instructions

Record the above transactions directly to the T Accounts below. Include dates beside the transactions in your T Accounts to identify the entries. You must also determine the ending balance of each account.

Cash	
Bal fwd.	10,260

Accounts Receivable	
Bal fwd.	1,700

C. Button, Capital	
	Bal fwd. 8,900

Prepaid Subscriptions	
Bal fwd.	0

C. Button, Withdrawals	
Bal fwd.	0

Service Revenue

Service Revenue	
Bal fwd.	2,880

Rental Expense

Rental Expense	
Bal fwd.	0

Accounts Payable

Accounts Payable	
Bal fwd	400

Supplies

Supplies	
Bal fwd.	220

Solution 27 (15 min.)

Cash			
Bal fwd.	10,260		
Mar 2	140	Mar 16	600
1,700			
		Mar 17	500
		Mar 19	170
Mar 23	1,700		
		Mar 30	2,000
Bal	8,830		

Accounts Receivable		
Bal fwd.	1,700	
Mar 11	1,000	Mar 23
Bal	1,000	

C. Button, Capital	
	Bal fwd. 8,900
	Bal 8,900

Prepaid Subscriptions	
Bal fwd.	0
Mar 19	170
Bal	170

C. Button, Withdrawals	
Bal fwd.	0
Mar 30	2,000
Bal	2,000

Service Revenue		
	Bal fwd.	2,880
	Mar 2	140
	Mar 11	1,000
	Bal.	4,020

Rental Expense	
Bal fwd.	0
Mar 27	920
Bal	920

Accounts Payable		
	Bal fwd.	400
	Mar 8	600
Mar. 16	600	
	Mar 27	920
	Bal.	1,320

Supplies	
Bal fwd.	220
Mar 8	600
Mar 17	500
Bal.	1,320

*No Entry Required for Mar 4 Transaction

Bloomcode: Application

Difficulty: Medium

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Exercise 28

Jim's Mountain Tours opened for business December 1, 2017. The following T accounts include eight transactions that occurred in December 2017:

Cash	
(1) 65,000	(2) 3,500
(7) 22,500	(3) 1,950
	(4) 2,225
	(6) 8,000
	(8) 10,500
Bal. 61,325	

Accounts Receivable	
(5) 23,500	(7) 22,500
Bal 1,000	

Supplies	
(3) 1,950	

Equipment	
(2) 23,500	

J. Lee, Capital	
	(1) 35,000

Tour Revenue	
	(5) 27,500

Accounts Payable	
(6) 8,000	(2) 20,000

J. Lee, Drawings	
(8) 10,500	

Salaries Expense	
(4) 2,225	

Instructions

- For each transaction, journalize the transaction, including an explanation for the entry.
- Determine the ending account balance for each account.
- Prepare a trial balance as at December 31, 2017.

Solution 28 (20 min.)

a)			
1.	Cash.....	65,000	
	J. Lee, Capital.....		65,000
	Jim Lee invested cash in the business		
2.	Equipment.....	23,500	
	Cash.....		3,500
	Accounts payable.....		20,000
	Purchased equipment for cash and accounts payable		
3.	Supplies.....	1,950	
	Cash.....		1,950

	Purchased supplies for cash		
4.	Salaries expense	2,225	
	Cash		2,225
	Paid salaries to employees		
5.	Accounts receivable.....	23,500	
	Tour revenue		23,500
	Issued invoices for tours conducted in December		
6.	Accounts payable	8,000	
	Cash		8,000
	Made partial payment on accounts payable		
7.	Cash.....	22,500	
	Accounts receivable.....		22,500
	Collections from customers		
8.	J. Lee, Drawings.....	10,500	
	Cash		10,500
	Cash withdrawn by Jim for personal use		

b)

Cash	
(1)	65,000
(7)	22,500
	61,325

Accounts Receivable	
(5)	23,500
(7)	1,000
	22,500

Supplies	
(3)	1,950

Equipment	
(2)	23,500

J. Lee, Capital	
(1)	65,000

Tour Revenue	
(5)	23,500

Accounts Payable	
(6)	8,000
(2)	10,000
	2,000

J. Lee, Drawings	
(8)	4,500

Salaries Expense	
(4)	2,225

c)

**Jim's Mountain Tours
Trial Balance
December 31, 2017**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$61,325	
Accounts receivable	1,000	
Supplies	1,950	
Equipment.....	23,500	
Accounts payable		\$ 12,000
J. Lee, capital.....		65,000
J. Lee, drawings	10,500	
Tour revenue.....		23,500
Salaries expense.....	2,225	
Totals	<u>\$100,500</u>	<u>\$100,500</u>

Bloomcode: Application

Difficulty: Hard

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Learning Objective: Prepare a trial balance.

Section Reference: Analyzing and Recording Transactions

Section Reference: The Ledger

Section Reference: The Trial Balance

CPA: Financial Reporting

Exercise 29

Pat's Party Planning provides food service and bartending for private and corporate parties. Pat's does not prepare the food, but does provide supplies such as dishes, linens, and ice for the event. The following transactions occurred in December 2017, the first month of the business operations:

- Dec 1 Patty Peppermint invested \$18,000 in the business.
- Dec 3 Business purchased a used delivery van for \$6,500 on account.
- Dec 5 Purchased supplies for cash \$1,300.
- Dec 7 Signed contract to provide services at a party to be held in January. Received a deposit of \$750 from the customer.
- Dec 8 Provide services for a corporate party. Received full payment in the amount of \$2,100.
- Dec 10 Paid the staff who worked at the December 8 party \$900 in wages.
- Dec 14 Provides services for a private party. Issued an invoice for \$1,500 to the customer who will pay in January.
- Dec 18 Paid \$325 for an advertisement in the local newspaper. The ad began running every day for a week starting December 10.
- Dec 23 Patty Peppermint withdrew \$600 for personal use.
- Dec 31 Paid for a one-year insurance policy on the delivery van for \$1,800, effective Jan 1 to Dec 31, 2018.

Instructions

- a) Prepare the journal entries for the above transactions. Explanations are not necessary.
- b) Prepare a trial balance at December 31, 2017 based on the above accounts.

Solution 29 (25 min.)

a)

Dec	1	Cash	18,000	
		P. Peppermint, Capital		18,000
	3	Van	6,500	
		Accounts Payable		6,500
	5	Supplies	1,300	
		Cash		1300
	7	Cash	750	
		Unearned Revenue		750
	8	Cash	2,100	
		Service Revenue		2,100
	10	Wages Expense	900	
		Cash		900
	14	Accounts Receivable	1,500	
		Service Revenues		1,500
	18	Advertising Expense	325	
		Cash		325
	23	P. Peppermint, Drawings	600	
		Cash		600
	31	Prepaid insurance	1,800	
		Cash		1,800

Cash			
Acct type: Asset			
(1) 18,000		(3) 1,300	
(4) 750		(6) 900	
(5) 2,100		(8) 325	
		(9) 600	
		(10) 1,800	
15,925			

Accounts Receivable			
Acct type: Asset			
(7) 1,500			

Van			
Acct type: Asset			
(2)			

Supplies			
Acct type: Asset			
(3)			

6,500

1,300

Prepaid Insurance Acct type: Asset	
(10)	1,800

Unearned Revenue Acct type: Liabilities	
(4)	750

Accounts Payable Acct type: Liabilities	
(2)	6,500

P. Peppermint, Capital Acct type: Owner's Equity	
(1)	18,000

P. Peppermint, Drawings Acct type: Owner's equity	
(9)	600

Service Revenue Acct type: Owner's Equity	
(5)	2,100
(7)	1,500
	3,600

Wages Expense Acct type: Owner's equity	
(6)	900

Advertising Expense Acct type: Owner's Equity	
(8)	325

b)

**Pat's Party Planning
Trial balance
December 31, 2017**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 15,925	
Accounts receivable	1,500	
Supplies	1,300	
Prepaid insurance	1,800	
Van.....	6,500	
Accounts payable		\$ 6,500
Unearned revenue.....		750
P. Peppermint, capital		18,000
P. Peppermint, drawings	600	
Service revenue		3,600
Wages expense.....	900	
Advertising expense	325	
Totals	<u>\$28,850</u>	<u>\$28,850</u>

Bloomcode: Application

Difficulty: Hard

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Learning Objective: Prepare a trial balance.

Section Reference: Analyzing and Recording Transactions

Section Reference: The Ledger

Section Reference: The Trial Balance

CPA: Financial Reporting

Exercise 30

Listed below are the transactions for August 2017, the first month of operations of Sassy's' Pet Grooming, owned and operated by Sassy Jordan.

- Aug 1 Sassy invested \$5,000 in the business, which was comprised of \$3,500 in cash plus equipment valued at \$1,500.
- Aug 3 Paid rent of \$400 for one month's rent.
- Aug 3 Hired a salesperson who will be paid on commission.
- Aug 4 Purchases supplies on account for \$125.
- Aug 12 Purchased a used van for \$6,000, paying cash of \$1,000 and signing an 1 year, 6% note payable for the balance.
- Aug 15 Completed services for clients. Of the services completed, \$350 was paid in cash, and the remainder, \$500 was on account.
- Aug 18 Paid telephone expense of \$60.
- Aug 26 Received a utility bill for August of \$110.
- Aug 27 Collected \$250 of the accounts receivable balance.
- Aug 29 Billed clients for \$400 in services.
- Aug 30 Paid an assistant \$225 in wages.
- Aug 30 Sassy Jordan withdrew \$500 for personal use.

Instructions

- a) Journalize the transactions.
- b) Prepare a trial balance at August 31, 2017. Hint: You may want to use T accounts.

Solution 30 (30 min.)

a)

Aug 1	Cash.....	3,500	
	Equipment.....	1,500	
	S. Jordan, Capital.....		5,000
Aug 3	Rent Expense.....	400	
	Cash.....		400
Aug 3	No transaction		
Aug 4	Supplies	125	
	Accounts Payable.....		125
Aug 12	Automobile	6,000	
	Cash.....		1,000
	Note Payable.....		5,000
Aug 15	Cash.....	350	
	Accounts Receivable.....	500	
	Service Revenue		850
Aug 18	Telephone Expense	60	
	Cash.....		60
Aug 26	Utilities Expense.....	110	
	Accounts Payable.....		110
Aug 27	Cash.....	250	
	Accounts Receivable		250
Aug 29	Accounts Receivable.....	400	
	Service Revenue		400
Aug 30	Wages Expense	225	
	Cash.....		225
Aug 30	S. Jordan, Drawings.....	500	
	Cash.....		500

Cash	
8/1	3,500
8/15	350
8/27	250
8/3	400
8/12	1,000
8/18	60
8/30	225

Accounts Receivable	
8/15	500
8/29	400
8/31	bal 650
8/27	250

		8/30	500
8/31	bal	1,915	

Supplies			
8/4		125	
8/31	bal	125	

Automobile			
8/12		6,000	
8/31	bal	6,000	

Note Payable			
		8/12	5,000
		8/31	bal 5,000

S. Jordan, Drawings			
8/30		500	
8/31	bal	500	

Rent Expense			
8/3		400	
8/31	bal	400	

Utilities Expense			
8/26		110	
8/31	bal	110	

Equipment			
8/1		1,500	
8/31	bal	1,500	

Accounts Payable			
		8/4	125
		8/26	110
		8/31	bal 235

S. Jordan, Capital			
		8/1	5,000
		8/31	bal 5,000

Service Revenue			
		8/15	850
		8/29	400
		8/31	bal 1,250

Telephone Expense			
8/18		60	
8/31	bal	60	

Wages Expense			
8/30		225	
8/31	bal	225	

b)

**Sassy's Pet Grooming
Trial Balance
August 31, 2017**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 1,915	
Accounts receivable	650	
Supplies	125	
Equipment	1,500	
Automobile	6,000	
Accounts payable		\$ 235
Note payable		5,000
S. Jordan, capital.....		5,000
P. Markham, drawings.....	500	
Service revenue		1,250
Rent expense	400	
Telephone expense.....	60	
Utilities expense	110	
Wages expense.....	225	
Total.....	<u>\$11,485</u>	<u>\$11,485</u>

Bloomcode: Application

Difficulty: Hard

Learning Objective: State how a journal is used in the recording process and journalize transactions.

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Learning Objective: Prepare a trial balance.

Section Reference: Analyzing and Recording Transactions

Section Reference: The Ledger

Section Reference: The Trial Balance

CPA: Financial Reporting

Exercise 31

Carlisle Company is a newly organized business. The list of accounts to be opened in the general ledger is as follows:

Accounts Payable	M. Carlisle, Drawings
Accounts Receivable	Prepaid Insurance
Cash	Prepaid Rent
Equipment	Rent Expense
Fees Earned	Salary Expense
Insurance Expense	Salaries Payable
M. Carlisle, Capital	Supplies
	Supplies Expense

Organize the accounts into the order in which they should appear in the ledger of Carlisle Company and assign account numbers. Use the following system to assign account numbers.

100–199	Assets
200–299	Liabilities
300–399	Owner's Equity
400–499	Revenues
500–599	Expenses

Solution 31 (5 min.)

There are several possible correct account number assignments. The following is one of the correct solutions.

- 101 Cash
- 112 Accounts Receivable
- 113 Supplies
- 114 Prepaid Insurance
- 115 Prepaid Rent
- 160 Equipment

- 210 Accounts Payable
- 220 Salaries Payable

- 310 M. Carlisle, Capital
- 320 M. Carlisle, Drawings

- 410 Fees Earned

- 510 Salary Expense
- 520 Supplies Expense
- 530 Rent Expense
- 540 Insurance Expense

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Section Reference: The Ledger

CPA: Financial Reporting

Exercise 32

The transactions of the Coronation Baked Goods Delivery are recorded in the general journal below.

<u>General Journal</u>					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2018					

Sep	1	Cash	15,000	
		M. Donut, Capital		15,000
		Invested cash in business		
	4	Delivery Trucks	30,000	
		Cash		10,000
		Notes Payable		20,000
		Purchased truck, paid cash and issued a 2-year, 6%, note payable		
	8	Rent Expense	1,000	
		Cash		1,000
		Paid September rent		
	15	Prepaid Insurance.....	400	
		Cash		400
		Paid one-year liability insurance		
	18	Cash	2,500	
		Baked Goods Delivery Revenue		2,500
		Received cash for delivery services		
	20	Salaries Expense.....	500	
		Cash		500
		Paid salaries for current period		
	25	Utility Expense.....	100	
		Accounts Payable		100
		Received a bill for September utilities		
	30	M. Donut, Drawings	750	
		Cash		750
		Withdrew cash for personal use		
	30	Accounts Receivable	1,000	
		Baked Goods Delivery Revenue		1,000
		Billed customer for delivery service		

Instructions

- Post the journal entries to the accounts using the following general ledger.
- Prepare a trial balance on the form provided.

General Ledger

		Cash	Account No. 100		
Date	Explanation	Ref.	Debit	Credit	
Balance					

Accounts Receivable

Account No. 105

Date Balance	Explanation	Ref.	Debit	Credit
-----------------	-------------	------	-------	--------

Prepaid Insurance

Account No. 110

Date Balance	Explanation	Ref.	Debit	Credit
-----------------	-------------	------	-------	--------

Delivery Trucks

Account No. 150

Date Balance	Explanation	Ref.	Debit	Credit
-----------------	-------------	------	-------	--------

Accounts Payable

Account No. 200

Date Balance	Explanation	Ref.	Debit	Credit
-----------------	-------------	------	-------	--------

Notes Payable

Account No. 250

Date Balance	Explanation	Ref.	Debit	Credit
-----------------	-------------	------	-------	--------

M. Donut, Capital

Account No. 300

Date Balance	Explanation	Ref.	Debit	Credit
-----------------	-------------	------	-------	--------

M. Donut, Drawings

Account No. 350

Date Balance	Explanation	Ref.	Debit	Credit
-----------------	-------------	------	-------	--------

Baked Goods Delivery Revenue

Account No. 400

Date Balance	Explanation	Ref.	Debit	Credit
-----------------	-------------	------	-------	--------

Rent Expense

Account No. 520

Date Balance	Explanation	Ref.	Debit	Credit
-----------------	-------------	------	-------	--------

Salaries Expense

Account No. 530

Date Balance	Explanation	Ref.	Debit	Credit
-----------------	-------------	------	-------	--------

Utility Expense

Account No. 550

Date Balance	Explanation	Ref.	Debit	Credit
-----------------	-------------	------	-------	--------

CORONATION BAKED GOODS DELIVERY
Trial Balance
September 30, 2018

<u>Credit</u>	Accounts	<u>Debit</u>
---------------	----------	--------------

Solution 32 (25 min.)

a)

<u>General Ledger</u>				
Cash				
Account No. 100				

Date	Explanation	Ref.	Debit	Credit	
<hr/>					
2018					
Sep 1		J1	15,000		15,000
4		J1		10,000	5,000
8		J1		1,000	4,000
15		J1		400	3,600
18		J1	2,500		6,100
20		J1		500	5,600
30		J1		750	4,850

Accounts Receivable				
Account No. 105				

Date	Explanation	Ref.	Debit	Credit	
<hr/>					
2018					
Sep 30		J1	1,000		1,000

Prepaid Insurance				
Account No. 110				

Date	Explanation	Ref.	Debit	Credit	
<hr/>					
2018					
Sep 15		J1	400		400

Delivery Trucks				
Account No. 150				

<hr/>					
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Date Balance	Explanation	Ref.	Debit	Credit
2018 Sep 4		J1	30,000	30,000

Accounts Payable Account No. 200

Date Balance	Explanation	Ref.	Debit	Credit
2018 Sep 25		J1		100 100

Notes Payable Account No. 250

Date Balance	Explanation	Ref.	Debit	Credit
2018 Sep 4		J1		20,000 20,000

M. Donut, Capital Account No. 300

Date Balance	Explanation	Ref.	Debit	Credit
2018 Sep 1		J1		15,000 15,000

M. Donut, Drawings Account No. 350

Date Balance	Explanation	Ref.	Debit	Credit
2018 Sep 30		J1	750	750

Baked Goods Delivery Revenue

Account No. 400

Date	Explanation	Ref.	Debit	Credit
2018				
Sep 18		J1		2,500
30		J1		1,000
				3,500

Rent Expense

Account No. 520

Date	Explanation	Ref.	Debit	Credit
2018				
Sep 8		J1	1,000	
				1,000

Salaries Expense

Account No. 530

Date	Explanation	Ref.	Debit	Credit
2018				
Sep 20		J1	500	
				500

Utility Expense

Account No. 550

Date	Explanation	Ref.	Debit	Credit
2018				
Sep 25		J1	100	
				100

b)

**Coronation Baked Goods Delivery
Trial Balance
September 30, 2018**

Accounts	Debit	Credit

Cash.....	\$ 4,850	
Accounts receivable	1,000	
Prepaid insurance	400	
Delivery trucks.....	30,000	
Accounts payable		\$ 100
Notes payable		20,000
M. Donut, capital		15,000
M. Donut, drawings.....	750	
Delivery revenue		3,500
Rent expense	1,000	
Salaries expense.....	500	
Utility expense100	
Totals.....	<u>\$38,600</u>	<u>\$38,600</u>

Bloomcode: Application

Difficulty: Medium

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Learning Objective: Prepare a trial balance.

Section Reference: The Ledger

Section Reference: The Trial Balance

CPA: Financial Reporting

Exercise 33

The transactions of the Make it Quick Delivery Service are recorded in the general journal below.

General Journal

Date	Account Titles and Explanation	<u>Debit</u>	<u>Credit</u>
2017			
Sep 1	Cash	25,000	
	J. Lough, Capital		25,000
	Owner invested cash in business		
4	Delivery Trucks	40,000	
	Cash		10,000
	Notes Payable.....		30,000
	Purchased truck, paid cash and issued 2-year, 6% note payable		
8	Rent Expense	1,000	
	Cash		1,000
	Paid September rent		
15	Prepaid Insurance.....	1,400	
	Cash		1,400
	Paid one-year liability insurance		
18	Cash	2,500	
	Service Revenue.....		2,500

	Received cash for delivery services		
20	Salaries Expense	500	
	Cash		500
	Paid salaries for current period		
25	Utility Expense	100	
	Accounts Payable		100
	Received a bill for September utilities		
30	J. Lough, Drawings	750	
	Cash		750
	Paid drawings to owner		
30	Accounts Receivable.....	1,000	
	Service Revenue.....		1,000
	Billed customer for delivery service		

Instructions

- a) Post the journal entries to the accounts in the general ledger below.
- b) Prepare a trial balance on the form provided.

a)

General Ledger

<p>Cash</p> <hr/> <div style="border-left: 1px solid black; border-right: 1px solid black; height: 100px;"></div>	<p>Accounts Receivable</p> <hr/> <div style="border-left: 1px solid black; border-right: 1px solid black; height: 100px;"></div>
<p>Prepaid Insurance</p> <hr/> <div style="border-left: 1px solid black; border-right: 1px solid black; height: 100px;"></div>	<p>Delivery Trucks</p> <hr/> <div style="border-left: 1px solid black; border-right: 1px solid black; height: 100px;"></div>
<p>Accounts Payable</p> <hr/> <div style="border-left: 1px solid black; border-right: 1px solid black; height: 100px;"></div>	<p>Notes Payable</p> <hr/> <div style="border-left: 1px solid black; border-right: 1px solid black; height: 100px;"></div>
<p>J. Lough, Capital</p> <hr/> <div style="border-left: 1px solid black; border-right: 1px solid black; height: 100px;"></div>	<p>J. Lough, Drawings</p> <hr/> <div style="border-left: 1px solid black; border-right: 1px solid black; height: 100px;"></div>

Service Revenue	

Rent Expense	

Salaries Expense	

Utility Expense	

b)

MAKE IT QUICK DELIVERY SERVICE
Trial Balance
September 30, 2017

	Accounts	<u>Debit</u>
<u>Credit</u>		

Solution 33 (25 min.)

a)

General Ledger

Cash			
9/1	25,000	9/4	10,000
9/18	2,500	9/8	1,000
		9/15	1,400
		9/20	500
		9/30	750
9/30 Bal.	13,850		

Accounts Receivable			
9/30	1,000		
9/30 Bal.	1,000		

Prepaid Insurance	
9/15	1,400
9/30 Bal.	1,400

Delivery Trucks	
9/4	40,000
9/30 Bal.	40,000

Accounts Payable		
	9/25	100
	9/30 Bal.	100

Notes Payable		
	9/4	30,000
	9/30 Bal.	30,000

J. Lough, Capital

J. Lough, Drawings

	9/1	25,000	9/30	750	
	9/30 Bal.	25,000	9/30 Bal.	750	
Service Revenue			Rent Expense		
	9/18	2,500	9/8	1,000	
	9/30	1,000			
	9/30 Bal.	3,500	9/30 Bal.	1,000	
Salaries Expense			Utility Expense		
9/20	500		9/25	100	
9/30 Bal.	500		9/30 Bal.	100	

b)

MAKE IT QUICK DELIVERY SERVICE
Trial Balance
September 30, 2017

Accounts	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 13,850	
Accounts receivable	1,000	
Prepaid insurance	1,400	
Delivery trucks.....	40,000	
Accounts payable		\$ 100
Notes payable		30,000
J. Lough, capital		25,000
J. Lough, drawings	750	
Service revenue		3,500
Rent expense	1,000	
Salaries expense.....	500	
Utility expense	100	
Totals.....	<u>\$58,600</u>	<u>\$58,600</u>

Bloomcode: Application

Difficulty: Medium

Learning Objective: Explain how a ledger helps in the recording process and post transactions.

Learning Objective: Prepare a trial balance.

Section Reference: The Ledger

Section Reference: The Trial Balance

CPA: Financial Reporting

Exercise 34

The trial balance of P. Heavy Record Company shown below does not balance.

P. HEAVY RECORD COMPANY
Trial Balance
June 30, 2017

Debit Credit

Cash.....	\$ 2,600	
Accounts receivable	7,600	
Supplies	600	
Equipment.....	8,300	
Accounts payable		\$ 9,766
P. Heavy, capital		1,941
P. Heavy, drawings.....	1,500	
Service revenue		15,200
Wages expense.....	3,800	
Repair expense	1,600	
Totals.....	<u>\$26,000</u>	<u>\$26,907</u>

An examination of the ledger and journal reveals the following errors:

1. Each of the above listed accounts has a normal balance per the general ledger.
2. Cash of \$350 received from a customer on account was debited to Cash \$530 and credited to Accounts Receivable \$530.
3. A withdrawal of \$300 by the owner was posted as a credit to P. Heavy, Drawings, \$300 and credit to Cash \$300.
4. A debit of \$300 was not posted to Wages Expense.
5. The purchase of equipment on account for \$700 was recorded as a debit to Repair Expense and a credit to Accounts Payable for \$700.
6. Services were performed on account for a customer, \$510, for which Accounts Receivable was debited \$510 and Service Revenue was credited \$51.
7. A payment on account for \$215 was credited to Cash for \$215 and credited to Accounts Payable for \$251.

Instructions

Prepare a correct trial balance.

Solution 34 (25 min.)

P. HEAVY RECORD COMPANY

Trial Balance

June 30, 2017

	<u>Debit</u>	<u>Credit</u>
Cash [\$2,600 – \$180 (2)].....	\$ 2,420	
Accounts receivable [\$7,600 + \$180 (2)]	7,780	
Supplies	600	
Equipment [\$8,300 + \$700 (5)]	9,000	
Accounts payable [\$9,766 – \$251 – \$215(7)].....		\$ 9,300
P. Heavy, capital		1,941
P. Heavy, drawings [\$1,500 + \$300 + \$300 (3)].....	2,100	
Service revenue [\$15,200 + \$459 (6)].....		15,659
Wages expense [\$3,800 + \$300 (4)].....	4,100	
Repair expense [\$1,600 – \$700 (5)]	900	
Totals	<u>\$26,900</u>	<u>\$26,900</u>

Bloomcode: Application

Difficulty: Hard

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

Exercise 35

The ledger accounts of Gino's Gym at June 30, 2017 are shown below:

Accounts Payable.....	\$ 6,100
Accounts Receivable	1,050
Building.....	51,400
G. Bell, Capital.....	63,100
Cash.....	12,000
Exercise Equipment.....	18,900
Weight Equipment	22,000
Notes Payable	49,000
Office Supplies	350
Office Equipment.....	2,000
G. Bell, Drawings.....	10,500

Instructions

Prepare a trial balance with the ledger accounts arranged in the proper financial statement order. Include the appropriate heading. All accounts have normal balances.

Solution 35 (10 min.)

**GINO'S GYM
Trial Balance
June 30, 2017**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 12,000	
Accounts Receivable	1,050	
Office Supplies	350	
Office Equipment.....	2,000	
Exercise Equipment.....	18,900	
Weight Equipment	22,000	
Building	51,400	
Accounts Payable.....		\$ 6,100
Notes Payable		49,000
G. Bell, Capital		63,100
G. Bell, Drawings.....	10,500	
Totals.....	<u>\$118,200</u>	<u>\$118,200</u>

Bloomcode: Application

Difficulty: Medium

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

Exercise 36

Archie and Associates is a financial planning service. The account balances at July 31, 2017 are shown by the following alphabetical list:

Accounts Payable.....	\$ 8,000
-----------------------	----------

Accounts Receivable	41,000
Automobiles.....	27,500
Building.....	120,000
Cash.....	48,500
Computer Hardware	30,000
Computer Software.....	4,200
Land	42,000
M. Archie, Capital	199,700
Notes Payable	75,000
Notes Receivable	8,100
Office Furniture.....	15,400
Office Supplies	1,800
Technical Library	2,200
Service Revenue	60,000
Wage Expense	2,000

Instructions

Prepare a trial balance with the accounts arranged in financial statement order. All accounts have normal balances.

Solution 36 (15 min.)

ARCHIE AND ASSOCIATES
Trial Balance
July 31, 2017

Credit	Debit	
Cash.....	\$ 48,500	
Accounts receivable	41,000	
Office supplies.....	1,800	
Notes receivable.....	8,100	
Computer software	4,200	
Computer hardware.....	30,000	
Technical library	2,200	
Office furniture.....	15,400	
Automobiles.....	27,500	
Building	120,000	
Land	42,000	
Accounts payable		\$ 8,000
Notes payable		75,000
M. Archie, capital.....		199,700
Service revenue		60,000
Wage expense	2,000	
Totals.....	\$342,700	\$342,700

Bloomcode: Application
Difficulty: Medium
Learning Objective: Prepare a trial balance.
Section Reference: The Trial Balance
CPA: Financial Reporting

Exercise 37

Laurence and Associates is an accounting practice. The account balances at December 31, 2017, are shown by the following alphabetical list:

A. Laurence , Capital	\$64,700
A. Laurence, Drawings	40,000
Accounts Payable.....	13,800
Accounts Receivable	26,000
Automobiles.....	29,500
Cash.....	18,500
Computer Hardware	29,000
Fees Earned.....	105,000
Notes Payable	55,000
Notes Receivable	19,100
Office Furniture.....	35,400
Office Supplies	800
Rent Expense.....	12,000
Salaries Expense.....	25,000
Technical Library	3,200

Instructions

Prepare a trial balance with the accounts arranged in financial statement order.

Solution 37 (15 min.)

LAURENCE AND ASSOCIATES
Trial Balance
December 31, 2017

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 18,500	
Accounts receivable	26,000	
Notes receivable.....	19,100	
Office supplies.....	800	
Computer hardware.....	29,000	
Office furniture.....	35,400	
Technical library	3,200	
Automobiles.....	29,500	
Accounts payable		\$ 13,800
Notes payable		55,000
A. Laurence, capital.....		64,700
A. Laurence, drawings.....	40,000	
Fees earned		105,000
Rent expense	12,000	
Salaries Expense	25,000	
Totals.....	<u>\$238,500</u>	<u>\$238,500</u>

Bloomcode: Application

Difficulty: Medium

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance
 CPA: Financial Reporting

Exercise 38

Kali's Courier Service has the following account balances at the July 31, 2017 year end. The accounts all have normal balances and are shown in the following alphabetical list:

Accounts Payable.....	\$10,800
Accounts Receivable	21,500
Cash.....	10,200
Courier Vehicles	60,000
Delivery Revenue	85,000
Insurance expense	2,400
R. Kali, Capital Account.....	39,800
R. Kali, Drawings	25,000
Notes Payable	42,500
Notes Receivable	1,800
Office Furniture.....	5,500
Prepaid Insurance	1,200
Rent Expense	12,500
Salaries Expense.....	30,500
Supplies.....	1,000
Supplies Expense.....	10,000
Unearned Revenue	3,500

Instructions

Prepare a trial balance with the accounts arranged in financial statement order.

Solution 38 (15 min.)

**Kali's Courier Service
 Trial Balance
 July 31, 2017**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 10,200	
Accounts receivable	21,500	
Notes receivable.....	1,800	
Supplies	1,000	
Prepaid insurance	1,200	
Office furniture.....	5,500	
Courier vehicles.....	60,000	
Accounts payable		\$ 10,800
Unearned revenues.....		3,500
Notes payable		42,500
R. Kali, capital		39,800
R. Kali, drawings	25,000	
Delivery revenue		85,000
Rent expense	12,500	
Supplies expense	10,000	
Insurance expense	2,400	

Salaries expense.....	<u>30,500</u>	
Totals.....	<u>\$181,600</u>	<u>\$181,600</u>

Bloomcode: Analysis
Difficulty: Medium
Learning Objective: Prepare a trial balance.
Section Reference: The Trial Balance
CPA: Financial Reporting

Exercise 39

Some of the following errors would cause the debit and credit columns of the trial balance to have unequal totals. For each of the six cases, state whether the error would cause unequal totals in the trial balance. If the error causes unequal totals, 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 for \$48.
3. An account receivable in the amount of \$2,000 was collected in full. The collection was recorded by a credit to Cash for \$2,000 and a credit to Accounts Receivable for \$2,000.
4. An owner's drawing was paid by issuing a cheque for \$1,000. The payment was recorded by debiting Salaries Expense \$1,000 and crediting Cash \$1,000.
5. A payment of \$600 from a customer on account was received and was credited to cash and debited to accounts receivable.
6. A payment of \$450 to a creditor was recorded as a debit to cash and a credit to Accounts Payable.

Solution 39 (5 min.)

1. The trial balance totals will be unequal. The credit column will be \$540 larger than the debit column.
2. The trial balance totals will be incorrect but equal.
3. The trial balance totals will be unequal. The credit column will be \$4,000 larger than the debit column.
4. The trial balance totals will be incorrect but equal.
5. The trial balance totals will be incorrect but equal.
6. The trial balance totals will be incorrect but equal.

Bloomcode: Analysis
Difficulty: Medium
Learning Objective: Prepare a trial balance.
Section Reference: The Trial Balance
CPA: Financial Reporting

Exercise 40

Some of the following errors would cause the debit and credit columns of the trial balance to have unequal totals.

1. A payment of \$700 to a creditor was recorded by a debit to Accounts Payable of \$70 and a credit to Cash of \$700.
2. A \$340 payment for a printer was recorded by a debit to Computer Equipment of \$34 and a credit to Cash for \$34.
3. An account receivable in the amount of \$2,000 was collected in full. The collection was recorded by a debit to Cash for \$2,000 and a debit to Accounts Payable for \$2,000.
4. An account payable was paid by issuing a cheque for \$800. The payment was recorded by a debit to Accounts Payable \$800 and a credit to Accounts Receivable \$800.

Instructions

For each of the four cases, state whether the error would cause unequal totals in the trial balance. If the error causes unequal totals, 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.

Solution 40 (5 min.)

1. The trial balance totals will be unequal. The credit column will be \$630 larger than the debit column.
2. The trial balance totals will be misstated but equal.
3. The trial balance totals will be unequal. The debit column will be \$4,000 larger than the credit column.
4. The trial balance totals will be misstated but equal.

Bloomcode: Analysis

Difficulty: Medium

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

Exercise 41

The bookkeeper for EverGreen Environmental Services made a number of errors in journalizing and posting as described below:

1. A debit posting to accounts receivable for \$500 was omitted.
2. A payment of accounts payable for \$600 was credited to cash and debited to accounts receivable.
3. A credit to accounts receivable for \$750 was posted as \$75.
4. A cash purchase of equipment for \$673 was journalized as a debit to equipment and a credit to notes payable. The credit posting was made for \$637.
5. A debit posting of \$300 for purchase of supplies was credited to supplies.
6. A debit to repairs expense for \$482 was posted as \$428.
7. A debit posting for wages expense for \$800 was made twice.

8. A cash purchase of supplies for \$700 was journalized and posted as a debit to supplies for \$70 and a credit to cash for \$70.

Instructions

For each error, indicate (A) whether the trial balance will balance; if the trial balance will not balance, indicate (B) the amount of the difference, and (C) the trial balance column that will have the larger total. Consider each error separately. Use the following form, in which error 1. is given as an example.

<u>Error</u>	(A) <u>In Balance</u>	(B) <u>Difference</u>	(C) <u>Larger Column</u>
1.	No	\$500	Credit

Solution 41 (15 min.)

<u>Error</u>	(A) <u>In Balance</u>	(B) <u>Difference</u>	(C) <u>Larger Column</u>
1.	No	\$500	Credit
2.	Yes	—	—
3.	No	675	Debit
4.	No	36	Debit
5.	No	600	Credit
6.	No	54	Credit
7.	No	800	Debit
8.	Yes	—	—

Bloomcode: Analysis

Difficulty: Hard

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

Exercise 42

The trial balance of the Karl's Concrete Services shown below does not balance.

**Karl's Concrete Services
Trial Balance
June 30, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 5,200	
Accounts receivable	15,200	
Supplies	1,200	
Equipment.....	16,600	
Accounts payable		\$ 19,610
K. Bruce, Capital		3,882
K. Bruce, drawings	3,000	
Service revenue		30,400
Wages expense.....	7,600	
Repair expense	3,200	
Totals.....	<u>\$52,000</u>	<u>\$53,892</u>

An examination of the ledger and journal reveals the following errors:

1. Each of the above listed accounts has a normal balance per the general ledger.
2. Cash of \$260 received from a customer on account was debited to Cash \$620 and credited to Accounts Receivable \$620.
3. Drawings of \$850 paid to the owner were posted as a credit to Drawings, \$850 and a credit to Cash \$850.
4. Wages Expense of \$600 was omitted from the trial balance.
5. The purchase of equipment on account for \$800 was recorded as a debit to Repair Expense and a credit to Accounts Payable for \$800.
6. Services were performed on account for a customer, \$1,020, for which Accounts Receivable was debited \$1,020 and Service Revenue was credited \$102.
7. A payment on account for \$219 was credited to Cash for \$219 and credited to Accounts Payable for \$291.

Instructions

Prepare a correct trial balance.

Solution 42 (25 min.)

**Karl's Concrete Services
Trial Balance
June 30, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash [\$5,200 – \$360 (2)].....	\$ 4,840	
Accounts receivable [\$15,200 + \$360 (2)].....	15,560	
Supplies	1,200	
Equipment [\$16,600 + \$800 (5)]	17,400	
Accounts payable [\$19,610 – \$291 – \$219 (7)].....		\$19,100
K. Bruce, capital		3,882
K. Bruce, drawings [\$3,000 + \$850 + \$850 (3)].....	4,700	
Service revenue [\$30,400 + \$918 (6)].....		31,318
Wages expense [\$7,600 + \$600 (4)].....	8,200	

Repair expense [\$3,200 – \$800 (5)]	<u>2,400</u>	<u> </u>
Totals	<u>\$54,300</u>	<u>\$54,300</u>

Bloomcode: Analysis

Difficulty: Hard

Learning Objective: Prepare a trial balance.

Section Reference: The Trial Balance

CPA: Financial Reporting

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