

Chapter 2 Review sheet  
Principles of Accounting

1. The left side of an account is

- a. blank.
- b. a description of the account.
- c. the debit side.
- d. the balance of the account

2. An account consists of

- a. a title, a debit balance, and a credit balance.
- b. a title, a left side, and a debit balance.
- c. a title, a debit side, and a credit side.
- d. a title, a right side, and a debit balance.

3. Credits

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

4. The normal balance of any account is the

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

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

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

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

- a. the number of debit accounts must equal the number of credit accounts.
- b. there must always be entries made on both sides of the accounting equation.
- c. the amount of the debits must equal the amount of the credits.
- d. there must only be two accounts affected by any transaction.

7. If a company has overdrawn its bank balance, then
- its cash account will show a debit balance.
  - its cash account will show a credit balance.
  - the cash account debits will exceed the cash account credits.
  - it cannot be detected by observing the balance of the cash account.
8. TransAm Mail Service purchased equipment for \$2,000. TransAm paid \$400 in cash and signed a note for the balance. TransAm debited the Equipment account, credited Cash and
- nothing further must be done.
  - debited the Capital account for \$1,600.
  - credited another asset account for \$400.
  - credited a liability account for \$1,600.

9. Chik Chik Company showed the following balances at the end of its first year:

Cash	\$ 6,000
Prepaid insurance	9,400
Accounts receivable	7000
Accounts payable	5,600
Notes payable	8,400
Owner's Capital	2,800
Owner's Drawings	1,400
Revenues	44,000
Expenses	35,000

What did Chik Chik Company show as total credits on its trial balance?

- \$51,400
  - \$60,800
  - \$62,200
  - \$70,200
10. The final step in the recording process is to
- analyze each transaction.
  - enter the transaction in a journal.
  - prepare a trial balance.
  - transfer journal information to ledger accounts.
11. The first step in the recording process is to
- prepare financial statements.
  - analyze each transaction for its effect on the accounts.
  - post to a journal.
  - prepare a trial balance.
12. The recording process occurs
- once a year.
  - once a month.
  - repeatedly during the accounting period.
  - infrequently in a manual accounting system.
13. Transactions in a journal are initially recorded in
- account number order.
  - dollar amount order.
  - alphabetical order.
  - chronological order.

14. Which of the following journal entries is recorded correctly and in the standard format?

a.	Salaries and Wages Expense .....	500	
	Cash .....		1,500
	Advertising Expense .....	1,000	
b.	Salaries and Wages Expense .....		500
	Advertising Expense .....		1,000
	Cash .....	1,500	
c.	Cash .....	1,500	
	Salaries and Wages Expense .....		500
	Advertising Expense .....		1,000
d.	Salaries and Wages Expense .....	500	
	Advertising Expense .....	1,000	
	Cash .....		1,500

15. A chart of accounts usually starts with

- a. asset accounts.
- b. expense accounts.
- c. liability accounts.
- d. revenue accounts.

16. A trial balance is a listing of

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

**BE 1**

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

1. Andrew Bird invested \$35,000 cash to start an appliance repair business.
2. Hired an employee to be paid \$400 per week, starting tomorrow.
3. Paid two years' rent in advance, \$7,440.
4. Paid the worker's weekly wage.
5. Recorded revenue earned and received for the week, \$1,900.

**ANSWER:**

1.	Cash.....	35,000	
	Owner's Capital.....		35,000
2.	No entry, not a transaction.		
3.	Prepaid Rent.....	7,440	
	Cash .....		7,440
4.	Salaries and Wages Expense .....	400	
	Cash .....		400
5.	Cash.....	1,900	
	Service Revenue.....		1,900

**BE2**

The transactions of the Liberty Belle Store are recorded in the general journal below. You are to post the journal entries to T-accounts.

General Journal

Date	Account Titles	Debit	Credit
2014			
Aug. 5	Accounts Receivable Service Revenue	4,400	4,400
10	Cash Service Revenue	3,000	3,000
19	Rent Expense Cash	1,100	1,100
25	Cash Accounts Receivable	1,400	1,400

**ANSWERS:**

General Ledger

Cash		Accounts Receivable	
8/10	3,000	8/5	4,400
8/25	1,400	8/25	1,400
8/31 Bal.	3,300	8/31 Bal.	3,000

  

Service Revenue		Rent Expense	
8/5	4,400	8/19	1,100
8/10	3,000	8/31 Bal.	1,100
8/31 Bal.	7,400		

**BE 3**

Prepare a corrected trial balance for Stereolab Company. All accounts should have a normal balance.

STEREOELAB COMPANY  
Trial Balance  
For the Quarter Ended 3/31/14

	Debit	Credit
Cash	\$ 14,000	
Accounts Receivable		\$ 23,000
Prepaid Insurance	2,500	
Equipment	60,000	
Accounts Payable		15,000
Unearned Service Revenue	10,000	
Notes Payable		25,000
Owner's Capital		38,000
Owner's Drawings		1,500
Service Revenue		43,000
Salaries and Wages Expense	15,000	
Utilities Expense	5,000	
Rent Expense	10,000	
	\$116,500	\$145,500

**Answers:**

Prepare a corrected trial balance for Stereolab Company. All accounts should have a normal balance.

STEREOELAB COMPANY  
Trial Balance  
For the Quarter Ended 3/31/14

	Debit	Credit
Cash	\$ 14,000	
Accounts Receivable		\$ 23,000
Prepaid Insurance	2,500	
Equipment	60,000	
Accounts Payable		15,000
Unearned Service Revenue	10,000	
Notes Payable		25,000
Owner's Capital		38,000
Owner's Drawings		1,500
Service Revenue		43,000
Salaries and Wages Expense	15,000	
Utilities Expense	5,000	
Rent Expense	10,000	
	\$116,500	\$145,500

**Ex. 1**

The chart of accounts used by Notwist Copy Company is listed below. You are to indicate the proper accounts to be debited and credited for the following transactions by writing the account number(s) in the appropriate boxes.

CHART OF ACCOUNTS

101 Cash	209 Unearned Service Revenue
112 Accounts Receivable	301 Owner's Capital
125 Supplies	306 Owner's Drawings
157 Equipment	400 Service Revenue
200 Notes Payable	610 Advertising Expense
201 Accounts Payable	729 Rent Expense

	Number(s) of account(s) debited	Number(s) of account(s) credited
1. M. Acher invests \$70,000 cash to start the business.	101	301
2. Purchased three pieces of equipment for \$160,000, paying \$50,000 cash and signing a 5-year, 10% note for the remainder.	157	101,200
3. Purchased \$5,000 supplies on credit.	125	201
4. Cash revenue amounted to \$7,000.	101	400
5. Paid \$500 cash for radio advertising.	610	101
6. Paid \$800 on account for supplies purchased in transaction 3.	201	101
7. Owner withdrew \$2,100 from the business for personal expenses.	306	101
8. Paid \$1,200 cash for rent for the current month.	729	101
9. Received \$2,000 cash advance from a customer for future copying.	101	209
10. Billed a customer for \$575 for photocopy work done.	112	400

**Ex. 2**

The ledger accounts of the Fabulous Muscles Gym at June 30, 2014 are shown below:

Accounts Payable	\$ 9,100
Accounts Receivable	8,050
Buildings	43,000
Owner's Capital	61,800
Cash	6,100
Equipment	42,900
Notes Payable	40,000
Supplies	350
Owner's Drawings	10,500

**Instructions**

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

**Answers:**

FABULOUS MUSCLES GYM  
Trial Balance  
June 30, 2014

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 6,100	
Accounts Receivable .....	8,050	
Supplies .....	350	
Equipment .....	42,900	
Buildings.....	43,000	
Notes Payable .....		\$ 40,000
Accounts Payable.....		9,100
Owner's Capital .....		61,800
Owner's Drawings .....	10,500	
Totals.....	<u>\$110,900</u>	<u>\$110,900</u>