TransactionsPractice Key

1. Which of the following journal entries is correct when a company has incurred an expense for work performed but has **not** yet paid for theses salaries to employees?

A. Salaries expense
    Operating income
B. Salaries expense
    Accrued expenses payable
C. Accrued expenses payable
    Cash
D. Retained earnings
    Salaries expense

A. Option A

B. Option B

C. Option C

D. Option D

Expenses are recorded (with a debit entry) when incurred. When they have been incurred and not paid, the accrued expenses payable account needs to be increased with a credit entry.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Analyze
Difficulty: 1 Easy
Learning Objective: 03-03 Explain the accrual basis of accounting and apply the revenue realization and expense matching principles to measure income.
Libby - Chapter 03 #66
Topic Area: Accrual Accounting

2. Which of the following journal entries correctly records the receipt of a utility bill, which will be paid for in later weeks?

A. Utilities payable
  Utilities expense
B. Utilities expense
  Utilities payable
C. Utilities expense
  Retained earnings
D. Retained earnings
  Utilities payable

A. Option A

B. Option B

C. Option C

D. Option D

The utilities expense account needs to be increased with a debit, and because the bill will be paid at a later date, the utilities payable account needs to be increased with a credit. An expense is recognized and a liability is recorded.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Analyze
Difficulty: 1 Easy
Learning Objective: 03-03 Explain the accrual basis of accounting and apply the revenue realization and expense matching principles to measure income.
Libby - Chapter 03 #68
Topic Area: Accrual Accounting

3. Which of the following journal entries is prepared by an auto repair shop when a customer will pay cash subsequent to delivery of goods or services?

A. Accounts receivable
   Revenues
B. Cash
   Unearned revenues
C. Unearned revenues
   Cash
D. Revenues
   Accounts receivable

A. Option A

B. Option B

C. Option C

D. Option D

When goods or services are sold or provided to a customer, on account, an accounts receivable (an asset) is created at the time of sale or service.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 03-03 Explain the accrual basis of accounting and apply the revenue realization and expense matching principles to measure income.
Libby - Chapter 03 #59
Topic Area: Accrual Accounting

4. Which of the following journal entries is prepared when cash is received from a customer prior to delivery of the goods or services?

A. Cash
    Revenues
B. Cash
    Unearned revenues
C. Unearned revenues
    Cash
D. Cash
    Accounts receivable

A. Option A

B. Option B

C. Option C

D. Option D

When cash is received before goods or services have been provided, cash is debited and unearned revenue (a liability account) is credited.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 03-03 Explain the accrual basis of accounting and apply the revenue realization and expense matching principles to measure income.
Libby - Chapter 03 #58
Topic Area: Accrual Accounting

5. Which of the following does **not** correctly describe the following adjusting journal entry?

Rent expense
    Prepaid rent

A. Total assets decrease.

B. Retained earnings are not affected.

C. Stockholders' equity decreases.

D. Net income decreases.

This adjusting journal entry increases expenses and results in a decrease in net income and a subsequent decrease in retained earnings.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 04-01 Explain the purpose of adjustments and analyze the adjustments necessary at the end of the period to update balance sheet and income statement accounts.
Libby - Chapter 04 #51
Topic Area: Adjusting Revenues and Expenses

6. Which of the following correctly describes the following adjusting journal entry?

Depreciation expense
    Accumulated depreciation

A. Total assets decrease.

B. Liabilities will increase.

C. Stockholders' equity is not affected.

D. Net income increases.

This adjusting journal entry increases accumulated depreciation, a contra-asset account, resulting in a decrease in total assets.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 04-01 Explain the purpose of adjustments and analyze the adjustments necessary at the end of the period to update balance sheet and income statement accounts.
Libby - Chapter 04 #52
Topic Area: Adjusting Revenues and Expenses

7. Which of the following correctly describes the following adjusting journal entry?

Utilities expense
    Utilities payable

A. Total assets decrease and net income decreases.

B. Stockholders' equity decreases and liabilities increase.

C. The transaction is an example of a deferral.

D. Net income decreases and stockholders' equity does not change.

This adjusting journal entry increases expenses and liabilities. The increase in expenses decreases net income, which results in a decrease in stockholders' equity.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 04-01 Explain the purpose of adjustments and analyze the adjustments necessary at the end of the period to update balance sheet and income statement accounts.
Libby - Chapter 04 #53
Topic Area: Adjusting Revenues and Expenses

8. Assume Idaho Company recorded the following adjusting journal entry at year-end:

Insurance expense	$2,000	
Prepaid insurance		$2,000

If the beginning balance in prepaid insurance was $500, and $2,500 was paid for an insurance premium during the year, what is the ending balance in the prepaid insurance account after the above adjusting entry?

A. $1,200.

B. $700.

C. $2,200.

D. $1,000.

Prepaid insurance = $1,000 = $500 + $2,500 - $2,000.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 04-01 Explain the purpose of adjustments and analyze the adjustments necessary at the end of the period to update balance sheet and income statement accounts.

Libby - Chapter 04 #76

Topic Area: Adjusting Revenues and Expenses

9. A company's January 1, 2014 balance sheet reported total assets of $150,000 and total liabilities of $60,000. During January 2014, the company completed the following transactions: (A) paid a note payable using $10,000 cash (no interest was paid); (B) collected a $9,000 accounts receivable; (C) paid a $5,000 accounts payable; and (D) purchased a truck for $5,000 cash and by signing a $20,000 note payable from a bank. The company's January 31, 2014 balance sheet would report which of the following?

	Assets	Liabilities	Stockholders' Equity
A.	$150,000	$60,000	$90,000
B.	$155,000	$65,000	$90,000
C.	$160,000	$75,000	$85,000
D.	$170,000	$100,000	$70,000

A. Option A

B. Option B

C. Option C

D. Option D

Assets = $155,000 = $150,000 - $10,000 - $5,000 - $5,000 + $25,000

Liabilities = $65,000 = $60,000 - $10,000 - $5,000 + $20,000

Stockholders' equity = $90,000 = Assets ($155,000) - Liabilities ($65,000)

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-03 Apply transaction analysis to simple business transactions in terms of the accounting model: Assets = Liabilities + Stockholders Equity.

Libby - Chapter 02 #65

Topic Area: How Do Transactions Affect Accounts

10. Which of the following journal entries is correct when common stock is sold for cash at a price greater than par value?

A. Cash
    Retained earnings
B. Cash
    Additional paid-in capital
    Common Stock
C. Cash
    Common Stock
D. Cash
    Common stock
    Additional paid-in capital

A. Option A

B. Option B

C. Option C

D. Option D

Common stock and additional paid-in capital are both credited when common stock is sold for more than par value.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Analyze
Difficulty: 1 Easy
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Libby - Chapter 02 #82
Topic Area: How Do Companies Keep Track of Account Balances

11. Cadet Company paid an account payable of $1,000. This transaction should be recorded on the payment date as follows:

A.

Accounts payable	1,000	
Cash		1,000

B.

Cash	1,000	
Accounts payable		1,000

C.

Notes Payable	1,000	
Cash		1,000

D.

Cash	1,000	
Cost of Goods Sold		1,000

A. Option A

B. Option B

C. Option C

D. Option D

Accounts Payable is reduced with a debit, and cash is reduced with a credit.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Libby - Chapter 02 #85

Topic Area: How Do Companies Keep Track of Account Balances

12. Which of the following journal entries is correct when a business entity purchases land costing $30,000 by signing a one-year note payable?

A. Cash	30,000	
Notes Payable		30,000
B. Land	30,000	
Accounts payable		30,000
C. Land	30,000	
Notes Payable		30,000
D. Notes Payable	30,000	
Land		30,000

A. Option A

B. Option B

C. Option C

D. Option D

The transaction results in the company receiving an asset, land, and incurring a liability, notes payable. This results in a debit to land to increase the land account, and a credit to notes payable to recognize and record the liability.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 1 Easy
Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
Libby - Chapter 02 #91
Topic Area: How Do Companies Keep Track of Account Balances

13. Which of the following journal entries is correct when a business entity issues common stock, above par value, to stockholders in exchange for cash?

A. Cash
  Common stock
  Retained Earnings
B. Cash
  Common stock
  Additional paid-in capital
C. Cash
  Investments
D. Common stock
  Cash

A. Option A

<u>B.</u> Option B

C. Option C

D. Option D

Cash is received in the transaction; the cash account is increased with a debit. Stock is being issued in exchange for the cash so a credit to common stock and additional paid-in capital is required.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

Libby - Chapter 02 #92

Topic Area: How Do Companies Keep Track of Account Balances

14. The Pioneer Company has provided the following account balances:

Cash $38,000;

Short-term investments $4,000;

Accounts receivable $48,000;

Supplies $6,000;

Long-term notes receivable $2,000;

Equipment $96,000;

Factory Building $180,000;

Intangible assets $6,000;

Accounts payable $30,000;

Accrued liabilities payable $4,000;

Short-term notes payable $14,000;

Long-term notes payable $92,000;

Common stock $180,000;

Retained earnings $60,000.

What are Pioneer's total current assets?

A. $48,000.

B. $96,000.

C. $90,000.

D. $42,000.

Current assets = $96,000 = $38,000 + $4,000 + $48,000 + $6,000.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-05 Prepare a trial balance and simple classified balance sheet; and analyze the company using the current ratio.

Libby - Chapter 02 #100

Topic Area: How Is the Balance Sheet Prepared and Analyzed

15. The Pioneer Company has provided the following account balances:

Cash $38,000;

Short-term investments $4,000;

Accounts receivable $48,000;

Supplies $6,000;

Long-term notes receivable $2,000;

Equipment $96,000;

Factory Building $180,000;

Intangible assets $6,000;

Accounts payable $30,000;

Accrued liabilities payable $4,000;

Short-term notes payable $14,000;

Long-term notes payable $92,000;

Common stock $180,000;

Retained earnings $60,000.

What are Pioneer's total current liabilities?

A. $44,000.

B. $34,000.

C. $48,000.

D. $140,000.

Current liabilities = $48,000 = $30,000 + $4,000 + $14,000.