

Chapter 3 Questions

Multiple Choice

1. If services are rendered on account, then
 - a. assets will decrease.
 - b. liabilities will increase.
 - c. stockholders' equity will increase.
 - d. liabilities will decrease.

2. The purchase of an asset for cash
 - a. increases assets and stockholders' equity.
 - b. increases assets and liabilities.
 - c. decreases assets and increases liabilities.
 - d. leaves total assets unchanged.

3. The right side of a t-account is
 - a. the balance of an account.
 - b. the debit side.
 - c. the credit side.
 - d. blank.

4. Powers Corporation received a cash advance of \$500 from a customer. As a result of this event,
 - a. assets increased by \$500.
 - b. equity increased by \$500.
 - c. liabilities decreased by \$500.
 - d. Both assets and equity increased by \$500.

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

6. A debit is **NOT** the normal balance for which account listed below?
 - a. Revenue
 - b. Cash
 - c. Accounts Receivable
 - d. Dividends

7. Which of the following describes the classification and normal balance of the Unearned Rent Revenue account?
 - a. Asset, debit
 - b. Liability, credit
 - c. Revenues, credit
 - d. Expense, debit

8. Which accounts normally have credit balances?
- Revenues, liabilities, and dividends
 - Revenues, liabilities, and assets
 - Revenues, liabilities, and retained earnings
 - Revenues, liabilities, and expenses
9. Which of the following accounts is increased with a debit?
- Land
 - Service Revenue
 - Interest Payable
 - Common Stock
10. When a company performs a service but has not yet received payment, it
- debits Service Revenue and credits Accounts Receivable.
 - debits Accounts Receivable and credits Service Revenue.
 - debits Service Revenue and credits Accounts Payable.
 - makes no entry until cash is received.
11. In the first month of operations, the total of the debit entries to the Cash account amounted to \$3,000 and the total of the credit entries to the Cash account amounted to \$1,800. The Cash account has a
- \$1,800 credit balance.
 - \$3,000 debit balance.
 - \$1,200 debit balance.
 - \$1,800 credit balance.
12. At November 1, 20XX, Johnson Inc. had an Accounts Receivable balance of \$200,000. During the month, the company made sales on account of \$300,000. In addition, Johnson Inc. collected \$400,000 from customers that owed them money. At November 30, 2018, the Accounts Receivable balance is
- \$100,000 debit
 - \$100,000 credit
 - \$500,000 debit
 - \$300,000 credit
13. Which of the following steps in the accounting process is done after analyzing business transactions?
- Preparing the financial statements
 - Preparing a trial balance
 - Entering transactions in a journal
 - Posting journal entries
14. On July 7, 20XX, Shireman Enterprises received cash \$1,400 for services rendered. The entry to record this transaction will include
- a debit to Service Revenue of \$1,400.
 - a credit to Accounts Receivable of \$1,400.
 - a debit to Cash of \$1,400.
 - a credit to Accounts Payable of \$1,400.

15. The primary purpose of the trial balance is to
- disclose the complete effect of a transaction in one place.
 - make sure a journal entry is not posted twice.
 - transfer journal entries to the ledger accounts.
 - prove the equality of the debit and credit amounts after posting.

EXERCISES

1. Presented here are five economic events. For each item, indicate whether the event increased (+), decreased (–), or had no effect (NE) on assets, liabilities, and stockholders' equity.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
a. Received cash for services rendered.	_____		_____		_____
b. Purchased supplies on account.	_____		_____		_____
c. Paid employees' salaries.	_____		_____		_____
d. Dividends paid in cash.	_____		_____		_____
e. Expenses paid in cash.	_____		_____		_____

2. For each of the following accounts indicate the effect of a debit or a credit on the account and the normal balance (**Debit or Credit**). Increase (+), Decrease (–).

	<u>Debit</u>	<u>Credit</u>	<u>Normal Balance</u>
a. Salaries and Wages Expense.	_____	_____	_____
b. Accounts Receivable.	_____	_____	_____
c. Service Revenue.	_____	_____	_____
d. Dividends	_____	_____	_____
e. Retained Earnings.	_____	_____	_____

3. Prepare a trial balance from the ledger accounts of Swisher Company as of January 31, 20XX.

Accounts Payable	1,500	Rent Expense	\$ 500
Accounts Receivable	2,500	Service Revenue	3,500
Cash	1,600	Supplies	200
Common Stock	2,200	Salaries and Wages Expense	1,000
Dividends	1,400		

4. Selected accounts from the ledger of McDaniel Corporation appear below. For each account, indicate the following:

(a) In the first column at the right, indicate the nature of each account, using the following abbreviations:

Asset	-	A	Liability	-	L	None of the above	-	N
Expense	-	E	Revenues	-	R			

(b) In the second column, indicate the normal balance by inserting Dr. or Cr.

	<u>Type of Account</u>	<u>Normal Balance</u>
a. Supplies		
b. Notes Payable		
c. Service Revenue.....		
d. Dividends.....		
e. Accounts Payable.....		
f. Salaries and Wages Expense.....		
g. Common Stock.....		
h. Accounts Receivable.....		
i. Equipment.....		
j. Notes Receivable.....		

5. Journalize the following business transactions in general journal form. Identify each transaction by number. You may omit explanations of the transactions. **(USE THE LINES ON THE NEXT PAGE TO RECORD YOUR JOURNAL ENTRIES)**

- Jan. 1 Stockholders invest \$40,000 in cash in starting a real estate office operating as a corporation.
- Jan. 5 Purchased \$500 of supplies on credit.
- Jan. 10 Purchased equipment for \$25,000, paying \$3,500 in cash and signed a 30-day, \$21,500, note payable.
- Jan. 15 Real estate commissions billed to clients amount to \$4,000.
- Jan. 20 Paid \$700 in cash for the current month's rent.
- Jan. 25 Paid \$250 cash on account for office supplies purchased in transaction 2.
- Jan. 28 Received a bill for \$800 for advertising for the current month.
- Jan. 31 Paid \$2,500 cash for office salaries.
- Jan. 31 Paid \$1,200 cash dividends to stockholders.
- Jan. 31 Received a check for \$2,000 from a client in payment on account for commissions billed in transaction 4.

Chapter 3 Solutions**Multiple Choice Solutions**

1. C
2. D
3. C
4. A
5. C
6. A
7. B
8. C
9. A
10. B
11. C
12. A
13. C
14. C
15. D

Exercise Solutions

1.	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
a. Received cash for services rendered.	+		NE		+
b. Purchased supplies on account.	+		+		NE
c. Paid employees' salaries.	-		NE		-
d. Dividends paid in cash.	-		NE		-
e. Expenses paid in cash.	-		NE		-
2.	<u>Debit</u>		<u>Credit</u>		<u>Normal Balance</u>
a. Salaries and Wages Expense.	+		-		Dr
b. Accounts Receivable	+		-		Dr
c. Service Revenue.	-		+		Cr
d. Dividends	+		-		Dr
e. Retained Earnings	-		+		Cr

Exercise Solutions (Cont.)

3. Swisher Company
Trial Balance
January 31, 20XX

	<u>Debit</u>	<u>Credit</u>
Cash	\$1,600	
Accounts Receivable	2,500	
Supplies	200	
Accounts Payable		\$1,500
Common Stock		2,200
Dividends	1,400	
Service Revenue		3,500
Rent Expense	500	
Salaries and Wages Expense	<u>1,000</u>	
	<u>\$7,200</u>	<u>\$7,200</u>

- 4.
- | | <u>Type of
Account</u> | <u>Normal
Balance</u> |
|------------------------------------|----------------------------|---------------------------|
| a. Supplies | A | Dr. |
| b. Note Payable | L | Cr. |
| c. Service Revenue..... | R | Cr. |
| d. Dividends..... | N | Dr. |
| e. Accounts Payable..... | L | Cr. |
| f. Salaries and Wages Expense..... | E | Dr. |
| g. Common Stock..... | N | Cr. |
| h. Accounts Receivable..... | A | Dr. |
| i. Equipment..... | A | Dr. |
| j. Notes Receivable..... | A | Dr. |

Exercise Solutions (Cont.)

5.

<i>Example: Bought supplies for \$500 on Jan. 1.</i>	Date	Debit	Credit
<i>Supplies</i>	Jan. 1	500	
<i>Cash</i>			500
Cash	Jan. 1	40,000	
Common Stock			40,000
Supplies	Jan. 5	500	
Accounts Payable			500
Equipment	Jan. 10	25,000	
Cash			3,500
Notes Payable			21,500
Accounts Receivable	Jan. 15	4,000	
Service Revenue			4,000
Rent Expense	Jan. 20	700	
Cash			700
Accounts Payable	Jan. 25	250	
Cash			250
Advertising Expense	Jan. 28	800	
Accounts Payable			800
Salaries and Wages Expense	Jan. 31	2,500	
Cash			2,500
Dividends	Jan. 31	1,200	
Cash			1,200
Cash	Jan. 31	2,000	
Accounts Receivable			2,000

--	--	--