Test Bank for College Accounting 16th Price

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CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) The entire process of analyzing, recording, and reporting business transactions is based on the fundamental accounting equation.
   - ⦾ true
   - ⦾ false

2) When using the fundamental accounting equation, an accountant must make sure that total assets are always equal to total liabilities minus owner's equity.
   - ⦾ true
   - ⦾ false

3) Assets always equal debts of the business plus the financial interest of the owner.
   - ⦾ true
   - ⦾ false

4) When cash is paid to a creditor, the firm's liabilities decrease.
   - ⦾ true
   - ⦾ false

5) Al Dunn Bakery bought a new oven for $1,720. Al paid $690 as a cash down payment and will pay the balance in 30 days. Total assets increased by $1,030.
   - ⦾ true
   - ⦾ false

6) Al Dunn Bakery bought a new oven for $1,380. Al paid $300 as a cash down payment and will pay the balance in 30 days. Total assets increased by $1,080.
   - ⦾ true
   - ⦾ false

7) If the owner takes cash out of the business for personal use, the withdrawal should be recorded as an expense of the business.
   - ⦾ true
   - ⦾ false

8) When services are provided on credit, the total amount of liabilities increases.
   - ⦾ true
   - ⦾ false

9) A company has assets of $56,720 and liabilities of $29,500. The owner's equity is $86,220.
   - ⦾ true
   - ⦾ false

10) A company has assets of $56,320 and liabilities of $29,500. The owner's equity is $85,820.
   - ⦾ true
   - ⦾ false

11) The expenses for a period are reported on the balance sheet.
   - ⦾ true
   - ⦾ false

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12) A double line drawn under the figures in a money column shows that the computation is complete.
- ◎ true
- ◎ false

13) The first step in the accounting process is the analysis of business transactions.
- ◎ true
- ◎ false

14) If there is an excess of expenses over revenues, the excess represents a profit.
- ◎ true
- ◎ false

15) A withdrawal of funds by the owner for personal use decreases owner’s equity.
- ◎ true
- ◎ false

16) The statement of owner's equity is prepared before the balance sheet so that the ending capital balance is available.
- ◎ true
- ◎ false

17) If assets are $8,000 and liabilities are $2,000, owner's equity is $6,000.
- ◎ true
- ◎ false

18) The amount of net income or net loss is needed to complete the statement of owner's equity.
- ◎ true
- ◎ false

19) The owner’s capital balance at the beginning of the period is required on the statement of owner’s equity.
- ◎ true
- ◎ false

20) When assets equal liabilities + owner’s equity, a company is said to break even.
- ◎ true
- ◎ false

21) The capital balance at the end of the period is reported on both the statement of owner’s equity and the balance sheet.
- ◎ true
- ◎ false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

22) At the end of the first month of operations for SloMo Delivery Service, the business had the following accounts: Accounts Receivable, $11,350; Prepaid Insurance, $400; Equipment, $26,200 and Cash, $21,650. On the same date, SloMo owed the following creditors: Simpson Supply Company, $17,000; Allen Office Equipment, $14,500.

The total assets for the SloMo Delivery Service are:

A) $21,650
B) $33,400
C) $33,000
D) $59,600

23) At the end of the first month of operations for SloMo Delivery Service, the business had the following accounts: Accounts Receivable, $11,350; Prepaid Insurance, $400; Equipment, $26,200 and Cash, $21,650. On the same date, SloMo owed the following creditors: Simpson Supply Company, $17,000; Allen Office Equipment, $14,500.

The total amount of Liabilities is:

A) $31,500
B) $17,000
C) $14,500
D) $28,100

24) The property that a business owns is referred to as its ___________.

A) assets
B) liabilities
C) owner's equity
D) capital

25) The debts or obligations of a business are known as its ___________.

A) assets
B) liabilities
C) owner's equity
D) capital

26) On the income statement, revenues minus expenses equals ___________ for a period of time.

A) working capital
B) current assets
C) accounts receivable
D) net income or net loss

27) The financial interest of the owner in a business is called ___________.

A) assets
B) owner's equity
C) liabilities
D) accounts receivable

28) The account used to record amounts that are owed for goods or services purchased on credit is known as ___________.

A) merchandise inventory
B) accounts receivable
C) accounts payable
D) withdrawals

29) When a business sells services for cash, assets increase and revenue ___________.

A) increases
B) decreases
C) is unchanged
D) may either increase or decrease

30) The account used to record amounts that will be collected from charge account customers in the future is referred to as ___________.

A) accounts payable
B) accounts receivable
C) merchandise inventory
D) withdrawals

31) The ___________ is the financial report that shows the assets, liabilities, and owner's equity of a business on a specific date.

A) statement of owner’s equity
B) profit and loss statement
C) balance sheet
D) income statement

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32) If assets are $17,000 and owner's equity is $10,000, liabilities are __________.
   - A) $7,000
   - B) $10,000
   - C) $17,000
   - D) $27,000

33) When a business pays cash for salaries, assets decrease and expenses __________.
   - A) decrease
   - B) increase
   - C) are unchanged
   - D) may increase or decrease

34) In a business transaction, when revenue increases, owner's equity will __________.
   - A) remain unchanged
   - B) decrease
   - C) either increase or decrease
   - D) increase

35) In a business transaction, when expenses increase, owner's equity will __________.
   - A) remain unchanged
   - B) decrease
   - C) either increase or decrease
   - D) increase

36) Funds taken from the business by the owner for personal use are called __________.
   - A) withdrawals
   - B) assets
   - C) liabilities
   - D) expenses

37) The __________ reports the changes that have occurred in the owner's financial interest during the reporting period.
   - A) income statement
   - B) statement of owner's equity
   - C) profit and loss statement
   - D) balance sheet

38) When revenue is greater than expenses, the result is net __________.
   - A) receivable
   - B) sales
   - C) loss
   - D) income

39) When revenue and expenses are equal, the firm is said to __________.
   - A) break even
   - B) be profitable
   - C) experience a loss
   - D) experience a gain

40) The three-line heading of a financial statement shows who, what, and __________.
   - A) when
   - B) where
   - C) why
   - D) how

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41) Which of the following equations is the Fundamental Accounting Equation?
   A) Assets + Liabilities = Owner's Equity
   B) Assets + Owner's Equity = Liabilities
   C) Assets = Liabilities + Owner's Equity
   D) Assets = Liabilities − Owner's Equity

42) The balance sheet shows:
   A) the results of business operations.
   B) all revenues and expenses.
   C) the amount of net income or loss.
   D) the financial position of a business at a given time.

43) The Income Statement shows:
   A) the change in owner's equity for a period of time.
   B) assets and liabilities.
   C) the amount of net income or net loss.
   D) the financial position of a business at a given time.

44) Amounts that a business must pay in the future are known as:
   A) assets.
   B) liabilities.
   C) capital.
   D) expenses.

45) Which of the following is a liability account?
   A) accounts payable
   B) equipment
   C) fees income
   D) salary expense

46) Ginger Yale Ice Company receives money from a customer on account. Recording this transaction will:
   A) increase Accounts Receivable.
   B) decrease G. Yale, Capital.
   C) decrease Accounts Payable.
   D) increase Cash.

47) If a business issues a check for $100 to purchase office supplies, what is the effect on the accounting equation?
   A) Owner's Equity will increase
   B) Assets will decrease
   C) Owner's Equity will decrease
   D) Total Assets will remain the same

48) If the following are the only accounts of Jones Supply Company, what is the missing Supplies balance?

   Cash: $9,530
   Supplies: ?????
   Accounts Payable: $4,000
   John Smith, Capital: $10,690
   A) $2,840
   B) $5,160
   C) $14,690
   D) $24,220

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49) If the following are the only accounts of Jones Supply Company, what is the missing Supplies balance?

Cash: $8,000
Supplies: ?????
Accounts Payable: $4,000
John Smith, Capital: $9,000

A) $3,000
B) $5,000
C) $13,000
D) $21,000

50) When analyzing the effect of a business transaction, which of the following is not a step taken to describe the financial event?

A) identify the property
B) identify who owns the property
C) determine the location of the property
D) determine the amount of the increase or decrease

51) At the end of the first month of operations for SloMo Delivery Service, the business had the following accounts: Accounts Receivable, $12,300; Prepaid Insurance, $420; Equipment, $28,100 and Cash, $22,600. On the same date, SloMo owed the following creditors: Simpson Supply Company, $18,900; Allen Office Equipment, $16,400.

The total assets for the SloMo Delivery Service are:

A) $63,420
B) $34,900
C) $35,320
D) $50,700

52) At the end of the first month of operations for SloMo Delivery Service, the business had the following accounts: Accounts Receivable, $11,350; Prepaid Insurance, $400; Equipment, $26,200 and Cash, $21,650. On the same date, SloMo owed the following creditors: Simpson Supply Company, $17,000; Allen Office Equipment, $14,500.

The total assets for the SloMo Delivery Service are:

A) $21,650
B) $33,400
C) $33,000
D) $59,600

53) At the end of the first month of operations for SloMo Delivery Service, the business had the following accounts: Accounts Receivable, $11,750; Prepaid Insurance, $570; Equipment, $27,000 and Cash, $22,050. On the same date, SloMo owed the following creditors: Simpson Supply Company, $17,800; Allen Office Equipment, $15,300.

The total amount of Liabilities is:

A) $27,000
B) $22,050
C) $33,100
D) $15,300

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54) At the end of the first month of operations for SloMo Delivery Service, the business had the following accounts: Accounts Receivable, $11,350; Prepaid Insurance, $400; Equipment, $26,200 and Cash, $21,650. On the same date, SloMo owed the following creditors: Simpson Supply Company, $17,000; Allen Office Equipment, $14,500.

The total amount of Liabilities is:

A) $31,500
B) $17,000
C) $14,500
D) $28,100

55) If the beginning capital balance for William's Consulting Service is $29,300, net income is $4,000, and the ending capital balance is $25,600, what were the withdrawals for the period?

A) $300
B) $3,700
C) $7,700
D) $25,600

56) If the beginning capital balance for William's Consulting Service is $23,000, net income is $4,000, and the ending capital balance is $20,000, what were the withdrawals for the period?

A) $1,000
B) $3,000
C) $7,000
D) $20,000

57) If during the year total assets increase by $82,000 and total liabilities decrease by $19,500, by how much did owner's equity increase/decrease?

A) $101,500 increase
B) $62,500 decrease
C) $101,500 decrease
D) $82,000 increase

58) If during the year total assets increase by $75,000 and total liabilities decrease by $16,000, by how much did owner's equity increase/decrease?

A) $91,000 increase
B) $59,000 decrease
C) $91,000 decrease
D) $75,000 increase

59) Which financial statement is reported as of a specific date?

A) Balance Sheet
B) Statement of Owner's Equity
C) Income Statement
D) Statement of Changes in Financial Position

60) The Daniel Insurance Agency reported revenues of $19,920 and expenses of $24,920 for the current period. What was the final figure reported on the company's income statement?

A) $5,000 net loss
B) $5,000 net income
C) $19,920 net income
D) $24,920 net loss

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61) The Daniel Insurance Agency reported revenues of $29,000 and expenses of $31,000 for the current period. What was the final figure reported on the company's income statement?
   A) $2,000 net loss
   B) $2,000 net income
   C) $29,000 net income
   D) $31,000 net loss

62) The three-line heading at the top of a financial statement displays what information on the second line?
   A) name of the company
   B) result of the financial statement
   C) name of the financial statement
   D) period of time covered by the financial statement

63) If the income statement covered a six-month period ending on November 30, 2019, the third line of the income statement heading would read:
   A) Month Ended November 30, 2019.
   B) November 30, 2019.
   C) Six-month Period Ended November 30, 2019.
   D) Month of November, 2019.

64) When the owner invests equipment in a business,
   A) assets increase and owner's equity decreases.
   B) assets and revenue increase.
   C) assets and owner's equity increase.
   D) liabilities decrease and owner's equity increases.

65) When equipment is purchased on credit,
   A) assets and liabilities increase.
   B) assets increase and liabilities decrease.
   C) assets and owner's equity increase.
   D) assets and expenses increase.

66) When rent is prepaid, which of the following occurs?
   A) liabilities increase
   B) assets are unchanged
   C) owner's equity decreases
   D) assets increase

67) If a business receives $5,000 on account from clients who owed money for services previously billed, identify the effect on the accounting equation:
   A) assets decrease and liabilities increase.
   B) liabilities decrease and owner's equity decreases.
   C) assets remain the same and owner's equity remains the same.
   D) owner's equity increases and revenue increases.

68) When the owner withdraws cash for personal use,
   A) assets decrease and expenses increase.
   B) assets decrease and owner's equity increases.
   C) assets decrease and owner's equity decreases.
   D) owner's equity decreases and revenue decreases.

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69) When an electric bill is paid, which of the following increases?
   A) assets
   B) expenses
   C) liabilities
   D) owner's equity

70) Identify the account below that is classified as an asset account and would therefore appear on the left side of the accounting equation.
   A) Accounts Payable.
   B) Owner's Capital.
   C) Accounts Receivable.
   D) Fees Income.

71) Withdrawals are reported on which of the following financial statements?
   A) balance sheet
   B) income statement
   C) profit and loss statement
   D) statement of owner's equity

72) The financial statement that is prepared first is:
   A) up to the accountant.
   B) the income statement.
   C) the balance sheet.
   D) the statement of owner's equity.

73) The rent paid for <u>future</u> months is a(n):
   A) asset.
   B) liability.
   C) expense.
   D) revenue.

74) Owner's equity is alternatively referred to as which of the following?
   A) accounts payable
   B) assets
   C) net worth
   D) withdrawals

75) Which financial statement is a representation of the accounting equation?
   A) Income Statement
   B) Statement of Owner's Equity
   C) Balance Sheet
   D) Profit and Loss Statement

76) The Statement of Owner’s Equity is calculated as follows:
   A) beginning capital + net income – withdrawals + additional investments = ending capital
   B) beginning capital + net loss + withdrawals + additional investments = ending capital
   C) beginning capital + net loss – withdrawals + additional investments = ending capital
   D) beginning capital + net income + withdrawals + additional investments = ending capital

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77) Which of the following statements regarding the fundamental accounting equation is accurate?
   - A) It is out of balance when a company has net income.
   - B) It is in balance after only certain transactions.
   - C) It is in balance after every transaction.
   - D) It is out of balance when a company has a net loss.

78) At the end of the first month of operations for Jackson's Catering Service, the business had the following accounts: Cash, $19,750; Prepaid Rent, $500; Equipment, $7,500 and Accounts Payable $4,000. By the end of the month, Jackson's had earned $36,500 of Revenues, and used $2,150 of Utilities Expenses, $4,750 of Rent Expense and $3,800 of Salaries Expenses. Calculate the net income to be reported by the company for this first month.
   - A) $36,500
   - B) $25,800
   - C) $29,600
   - D) $26,300

79) At the end of the first month of operations for Jackson's Catering Service, the business had the following accounts: Cash, $21,000; Prepaid Rent, $500; Equipment, $7,500 and Accounts Payable $4,000. By the end of the month, Jackson's had earned $32,000 of Revenues, and used $1,800 of Utilities Expenses, $4,000 of Rent Expense and $3,600 of Salaries Expenses. Calculate the net income to be reported by the company for this first month.
   - A) $32,000
   - B) $22,600
   - C) $26,200
   - D) $23,100

80) At the end of its first year of operations, Shapiro's Consulting Services reported net income of $30,150. They also had account balances of: Cash, $18,450; Office Supplies, $3,200, Equipment, $25,400 and Accounts Receivable, $8,000. The owner's total investment for this first year was $19,200 and the owner withdrew $2,490 for personal use.

   Calculate the **ending** balance to be reported on the Statement of Owner's Equity in the Owner's Capital account.
   - A) $67,800
   - B) $30,150
   - C) $48,850
   - D) $46,860

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81) At the end of its first year of operations, Shapiro's Consulting Services reported net income of $27,000. They also had account balances of: Cash, $16,000; Office Supplies, $3,200, Equipment, $24,000 and Accounts Receivable, $8,000. The owner's total investment for this first year was $15,000 and the owner withdrew $2,000 for personal use.

Calculate the **ending** balance to be reported on the Statement of Owner's Equity in the Owner's Capital account.

A) $58,000
B) $27,000
C) $42,200
D) $40,000

82) At the end of its first year of operations, Shapiro's Consulting Services reported net income of $27,000. They also had account balances of: Cash, $16,000; Office Supplies, $3,200; Equipment, $24,000 and Accounts Receivable, $8,000. The owner's total investment for this first year was $15,000 and the owner withdrew $2,000 for personal use.

What are the total liabilities of Shapiro's Consulting Services at the end of the first year of operations?

A) $11,200
B) $27,000
C) $24,200
D) $42,000

83) Which of these accounts would appear on a firm's income statement?

A) assets and liabilities
B) revenues and expenses
C) assets and revenues
D) liabilities and expenses

84) Owner's equity is:

A) the amount taken out of a business by the owner for personal use.
B) the financial interest of the owner of a business.
C) the amount the owner owes the business.
D) the revenues less the expenses.

85) Pepper Company reported revenues of $11,300, supplies expense of $3,000, and net income of $2,500 for the most recent period. If the company's only other expense was Rent Expense, what was its balance at the end of the period?

A) $5,800
B) $8,300
C) $13,800
D) $14,300

86) Pepper Company reported revenues of $12,000, supplies expense of $3,000, and net income of $2,000 for the most recent period. If the company's only other expense was Rent Expense, what was its balance at the end of the period?

A) $7,000
B) $9,000
C) $14,000
D) $15,000

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87) The balance sheet shows each of the following except the:
   A) net income of the business.
   B) amount and types of property the business owns.
   C) owner's interest.
   D) amount owed creditors.

88) The Balance Sheet heading includes each of the following except:
   A) firm's name.
   B) firm's address.
   C) title of the report.
   D) date of the report.

89) What is the correct order in which to prepare the three financial statements?
   A) Balance Sheet; Income Statement; Statement of Owner's Equity
   B) Income Statement; Statement of Owner's Equity; Balance Sheet
   C) Income Statement; Balance Sheet; Statement of Owner's Equity
   D) Statement of Owner's Equity; Balance Sheet; Income Statement

90) Which of the following is an example of an expense?
   A) an owner withdrawal for personal use
   B) the payment of a creditor on account
   C) the payment of the monthly utility bill
   D) the receipt of cash from a credit customer

91) Revenue by definition is:
   A) an amount a business must pay in the future.
   B) amounts earned from the sale of goods or services.
   C) the payment of amounts owed to creditors.
   D) the collection of amounts owed by customers.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

92) The Sidewalk Company has the following balances at year-end: Cash: $12,000, Equipment: $27,000, Supplies: $2,000, Accounts Payable: $20,000. Complete the accounting equation for the company.

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93) During October, a firm had the following transactions involving revenue and expenses.

Paid $1,600 for rent for October
Provided services for $4,750 in cash
Paid $350 for the October telephone service
Provided services for $1,700 on credit
Paid salaries of $2,675 to employees
Paid $350 for the monthly office cleaning service

Calculate the net income or net loss for the period?

94) The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

Cash
Accounts Receivable
Equipment
Accounts Payable
K. Mitchell, Capital
Revenue
Expenses

Performed services on credit

95) The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

Cash
Accounts Receivable
Equipment
Accounts Payable
K. Mitchell, Capital
Revenue
Expenses

Paid cash for property taxes

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96) The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

Cash
Accounts Receivable
Equipment
Accounts Payable
K. Mitchell, Capital
Revenue
Expenses

Sent a check to a creditor

97) The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

Cash
Accounts Receivable
Equipment
Accounts Payable
K. Mitchell, Capital
Revenue
Expenses

Issued checks to pay salaries

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98) The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

Cash
Accounts Receivable
Equipment
Accounts Payable
K. Mitchell, Capital
Revenue
Expenses

Purchased an automobile for cash

99) The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

Cash
Accounts Receivable
Equipment
Accounts Payable
K. Mitchell, Capital
Revenue
Expenses

Received cash from credit customers

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100) The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

Cash
Accounts Receivable
Equipment
Accounts Payable
K. Mitchell, Capital
Revenue
Expenses

Performed services for cash

101) The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

Cash
Accounts Receivable
Equipment
Accounts Payable
K. Mitchell, Capital
Revenue
Expenses

The owner made an additional investment of cash

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102) The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

Cash
Accounts Receivable
Equipment
Accounts Payable
K. Mitchell, Capital
Revenue
Expenses

Purchased a Building on credit

103) The transactions listed below took place at the Mitchell Advertising Agency. These transactions affected the following accounts. Indicate the accounts affected and use plus and minus to show the changes caused by each transaction.

Cash
Accounts Receivable
Equipment
Accounts Payable
K. Mitchell, Capital
Revenue
Expenses

Hired security for a large event; payment is due in 60 days

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104) Guy McKinley started the McKinley Charter Service at the beginning of August 20X1. On August 31, 20X1, the accounting records of the business showed the following information.

Equipment	$ 18,000	**Rent Expense**	$ 4,800
Accounts Receivable	2,600	**Cash**	6,200
Fees Income	30,000	**Salaries Expense**	10,800
Boats	103,000	**Utilities Expense**	1,900
Gasoline Expense	7,500	**Supplies**	3,600
Loans Payable	77,500	**Initial Investment**	51,000
Owners' Withdrawal	4,100	**Accounts Payable**	4,000

Prepare an income statement and a statement of owner's equity for the month and a balance sheet as of August 31, 20X1.

105) On September 1, Shawn Dahl established Whitewater Rentals, a canoe and kayak rental business. The following transactions occurred in the month of September and affected the following accounts:

Cash
Accounts Receivable
Office Equipment
Canoe and Kayak Equipment
Accounts Payable
Shawn Dahl, Capital
Revenue
Expenses

Transactions

1. Shawn Dahl invested $50,000 in cash to open the business
2. Paid $14,200 in cash for the purchase of kayak and canoe equipment
3. Paid $2,200 in cash for rent expense
4. Purchased additional kayak and canoe equipment for $4,900 on credit
5. Received $4,600 in cash for kayak rentals
6. Rented canoes and kayaks for $3,400 on account
7. Purchased office equipment for $375 in cash
8. Received $1,350 in cash from credit clients
9. Shawn Dahl withdrew $1,800 in cash for personal expenses

Based on the information shown in transaction #6 above, indicate the accounts affected and use plus and minus to show the changes caused by the transaction.

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106) On September 1, Shawn Dahl established Whitewater Rentals, a canoe and kayak rental business. The following transactions occurred in the month of September and affected the following accounts:

Cash
Accounts Receivable
Office Equipment
Canoe and Kayak Equipment
Accounts Payable
Shawn Dahl, Capital
Revenue
Expenses

Transactions
1. Shawn Dahl invested $50,000 in cash to open the business
2. Paid $14,200 in cash for the purchase of kayak and canoe equipment
3. Paid $2,200 in cash for rent expense
4. Purchased additional kayak and canoe equipment for $4,900 on credit
5. Received $4,600 in cash for kayak rentals
6. Rented canoes and kayaks for $3,400 on account
7. Purchased office equipment for $375 in cash
8. Received $1,350 in cash from credit clients
9. Shawn Dahl withdrew $1,800 in cash for personal expenses

Based on the information shown above, what is the balance of Accounts Receivable for Whitewater Rentals at the end of September?

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107) On September 1, Shawn Dahl established Whitewater Rentals, a canoe and kayak rental business. The following transactions occurred in the month of September and affected the following accounts:

```
Cash
Accounts Receivable
Office Equipment
Canoe and Kayak Equipment
Accounts Payable
Shawn Dahl, Capital
Revenue
Expenses
```

Transactions

1. Shawn Dahl invested $50,000 in cash to open the business
2. Paid $14,200 in cash for the purchase of kayak and canoe equipment
3. Paid $2,200 in cash for rent expense
4. Purchased additional kayak and canoe equipment for $4,900 on credit
5. Received $4,600 in cash for kayak rentals
6. Rented canoes and kayaks for $3,400 on account
7. Purchased office equipment for $375 in cash
8. Received $1,350 in cash from credit clients
9. Shawn Dahl withdrew $1,800 in cash for personal expenses

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Based on the information above, complete the following accounting equation.

Assets $_____ = Liabilities $_____ + Owner's Equity $_____

108) On June 1, Donna Banhil established Solo Services, a voice consulting service. Enter the following transactions for June in the table below using + and – to indicate increases or decreases:

	Assets				= Liability	+ Owner's Equity		
Transaction	Cash	Accounts Receivable	Prepaid Rent	Office Supplies	= Accounts Payable	+ D. Banhil, Capital	Revenue	Expense
1								
2								
3								
4								
5								
6								
7								
8								
Balance								

Transactions
1. Donna Banhil invested $21,000 in cash to open the business
2. Paid $1,650 for June's rent

3. Paid $4,950 for rent in advance, for the next three months (July to September)
4. Purchased office supplies for $550 on credit
5. Performed voice consulting services and immediately received $3,300 from clients
6. Gave voice lessons to charge account clients and earned $8,800
7. Paid $220 cash for the supplies purchased earlier in the month
8. Received $1,000 in cash from credit clients billed earlier in the month

109) The table below shows the transactions for Sawyer Architecture Services during June. Greg Sawyer opened this business on June 1 with a capital investment of $78,000 (Transaction 1).

	Assets				= Liability	+ Owner's Equity		
Transaction	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable	+ G. Sawyer, Capital	+ Revenue	− Expense
1	+78,000					+78,000		
2	−8,200			+8,200				
3		+5,200					+5,200	

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4				+3,680	+3,680			
5	−3,500							−3,500
6	+670	−670						
7	−2,400					−2,400		
8	−450		+450					
Balance	64,120	4,530	450	11,880	3,680	75,600	5,200	3,500

What was the net income or net loss for Sawyer Architecture Services for the month of June?

110) The table below shows the transactions for Sawyer Architecture Services during June. Greg Sawyer opened this business on June 1 with a capital investment of $78,000 (Transaction 1).

	Assets				= Liability	+ Owner's Equity		
Transaction	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable	+ G. Sawyer, Capital	+ Revenue	− Expense
1	+78,000					+78,000		
2	−8,200			+8,200				
3		+5,200					+5,200	

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4				+3,680	+3,680			
5	−3,500							−3,500
6	+670	−670						
7	−2,400					−2,400		
8	−450		+450					
Balance	64,120	+ 4,530	+ 450	+ 11,880	= 3,680	+ 75,600	+ 5,200	− 3,500

Prepare the statement of owner's equity for Sawyer Architecture Services for the month ended June 30, 20X1.

111) The table below shows the transactions for Sawyer Architecture Services during June. Greg Sawyer opened this business on June 1 with a capital investment of $78,000 (Transaction 1).

	Assets				= Liability	+ Owner's Equity		
Transaction	**Cash**	**+ Accounts Receivable**	**+ Supplies**	**+ Equipment**	**= Accounts Payable**	**+ G. Sawyer, Capital**	**+ Revenue**	**− Expense**
1	+78,000					+78,000		
2	−8,200			+8,200				
3		+5,200					+5,200	

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4				+3,680	+3,680			
5	−3,500							−3,500
6	+670	−670						
7	−2,400					−2,400		
8	−450		+450					
Balance	64,120	4,530	450	11,880	3,680	75,600	5,200	3,500

Prepare the balance sheet for Sawyer Architecture Services as of June 30, 20X1.

112) Cullen Beatty plans to start a consulting business—Cullen Consulting Services. In preparation to do this, on April 1, 20X1, he invested $56,000 in cash and $23,000 in equipment, and opened an account at Office Plus by purchasing $1,750 in office supplies which is due by the end of the month. He then signed a one-year lease agreement on an office building for $8,400, paying the full amount in advance.

Prepare a Balance Sheet for Cullen Consulting Services as of April 1, 20X1, before he conducts any services.

113) Explain why the third line of the three-line heading above the financial statements displays a single date on the balance sheet, while referencing a date range on the income statement and the statement of owner's equity.

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Answer Key

Test name: Chapter 02

1) TRUE
2) FALSE
The fundamental accounting equation dictates that Assets = Liabilities + Owner's Equity

3) TRUE
4) TRUE
5) TRUE
Equipment increases by $1,720 and Cash decreases by $690, therefore Total Assets increase by $1,030 ($1,720 – $690)

6) TRUE
Equipment increases by $1,380 and Cash decreases by $300, therefore Total Assets increase by $1,080 ($1,380 – $300)

7) FALSE
Withdrawals are not considered to be expenses, and therefore do not impact the calculation of Net Income/Net Loss.

8) FALSE
When services are provided on credit, assets (accounts receivable) increase and owner's equity (revenue) increases. Liabilities are unchanged as a result of this transaction.

9) FALSE
Using the fundamental accounting equation, owner's equity would be $27,220 ($56,720 = $29,500 + $27,220)

10) FALSE
Using the fundamental accounting equation, owner's equity would be $26,820 ($56,320 = $29,500 + $26,820)

11) FALSE
Expenses are reported on the Income Statement.

12) TRUE
13) TRUE
14) FALSE
An excess of expenses over revenues represents a loss.

15) TRUE
16) TRUE
17) TRUE
18) TRUE
19) TRUE
20) FALSE
A company is said to break even when its revenues equal its expenses.

21) TRUE
22) D
Assets = Accounts Receivable, $11,350 + Prepaid Insurance, $400 + Equipment $26,200 + Cash, $21,650 = $59,600.

23) A
Liabilities = Simpson Supply Company, $17,000 + Allen Office Equipment, $14,500 = $31,500.

24) A
25) B
26) D
27) B
28) C
29) A
30) B

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31) C
32) A
Assets = Liabilities + Owner's Equity; therefore, $17,000 = $7,000 + $10,000.

33) B
34) D
35) B
36) A
37) B
38) D
39) A
40) A
41) C
42) D
43) C
44) B
45) A
46) D
47) D
48) B
The fundamental accounting equation dictates that assets (cash & supplies) equal liabilities (accounts payable) plus owner's equity (John Smith, capital). Therefore $9,530 + $5,160 = $4,000 + $10,690

49) B
The fundamental accounting equation dictates that assets (cash & supplies) equal liabilities (accounts payable) plus owner's equity (John Smith, capital). Therefore $8,000 + $5,000 = $4,000 + $9,000

50) C
51) A
Assets = Accounts Receivable, $12,300 + Prepaid Insurance, $420 + Equipment $28,100 + Cash, $22,600 = $63,420.

52) D
Assets = Accounts Receivable, $11,350 + Prepaid Insurance, $400 + Equipment $26,200 + Cash, $21,650 = $59,600.

53) C
Liabilities = Simpson Supply Company, $17,800 + Allen Office Equipment, $15,300 = $33,100.

54) A
Liabilities = Simpson Supply Company, $17,000 + Allen Office Equipment, $14,500 = $31,500.

55) C
The statement of owner's equity illustrates that beginning capital ($29,300) plus net income ($4,000) minus withdrawals ($7,700) equals ending capital ($25,600)

56) C
The statement of owner's equity illustrates that beginning capital ($23,000) plus net income ($4,000) minus withdrawals ($7,000) equals ending capital ($20,000)

57) A
$82,000 = ($19,500) + $101,500

58) A
$75,000 = ($16,000) + $91,000

59) A
60) A
Revenues ($19,920) minus expenses ($24,920) equals net loss (−$5,000). The calculation would have been categorized as net income if it was a positive amount.

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61) A
Revenues ($29,000) minus expenses ($31,000) equals net loss (−$2,000). The calculation would have been categorized as net income if it was a positive amount.

62) C
63) C
64) C
65) A
66) B
In this transaction cash (an asset) decreases and prepaid rent (an asset) increases. These asset changes offset each other, resulting in no change to the total asset balance.

67) C
Cash is increased by $5,000 but Accounts Receivable is reduced by $5,000 so there is no change in total assets.

68) C
69) B
70) C
71) D
72) B
73) A
74) C
75) C
76) A
77) C
78) B
Revenues $36,500 − Utilities Expense $2,150 − Rent Expense $4,750 − Salaries Expense $3,800 = Net Income $25,800.

79) B
Revenues $32,000 − Utilities Expense $1,800 − Rent Expense $4,000 − Salaries Expense $3,600 = Net Income $22,600.

80) D
Investments $19,200 + Net Income $30,150 − Withdrawals $2,490 = $46,860. Note that the beginning capital balance would typically be added within the formula as well, but as this is the company's first year of operations, the beginning capital balance is zero.

81) D
Investments $15,000 + Net Income $27,000 − Withdrawals $2,000 = $40,000. Note that the beginning capital balance would typically be added within the formula as well, but as this is the company's first year of operations, the beginning capital balance is zero.

82) A
Investments $15,000 + Net Income $27,000 − Withdrawals $2,000 = $40,000 Equity. Assets = Cash $16,000 + Office Supplies $3,200 + Equipment $24,000 + Accounts Receivable $8,000 = $51,200 Total Assets. So Assets of $51,200 = 11,200 Liabilities + $40,000 Equity.

83) B
84) B
85) A
Revenues ($11,300) − Supplies Expense ($3,000) − Rent Expense ($5,800) = Net Income ($2,500)

86) A

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Revenues ($12,000) − Supplies Expense ($3,000) − Rent Expense ($7,000) = Net Income ($2,000)

87) A
88) B
89) B
90) C
91) B
92) Essay
Assets $41,000 = Liabilities $20,000 + Owner's Equity $21,000

Assets = Cash $12,000 + Equipment $27,000 + Supplies $2,000 = $41,000.
Liabilities = Accounts Payable $20,000.
Equity = $41,000 (Assets) − $20,000 (Liabilities) = $21,000

93) Essay
Net income: $1,475

$4,750 + $1,700 − $1,600 − $350 − $2,675 − $350 = $1,475 Net Income

94) Essay
plus Accounts Receivable; plus Revenue

95) Essay
plus Expenses; minus Cash

96) Essay
minus Accounts Payable; minus Cash

97) Essay
plus Expenses; minus Cash

98) Essay
plus Automobile; minus Cash

99) Essay
plus Cash; minus Accounts Receivable

100) Essay
plus Cash; plus Revenue

101) Essay
plus Cash; plus K. Mitchell, Capital

102) Essay
plus Building; plus Accounts Payable

103) Essay
plus Expenses; plus Accounts Payable

104) Essay

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MCKINLEY CHARTER SERVICE
Income Statement
Month Ended August 31, 20X1

Revenue:		
Fees Income		$ 30,000
Expenses:		
Salaries Expense	$ 10,800	
Gasoline Expense	7,500	
Rent Expense	4,800	
Utilities Expense	1,900	
Total Expenses		25,000
Net Income		$ 5,000

MCKINLEY CHARTER SERVICE
Statement of Owner's Equity
Month Ended August 31, 20X1

Guy McKinley, Capital, August 1, 20X1		$ 51,000
Net Income for August	5,000	
Less Withdrawals for August	4,100	
Increase in Capital		900
Guy McKinley, Capital, August 31, 20X1		$ 51,900

MCKINLEY CHARTER SERVICE
Balance Sheet
August 31, 20X1

Assets		**Liabilities**	
Cash	$ 6,200	**Loans Payable**	$ 77,500
Accounts Receivable	2,600	**Accounts Payable**	4,000
Supplies	3,600	**Total Liabilities**	81,500
Equipment	18,000	**Owner's Equity**	
Boats	103,000	**Guy McKinley, Capital**	51,900

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Total Assets	$ 133,400	**Total Liabilities and Owner's Equity**	$ 133,400

105) Essay
plus Accounts Receivable; plus Revenue

106) Essay
The balance of Accounts Receivable at September 30 is $2,050.

Beginning Accounts Receivable, $0 + sales on account, $3,400 − collections on account, $1,350 = Ending Accounts Receivable, $2,050.

107) Essay
Assets $58,900 = Liabilities $4,900 + Owner's Equity $ 54,000

Assets = Cash $37,375 + Accounts Receivable $2,050 + Office Equipment $375 + Canoe and Kayak Equipment $19,100 = $58,900.
Liabilities = Accounts Payable $4,900.
Equity = Investment $50,000 + Net Income $5,800 − Withdrawal $1,800 = $54,000.

Detail for Assets:
Cash = $50,000 − $14,200 − $2,200 + $4,600 − $375 + 1,350 − $1,800 = $37,375.
Accounts Receivable = $3,400 − $1,350 = $2,050.
Office Equipment = $375.
Canoe & Kayak Equipment = $14,200 + $4,900 = $19,100.

Detail for Liabilities:
Accounts Payable = $4,900.

108) Essay

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	Assets				= Liability	+ Owner's Equity		
Transaction	Cash	+ Accounts Receivable	+ Prepaid Rent	+ Office Supplies	= Accounts Payable	+ D. Banhil, Capital	+ Revenue	− Expense
1	+21,000					+21,000		
2	−1,650							+1,650
3	−4,950		+4,950					
4				+550	+550			
5	+3,300						+3,300	
6		+8,800					+8,800	
7	−220				−220			
8	−1,000	−1,000						
Balance	18,480	+ 7,800	+ 4,950	+ 550	= 330	+ 21,000	+ 12,100	− 1,650

109) Essay
Net income was $1,700.

Revenue, $5,200 − Expenses, $3,500 = Net Income, $1,700.

110) Essay

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SAWYER ARCHITECTURE SERVICES
Statement of Owner's Equity
Month Ended June 30, 20X1

Greg Sawyer, Capital, June 1, 20X1		$ 78,000
Net Income for June	$ 1,700	
Less Withdrawals for June	(2,400)	
Decrease in Capital		(700)
Greg Sawyer, Capital, June 30, 20X1		$ 77,300

111) Essay

SAWYER ARCHITECTURE SERVICES
Balance Sheet
June 30, 20X1

Assets		**Liabilities**	
Cash	$ 64,120	**Accounts Payable**	$ 3,680
Accounts Receivable	4,530		
Supplies	450	**Owner's Equity**	
Equipment	11,880	**Greg Sawyer, Capital**	77,300
Total Assets	$ 80,980	**Total Liabilities and Owner's Equity**	$ 80,980

112) Essay

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CULLEN CONSULTING SERVICES
Balance Sheet
April 1, 20X1

Assets		**Liabilities**	
Cash	$ 47,600	**Accounts Payable**	$ 1,750
Supplies	1,750		
Prepaid Rent	8,400	**Owner's Equity**	
Equipment	23,000	**Cullen Beatty, Capital**	79,000
Total Assets	$ 80,750	**Total Liabilities and Owner's Equity**	$ 80,750

Cash Balance = Cash invested $56,000 − Cash spent for Prepaid Rent $8,400 = $47,600

113) Essay
The balance sheet provides a snapshot of a firm's financial position on a single date. The income statement displays the results of business operations over a period of time. The statement of owner's equity reports the changes that occurred in the owner's financial interest over a period of time.