



5. An accounts payable is an unwritten promise to pay a supplier for assets purchased or services rendered.

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

6. If the revenue of a period exceeds the expenses, the excess represents a net loss.

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-5              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
TOP: ACBSP: APC-09-Financial Statements                      KEY: Bloom's: Evaluation  
NOT: 1 min.



14. Any item a business owns that will provide future benefits is called owner's equity.

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

15. It is not necessary to measure a business transaction in dollars.

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-3              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

16. The accounting equation may be expressed as assets    liabilities = owner's equity.

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

17. According to the business entity concept, a proprietor may include nonbusiness assets and liabilities in the business entity's accounting records.

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Communication              STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

18. Recognizing the effects of transactions on assets, liabilities, owner's equity, revenue, and expenses of a business is the processing function.

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-6              NAT: BUSPROG: Communication              STA: AICPA FN-Measurement  
TOP: ACBSP: APC-06-Recording Transactions                      KEY: Bloom's: Comprehension  
NOT: 1 min.

19. Expenses represent a decrease in liabilities.

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-4              NAT: BUSPROG: Communication              STA: AICPA FN-Measurement  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

20. Expenses that are incurred in operating the enterprise increase owner's equity.

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-4              NAT: BUSPROG: Communication              STA: AICPA FN-Measurement  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Comprehension  
NOT: 1 min.



2. Jason purchased office equipment for \$4,800 on account. This transaction would
- increase assets and increase owner's equity.
  - increase assets and increase liabilities.
  - increase one asset and decrease another asset.
  - decrease assets and decrease liabilities.

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-4              NAT: BUSPROG: Analytic                      STA: AICPA FN-Measurement  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

3. Stephen purchased office supplies for \$800 in cash. This transaction would
- increase assets and increase owner's equity.
  - increase one asset and decrease another asset.
  - increase assets and increase liabilities.
  - decrease assets and decrease liabilities.

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-4              NAT: BUSPROG: Analytic                      STA: AICPA FN-Measurement  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

4. Meghan started her business by investing \$30,000 in cash. This transaction would
- increase assets and increase owner's equity.
  - increase assets and increase liabilities.
  - increase one asset and decrease another asset.
  - decrease assets and decrease liabilities.

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-4              NAT: BUSPROG: Analytic                      STA: AICPA FN-Measurement  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

5. Any accounting period of twelve months' duration is usually referred to as a(n)
- fiscal year.
  - calendar year.
  - physical year.
  - operational year.

ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-4              NAT: BUSPROG: Communication                      STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

6. Increases to owner's equity may be from
- expenses that are incurred.
  - expenses exceeding revenue for the period.
  - withdrawals of cash from the business by the owner.
  - revenue that is derived from sales of goods or services.

ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-4              NAT: BUSPROG: Communication  
STA: AICPA BB-Critical Thinking              TOP: ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Comprehension              NOT: 1 min.



12. Falana received \$7,000 in cash from a client for professional services rendered. This transaction would
- increase assets and increase owner's equity.
  - decrease assets and increase owner's equity.
  - increase liabilities and decrease owner's equity.
  - decrease assets and decrease owner's equity.

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
 OBJ: LO: 2-4              NAT: BUSPROG: Analytic                      STA: AICPA FN-Measurement  
 TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
 NOT: 1 min.

13. The financial statement that shows the state of the firm's assets, liabilities, and owner's equity on a specific date is called a(n)
- balance sheet.
  - statement of operations.
  - statement of owner's equity.
  - income statement.

ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-5              NAT: BUSPROG: Communication                      STA: AICPA FN-Measurement  
 TOP: ACBSP: APC-09-Financial Statements                      KEY: Bloom's: Analysis  
 NOT: 1 min.

14. Sue Lee paid \$1,200 for office rent. This transaction would
- increase assets and decrease owner's equity.
  - increase assets and increase liabilities.
  - decrease assets and decrease liabilities.
  - decrease assets and decrease owner's equity.

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
 OBJ: LO: 2-4              NAT: BUSPROG: Analytic                      STA: AICPA FN-Measurement  
 TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
 NOT: 1 min.

**PROBLEM**

1. Match the letter corresponding to one of the basic elements of accounting to each of the accounts below.

A = Asset  
 L = Liability  
 OE = Owner's  
 Equity R = Revenue  
 E = Expense

- |                        |       |
|------------------------|-------|
| 1. Utility Expense     | _____ |
| 2. Accounts Payable    | _____ |
| 3. Prepaid Rent        | _____ |
| 4. Supplies            | _____ |
| 5. P. Coyote, Drawing  | _____ |
| 6. Wages Expense       | _____ |
| 7. P. Coyote, Capital  | _____ |
| 8. Cash                | _____ |
| 9. Advertising Expense | _____ |
| 10. Fees Earned        | _____ |



ANS:

1. E
2. L
3. A
4. A
5. OE
6. E
7. OE
8. A
9. E
10. R

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-4  
 NAT: BUSPROG: Communication                      STA: AICPA BB-Industry  
 TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
 NOT: 5 min.

2. Show the effect of each transaction on the three basic accounting elements by indicating the dollar amount of the increase or decrease under the proper element heading. Compute the resulting accounting equation.
- a. Owner invested \$16,500 cash in the business.
  - b. Paid premium for two-year insurance policy, \$1,500.
  - c. Purchased a van valued at \$35,000 with \$5,000 down payment; the balance to be paid over three years.
  - d. Paid the rent for the month, \$900.
  - e. Purchased \$470 of supplies for cash.
  - f. Cash sales for the month, \$8,750.
  - g. Billed credit customers \$14,200 for monthly services.
  - h. Paid monthly utility bill, \$210.
  - i. Owner withdrew \$2,200 for personal use.
  - j. Received payments of \$3,300 from credit customers.

	Cash	+	Accounts Rec.	+	ASSETS		+	Van	=	>
					Supplies		Prepaid Ins.			
a.	_____		_____		_____		_____		_____	>
b.	_____		_____		_____		_____		_____	>
c.	_____		_____		_____		_____		_____	>
d.	_____		_____		_____		_____		_____	>
e.	_____		_____		_____		_____		_____	>
f.	_____		_____		_____		_____		_____	>
g.	_____		_____		_____		_____		_____	>
h.	_____		_____		_____		_____		_____	>
i.	_____		_____		_____		_____		_____	>
j.	_____		_____		_____		_____		_____	>
	_____		_____		_____		_____		_____	>

	<b>LIAB.</b>	+	<b>OWNER'S EQUITY</b>			
	<b>Notes</b>					
	<b>Payable</b>	+	<b>Capital</b>	<b>-Drawing</b>	<b>+Revenues</b>	- <b>Expenses</b>
<						
< a.	_____		_____	_____	_____	_____
< b.	_____		_____	_____	_____	_____
< c.	_____		_____	_____	_____	_____
< d.	_____		_____	_____	_____	_____
< e.	_____		_____	_____	_____	_____
< f.	_____		_____	_____	_____	_____
< g.	_____		_____	_____	_____	_____
< h.	_____		_____	_____	_____	_____
< i.	_____		_____	_____	_____	_____
< j.	_____		_____	_____	_____	_____
<	_____		<u>_____</u>	<u>_____</u>	<u>_____</u>	<u>_____</u>

**PROOF**

Cash			_____	Notes Payable	_____
Accounts Receivable			_____	Capital	_____
Supplies			_____	Drawing	_____
Prepaid Insurance			_____	Revenues	_____
Van			_____	Expenses	_____
			<u>_____</u>		<u>_____</u>

ANS:

**ASSETS**

	<b>Cash</b>	+	<b>Accounts Rec.</b>	+	<b>Supplies</b>	+	<b>Prepaid Ins.</b>	+	<b>Van</b>	=	>
a.	16,500										>
b.	(1,500)						1,500				>
c.	(5,000)								35,000		>
d.	(900)										>
e.	(470)				470						>
f.	8,750										>
g.			14,200								>
h.	(210)										>
i.	(2,200)										>
j.	<u>3,300</u>		<u>(3,300)</u>		_____		_____		_____		>
	<u>18,270</u>		<u>10,900</u>		<u>470</u>		<u>1,500</u>		<u>35,000</u>		>

	<b>LIAB.</b>	+	<b>OWNER'S EQUITY</b>		
	<b>Note</b>				
	<b>Payable</b>	+	<b>Capital</b>	<b>-Drawing</b>	<b>+Revenues -Expenses</b>
<					
< a.			16,500		
< b.					
< c.					30,000
< d.					900
< e.					

< f.				8,750	
< g.				14,200	
< h.					210
< i.			2,200		
< j.					
<	<u>30,000</u>	<u>16,500</u>	<u>2,200</u>	<u>22,950</u>	<u>1,110</u>

**PROOF**

Cash	18,270	Notes Payable	30,000
Accounts Receivable	10,900	Capital	16,500
Supplies	470	Drawing	(2,200)
Prepaid Insurance	1,500	Revenues	22,950
Van	<u>35,000</u>	Expenses	<u>(1,110)</u>
	<u>66,140</u>		<u>66,140</u>

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-2 | LO: 2-3 | LO: 2-4  
 NAT: BUSPROG: Analytic                      STA: AICPA FN-Measurement  
 TOP: ACBSP: APC-06-Recording Transactions                      KEY: Bloom's: Application  
 NOT: 15 min.

3. Show the effects of each transaction on the accounting equation by indicating under the proper heading the dollar amount of increase or decrease for each transaction listed below. Compute the resulting accounting equation.
- Owner deposited \$20,000 in his new business checking account.
  - Supplies were purchased for \$300 on account.
  - Paid a \$1,200 premium for six months of liability insurance.
  - Purchased supplies for \$200 cash.
  - Purchased equipment for \$4,000 by paying \$1,000; the rest to be paid in six months.
  - Paid the \$300 bill outstanding (from transaction b).
  - Owner withdrew \$700 from the business for personal use.

	ASSETS				=	LIAB.	+	OWNER'S EQUITY	
	Cash	+	Supp.	Prep. +Insur.	+Equip=	Accts. Pay.	+	Capital	-Drawing
a.	_____		_____	_____	_____	_____		_____	_____
b.	_____		_____	_____	_____	_____		_____	_____
c.	_____		_____	_____	_____	_____		_____	_____
d.	_____		_____	_____	_____	_____		_____	_____
e.	_____		_____	_____	_____	_____		_____	_____
f.	_____		_____	_____	_____	_____		_____	_____
g.	_____		_____	_____	_____	_____		_____	_____
	<u>_____</u>		<u>_____</u>	<u>_____</u>	<u>_____</u>	<u>_____</u>		<u>_____</u>	<u>_____</u>

ANS:

	ASSETS				=	LIAB.	+	OWNER'S EQUITY	
	Cash	+ Supp.	+ Prep. Insur.	+ Equip	=	Accts. Pay.	+	Capital–	Drawing
a.	20,000							20,000	
b.		300				300			
c.	(1,200)		1,200						
d.	(200)	200							
e.	(1,000)			4,000		3,000			
f.	(300)					(300)			
g.	(700)								700
	<u>16,600</u>	<u>500</u>	<u>1,200</u>	<u>4,000</u>		<u>3,000</u>		<u>20,000</u>	<u>700</u>

**PROOF**

Cash	16,600	Accounts Payable	3,000
Supplies	500	Capital	20,000
Prepaid Insurance	1,200	Drawing	(700)
Equipment	<u>4,000</u>		
	<u>22,300</u>		<u>22,300</u>

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-2 | LO: 2-3 | LO: 2-4  
 NAT: BUSPROG: Analytic                      STA: AICPA FN-Measurement  
 TOP: ACBSP: APC-06-Recording Transactions                      KEY: Bloom's: Application  
 NOT: 15 min.

4. Madame Shira began a fortune telling business on May 1. The following transactions occurred:

1. Owner Madame Shira invested \$5,000 cash in the business.
2. Purchased \$2,000 of furniture with a down payment of \$500; the rest by issuing an account payable to be paid in three monthly installments.
3. Paid \$700 rent.
4. Purchased a crystal ball for \$300.
5. Paid \$1,700 for a 12-month insurance policy.
6. During the first month received \$2,500 from cash customers.
7. Sent billings of \$2,000 for services rendered to credit customers.
8. Paid assistant \$1,500 wages for the month.
9. Received \$600 in payments from credit customers.
10. Borrowed \$3,200 by signing a note.
11. Made a \$500 payment on the furniture bill (from transaction 2).
12. Owner withdrew \$300 cash for personal use.
13. Paid bills for advertising \$60, utilities \$39, and repairs \$52.

Required:

1. Enter the above transactions in an accounting equation work sheet.
2. Prepare an income statement for Madame Shira for the month of May.
3. Prepare a statement of owner's equity for the month of May.

ANS:

1.

ASSETS						=	LIABILITIES		>
Cash	+Furniture+	Crystal Ball	+ Accounts Rec.	+ Prepaid Ins.	=	Accounts Payable	+ Notes Payable	>	
1. 5,000					=			>	
2. (500)	2,000				=	1,500		>	
3. (700)					=			>	
4. (300)		300			=			>	
5. (1,700)				1,700	=			>	
6. 2,500					=			>	
7.			2,000		=			>	
8. (1,500)					=			>	
9. 600			(600)		=			>	
10. 3,200					=		3,200	>	
11. (500)					=	(500)		>	
12. (300)					=			>	
13. (60)					=			>	
(39)					=			>	
(52)					=			>	
<u>5,649</u>	<u>2,000</u>	<u>300</u>	<u>1,400</u>	<u>1,700</u>	=	<u>1,000</u>	<u>3,200</u>	>	

OWNER'S EQUITY						
<+ < < +	Shira, Capital	- Shira, Drawing	+ Revenues	- Expenses	Desc.	
<	5,000					
<				700	Rent	
<			2,500			
<			2,000			
<				1,500	Wages	
<		300				
<				60	Advertising	
<				39	Utilities	
<				52	Repairs	
<	<u>5,000</u>	<u>300</u>	<u>4,500</u>	<u>2,351</u>		

2.

**Madame Shira Fortune Telling  
Income Statement  
For Month Ended May 31, 20--**

Revenues:			
Fortune telling fees			\$ 4,500
Expenses:			
Rent expense	\$ 700		
Wages expense	1,500		
Advertising expense	60		
Utilities expense	39		
Repairs expense	52		
Total expenses	52		2,351
Net income			\$2,149

3.

**Madame Shira Fortune Telling  
Statement of Owner's Equity  
For Month Ended May 31, 20--**

Madame Shira, capital May 1, 20--		\$ 0
Investment by owner		5,000
Net income for May	\$2,149	
Less withdrawals for May	300	
Increase in capital		1,849
Madame Shira, capital May 31, 20--		\$6,849

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-3 | LO: 2-4 | LO: 2-5  
 NAT: BUSPROG: Analytic                      STA: AICPA FN-Measurement  
 TOP: ACBSP: APC-06-Recording Transactions                      KEY: Bloom's: Application  
 NOT: 15 min.

5. From the following list of accounts, prepare an income statement, statement of owner's equity, and balance sheet for the year ended or at December 31, 20--, for Milner's Star Express Cleaning Service.

Cash	\$ 2,026
Fees Earned	13,835
Accounts Payable	7,530
D. Milner, Capital January 1, 20--	6,000
D. Milner, Drawing	1,750
Utilities Expense	153
Prepaid Insurance	1,216
Rent Expense	1,200
Accounts Receivable	4,080
Equipment	15,290
Wages Expense	1,650

ANS:

**Milner's Star Express Cleaning Service  
Income Statement  
For the Year Ended December 31, 20--**

Revenues:

Fees earned		\$13,835
Expenses:		
Utilities expense	\$ 153	
Rent expense	1,200	
Wages expense	<u>1,650</u>	
Total expenses		<u>3,003</u>
Net income		<u><u>\$10,832</u></u>

**Milner's Star Express Cleaning Service  
Statement of Owner's Equity  
For the Year Ended December 31, 20--**

D. Milner, capital January 1, 20--		\$ 6,000
Net income for the year	\$10,832	
Less withdrawals for the year	<u>1,750</u>	
Increase in capital		<u>9,082</u>
D. Milner, capital December 31, 20--		<u><u>\$15,082</u></u>

**Milner's Star Express Cleaning Service  
Balance Sheet  
December 31, 20--**

<b>Assets</b>		<b>Liabilities</b>	
Cash	\$ 2,026	Accounts payable	\$ 7,530
Prepaid insurance	1,216		
Accounts receivable	4,080	<b>Owner's Equity</b>	
Equipment	<u>15,290</u>	D. Milner, capital	<u>15,082</u>
Total assets	<u><u>\$22,612</u></u>	Total liab. & owner's equity	<u><u>\$22,612</u></u>

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-5  
NAT: BUSPROG: Analytic                      STA: AICPA FN-Reporting  
TOP: ACBSP: APC-09-Financial Statements                      KEY: Bloom's: Application  
NOT: 15 min.

6. From the following list of accounts, prepare an income statement, statement of owner's equity, and balance sheet for the year ended or at December 31, 20--, for J. Carr's Delivery Service.

Cash	\$11,450
Accounts Payable	4,450
Fees Earned	41,500
J. Carr, Capital January 1, 20--	14,500
J. Carr, Drawing	7,000
Office Supplies	250
Rent Expense	10,000
Accounts Receivable	7,000
Equipment	6,000
Wages Expense	14,000
Repairs Expense	250
Furniture	4,500

ANS:

**J. Carr's Delivery Service  
Income Statement  
For the Year Ended December 31, 20--**

Revenues:

Fees earned		\$ 41,500
Expenses:		
Rent expense	\$10,000	
Wages expense	14,000	
Repairs expense	250	
Total expenses		<u>24,250</u>
Net income		<u>\$ 17,250</u>

**J. Carr's Delivery Service  
Statement of Owner's Equity  
For the Year Ended December 31, 20--**

J. Carr, capital January 1, 20--		\$ 14,500
Net income for the year	\$17,250	
Less withdrawals for the year	<u>7,000</u>	
Increase in capital		<u>10,250</u>
J. Carr, capital December 31, 20--		<u>\$ 24,750</u>

**J. Carr's Delivery Service  
Balance Sheet  
December 31, 20--**

<b>Assets</b>		<b>Liabilities</b>	
Cash	\$11,450	Accounts Payable	\$ 4,450
Accounts receivable	7,000		
Office supplies	250		
Equipment	6,000	<b>Owner's Equity</b>	
Furniture	<u>4,500</u>	J. Carr, capital	<u>24,750</u>
Total assets	<u>\$29,200</u>	Total liab. & owner's equity	<u>\$ 29,200</u>

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-5  
NAT: BUSPROG: Analytic                      STA: AICPA FN-Reporting  
TOP: ACBSP: APC-09-Financial Statements                      KEY: Bloom's: Application  
NOT: 15 min.

7. Dr. Etana Jenson is a podiatrist. As of December 31, Jenson owned the following assets related to the professional practice:

Cash	\$6,600	X-ray Equipment	\$9,000
Office Equipment	3,500	Laboratory Equipment	3,000

As of that date, Jenson owed business suppliers as follows:

Top Flight Office Equipment Co.	\$3,000
Dunhill Medical Supplies Company	1,000
Island Gas Company	2,200



Required:

- a. Compute the amount of assets, liabilities, and owners' equity as of December 31.

Assets                      =                      Liabilities                      +                      Owner's Equity

- b. Assuming that during January there is an increase of \$4,600 in Dr. Jenson's business assets and an increase of \$2,500 in the business liabilities, compute the resulting equation as of January 31.
- c. Assuming that during February there is a decrease of \$1,500 in assets and a decrease of \$1,200 in liabilities, compute the resulting accounting equation as of February 28.

ANS:

	<b>Assets</b>	=	<b>Liabilities</b>	+	<b>Owner's Equity</b>
a.	\$22,100		\$6,200		\$15,900
b.	26,700		8,700		18,000
c.	25,200		7,500		17,700

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-3 | LO: 2-4  
 NAT: BUSPROG: Analytic                      STA: AICPA FN-Measurement  
 TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Comprehension  
 NOT: 3 min.

8. Kristin Holden started her own consulting business in July, 20--. During the first month, the following transactions occurred:
- a. Owner invested \$12,000 cash in the business.
  - b. Purchased office equipment for \$7,500 cash.
  - c. Purchased computer equipment costing \$11,500 on account.
  - d. Paid \$1,100 office rent for the month.
  - e. Received \$1,700 cash from a client for services rendered.
  - f. Paid water bill for the month, \$170.
  - g. Paid \$2,400 on account for computer equipment purchased in transaction (c).
  - h. Paid the electric bill for the month, \$200.

Required:

Record the effects of these transactions in an accounting equation worksheet.

	<b>ASSETS</b>			=	<b>LIABILITIES</b>		
	<b>Cash</b>	+ <b>Office Equip.</b>	+ <b>Computer Equip.</b>	=	<b>Accounts Payable</b>	+ <b>K. Holden, Capital</b>	
a.	_____	_____	_____	=	_____	_____	>
Bal.	_____	_____	_____	=	_____	_____	>
b.	_____	_____	_____	=	_____	_____	>
Bal.	_____	_____	_____	=	_____	_____	>
c.	_____	_____	_____	=	_____	_____	>
Bal.	_____	_____	_____	=	_____	_____	>
d.	_____	_____	_____	=	_____	_____	>
Bal.	_____	_____	_____	=	_____	_____	>
e.	_____	_____	_____	=	_____	_____	>

Bal.	_____	_____	_____	_____	_____	>
f.	_____	_____	_____	_____	_____	>
Bal.	_____	_____	_____	_____	_____	>
g.	_____	_____	_____	_____	_____	>
Bal.	_____	_____	_____	_____	_____	>
h.	_____	_____	_____	_____	_____	>
Bal.	_____	_____	_____	_____	_____	>

<	+	<b>OWNER'S EQUITY</b>		
<		<b>Client</b>		<b>Utilities</b>
	+	<b>Fees</b>	<b>Rent Expense</b>	<b>Expense</b>
<	a.	_____	_____	_____
<	Bal.	_____	_____	_____
<	b.	_____	_____	_____
<	Bal.	_____	_____	_____
<	c.	_____	_____	_____
<	Bal.	_____	_____	_____
<	d.	_____	_____	_____
<	Bal.	_____	_____	_____
<	e.	_____	_____	_____
<	Bal.	_____	_____	_____
<	f.	_____	_____	_____
<	Bal.	_____	_____	_____
<	g.	_____	_____	_____
<	Bal.	_____	_____	_____
<	h.	_____	_____	_____
<	Bal.	_____	_____	_____

ANS:

	<b>ASSETS</b>			=	<b>LIABILITIES</b>		>			
	<b>Cash</b>	+	<b>Office Equip.</b>	+	<b>Computer Equip.</b>	=	<b>Accounts Payable</b>	+	<b>K. Holden, Capital</b>	>
a.	<u>12,000</u>								<u>12,000</u>	>
Bal.	12,000								12,000	>
b.	<u>(7,500)</u>		<u>7,500</u>							>
Bal.	4,500		7,500						12,000	>
c.					<u>11,500</u>		<u>11,500</u>			>
Bal.	4,500		7,500		11,500		11,500		12,000	>
d.	<u>(1,100)</u>									>
Bal.	3,400		7,500		11,500		11,500		12,000	>
e.	<u>1,700</u>									>
Bal.	5,100		7,500		11,500		11,500		12,000	>
f.	<u>(170)</u>									>
Bal.	4,930		7,500		11,500		11,500		12,000	>
g.	<u>(2,400)</u>						<u>(2,400)</u>			>
Bal.	2,530		7,500		11,500		9,100		12,000	>
h.	<u>(200)</u>									>
Bal.	<u>2,330</u>		<u>7,500</u>		<u>11,500</u>		<u>9,100</u>		<u>12,000</u>	>

<b>OWNER'S EQUITY</b>			
<	+	<b>Client Fees</b>	<b>Rent Expense      Utilities Expense</b>
< a.			
< Bal.			
< b.			
< Bal.			
< c.			
< Bal.			
< d.			<u>1,100</u>
< Bal.			
< e.		<u>1,700</u>	<u>1,100</u>
< Bal.		1,700	1,100
< f.		<u>          </u>	<u>          </u> <u>170</u>
< Bal.		1,700	1,100      170
< g.		<u>          </u>	<u>          </u> <u>          </u>
< Bal.		1,700	1,100      170
< h.		<u>          </u>	<u>          </u> <u>200</u>
< Bal.		<u>1,700</u>	<u>1,100</u> <u>370</u>

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-4  
 NAT: BUSPROG: Analytic                      STA: AICPA FN-Measurement  
 TOP: ACBSP: APC-06-Recording Transactions                      KEY: Bloom's: Knowledge  
 NOT: 10 min.

**COMPLETION**

1. Most businesses recognize \_\_\_\_\_ when earned, even if cash has not yet been received.

ANS: revenue

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-4  
 NAT: BUSPROG: Communication                      STA: AICPA FN-Measurement  
 TOP: ACBSP: APC-04-Cash vs. Accrual                      KEY: Bloom's: Knowledge  
 NOT: 1 min.

2. \_\_\_\_\_ represent the decrease in assets (or increase in liabilities) as a result of efforts made to produce revenues.

ANS: Expenses

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-4  
 NAT: BUSPROG: Communication                      STA: AICPA FN-Reporting  
 TOP: ACBSP: APC-09-Financial Statements                      KEY: Bloom's: Knowledge  
 NOT: 1 min.

3. The \_\_\_\_\_, sometimes called the profit and loss statement, reports the profitability of business operations for a specific period of time.

ANS: income statement



8. The report which shows a firm's assets, liabilities, and owner's equity as of a specific date is called the \_\_\_\_\_.

ANS: balance sheet

PTS: 1                    DIF: Difficulty: Easy                    OBJ: LO: 2-5  
NAT: BUSPROG: Communication                    STA: AICPA FN-Reporting  
TOP: ACBSP: APC-09-Financial Statements                    KEY: Bloom's: Comprehension  
NOT: 1 min.

9. The \_\_\_\_\_ reports the investments and withdrawals by the owner, the profits and losses generated through operations, and how they have affected the capital account.

ANS: statement of owner's equity

PTS: 1                    DIF: Difficulty: Easy                    OBJ: LO: 2-5  
NAT: BUSPROG: Communication                    STA: AICPA FN-Reporting  
TOP: ACBSP: APC-09-Financial Statements                    KEY: Bloom's: Comprehension  
NOT: 1 min.

10. A(n) \_\_\_\_\_ is a reduction in owner's equity as a result of the owner taking cash or other assets out of the business for personal use.

ANS: withdrawal

PTS: 1                    DIF: Difficulty: Easy                    OBJ: LO: 2-4  
NAT: BUSPROG: Communication                    STA: AICPA FN-Reporting  
TOP: ACBSP: APC-02-GAAP                    KEY: Bloom's: Knowledge  
NOT: 1 min.

11. \_\_\_\_\_ is the amount by which business assets exceed the business liabilities. ANS: Owner's equity

PTS: 1                    DIF: Difficulty: Easy                    OBJ: LO: 2-1  
NAT: BUSPROG: Communication                    STA: AICPA FN-Reporting  
TOP: ACBSP: APC-02-GAAP                    KEY: Bloom's: Knowledge  
NOT: 1 min.

12. Amounts owed to the business by its customers are called \_\_\_\_\_ . ANS: accounts receivable

PTS: 1                    DIF: Difficulty: Easy                    OBJ: LO: 2-1  
NAT: BUSPROG: Communication                    STA: AICPA FN-Reporting  
TOP: ACBSP: APC-02-GAAP                    KEY: Bloom's: Knowledge  
NOT: 1 min.

13. A(n) \_\_\_\_\_ is an economic event that has a direct impact on the business.

ANS: business transaction

PTS: 1                    DIF: Difficulty: Easy                    OBJ: LO: 2-3  
NAT: BUSPROG: Communication                    STA: AICPA BB-Industry

TOP: ACBSP: APC-02-GAAP  
NOT: 1 min.

KEY: Bloom's: Knowledge

14. A(n) \_\_\_\_\_ is a separate record used to summarize changes in assets, liabilities, and owner's equity of a business.

ANS: account

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-3  
NAT: BUSPROG: Communication                      STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

15. According to the \_\_\_\_\_, nonbusiness assets and liabilities are not included in the business entity's accounting records.

ANS: business entity concept

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Communication                      STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

16. Items that are owned by a business and will provide future benefits are called \_\_\_\_\_.

ANS: assets

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Communication                      STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
NOT: 1 min.

## MATCHING

*Match the terms with the definitions.*

- a. account
- b. accounts payable
- c. accounts receivable
- d. accounting equation
- e. assets
- f. balance sheet
- g. business entity
- h. business entity concept
- i. business transaction
- j. drawing
- k. expenses
- l. income statement
- m. liability
- n. net income
- o. net loss
- p. notes payable
- q. owner's equity
- r. revenues
- s. statement of owner's equity

1. The amount by which the business assets exceed the business liabilities.
2. Reports assets, liabilities, and owner's equity on a specific date.
3. Withdrawals that reduce owner's equity as a result of the owner taking cash or other assets out of the business for personal use.
4. The decrease in assets (or increase in liabilities) as a result of efforts to produce revenues.
5. A formal written promise to pay a supplier or lender a specified sum of money at a definite future time.
6. The excess of total revenues over total expenses for the period.
7. Reports the profitability of business operations for a specific period of time.
8. Reports beginning capital, plus net income, less withdrawals to compute ending capital.
9. An economic event that has a direct impact on the business.
10. The concept that nonbusiness assets and liabilities are not included in the business' accounting records.
11. Consists of the three basic accounting elements: assets = liabilities + owner's equity.
12. Items a business owns that will provide future benefits.
13. An unwritten promise to pay a supplier for assets purchased or services rendered.
14. A separate record used to summarize changes in each asset, liability, and owner's equity of a business.
15. An amount owed to a business by its customers as a result of the sale of goods or services.
16. An individual, association, or organization that engages in economic activities and controls specific economic resources.

1. ANS: Q                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-1                NAT: BUSPROG: Communication                STA: AICPA BB-Industry  
 TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
 NOT: 1 min.
2. ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-5                NAT: BUSPROG: Communication                STA: AICPA BB-Industry  
 TOP: ACBSP: APC-09-Financial Statements                      KEY: Bloom's: Knowledge  
 NOT: 1 min.
3. ANS: J                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-4                NAT: BUSPROG: Communication                STA: AICPA BB-Industry  
 TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
 NOT: 1 min.
4. ANS: K                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-4                NAT: BUSPROG: Communication                STA: AICPA BB-Industry  
 TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
 NOT: 1 min.
5. ANS: P                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-1                NAT: BUSPROG: Communication                STA: AICPA BB-Industry  
 TOP: ACBSP: APC-02-GAAP                      KEY: Bloom's: Knowledge  
 NOT: 1 min.
6. ANS: N                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-4                NAT: BUSPROG: Communication                STA: AICPA BB-Industry  
 TOP: ACBSP: APC-09-Financial Statements                      KEY: Bloom's: Knowledge  
 NOT: 1 min.
7. ANS: L                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-5                NAT: BUSPROG: Communication                STA: AICPA BB-Industry  
 TOP: ACBSP: APC-09-Financial Statements                      KEY: Bloom's: Knowledge  
 NOT: 1 min.

8. ANS: S                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-5                  NAT: BUSPROG: Communication                  STA: AICPA BB-Industry  
TOP: ACBSP: APC-09-Financial Statements                  KEY: Bloom's: Knowledge  
NOT: 1 min.
9. ANS: I                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-3                  NAT: BUSPROG: Communication                  STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                  KEY: Bloom's: Knowledge  
NOT: 1 min.
10. ANS: H                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1                  NAT: BUSPROG: Communication                  STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                  KEY: Bloom's: Knowledge  
NOT: 1 min.
11. ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2                  NAT: BUSPROG: Communication                  STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                  KEY: Bloom's: Knowledge  
NOT: 1 min.
12. ANS: E                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1                  NAT: BUSPROG: Communication                  STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                  KEY: Bloom's: Knowledge  
NOT: 1 min.
13. ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1                  NAT: BUSPROG: Communication                  STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                  KEY: Bloom's: Knowledge  
NOT: 1 min.
14. ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-3                  NAT: BUSPROG: Communication                  STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                  KEY: Bloom's: Knowledge  
NOT: 1 min.
15. ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1                  NAT: BUSPROG: Communication                  STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                  KEY: Bloom's: Knowledge  
NOT: 1 min.
16. ANS: G                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1                  NAT: BUSPROG: Communication                  STA: AICPA BB-Industry  
TOP: ACBSP: APC-02-GAAP                  KEY: Bloom's: Knowledge  
NOT: 1 min.