**Question Bank for Chapter 1 - Accounting and the Business Environment**

**Theory:**

1. “Bookkeeping and accounting are the same.” Do you agree? Explain.
2. What are the three basic forms of business organizations for profit-oriented enterprises?
3. Define the terms assets, liabilities, and owner’s equity
4. Who are internal users of accounting data?
5. What is the basic accounting equation?
6. What is the expanded accounting equation?
7. Identify and describe the steps in the accounting process.
8. “Accounting is ingrained in our society and it is vital to our economic system.” Do you agree? Explain.
9. Who are internal users of accounting data?
10. The accounting equation is important to a business, but it is also important to the individual. Consider your “personal” accounting equation. Are you content with your current net worth (equity) or do you want to increase it? Do you think your education will help you to increase your net worth?

**Math:**

**Problem 1:** Transactions made by Virmari & Co., a public accounting firm, for the month of August are shown below. **Prepare a tabular analysis which shows the effects of these transactions on the expanded accounting equation, similar to that shown:**

1. The owner invested $25,000 cash in the business.

2. The company purchased $7,000 of offices equipment on credit.

3. The company received $8,000 cash in exchange for services performed.

4. The company paid $850 for this month’s rent.

5. The owner withdrew $1,000 cash for personal use.

**Problem 2:** Joan Robinson opens her own law office on July 1, 2017. During the first month of operations, the following transactions occurred.

1. Joan invested $11,000 in cash in the law practice.

2. Paid $800 for July rent on off cue space.

3. Purchased equipment on account $3,000.

4. Performed legal services to clients for cash $1,500.

5. Borrowed $700 cash from a bank on a note payable.

6. Performed legal services for client on account $2,000.

7. Paid monthly expenses: salaries and wages $500, utilities $300, and advertising $100.

8. Joan withdrew $1,000 cash for personal use.

**Instructions: Prepare a tabular summary of the transactions.**

**Problem 3:** On April 1, Julie Spengel established Spengel’s Travel Agency. The following transactions were completed during the month.

1. Invested $15,000 cash to start the agency.

2. Paid $600 cash for April office rent.

3. Purchased equipment for $3,000 cash.

4. Incurred $700 of advertising costs in the Chicago Tribune, on account.

5. Paid $900 cash for office supplies.

6. Performed services worth $10,000: $3,000 cash is received from customers, and the

balance of $7,000 is billed to customers on account.

7. Withdrew $600 cash for personal use.

8. Paid Chicago Tribune $500 of the amount due in transaction (4).

9. Paid employees’ salaries $2,500.

10. Received $4,000 in cash from customers who have previously been billed in transaction (6).

**Instructions:** Prepare a tabular analysis of the transactions using the following column headings: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Owner’s Capital, Owner’s Drawings, Revenues, and Expenses.

**Problem-4: Indicate the effects of the following business transactions on the accounting**

equation of a Poway Landscaping Video store. Transaction (1) is answered as a guide.

1. Made cash investment of $18000 to start business.
2. Paid monthly rent of $500.
3. Purchased equipment costing $2000 on account.
4. Billed customers for services performed $8000.
5. Withdrew $300 cash for owner’s personal use.
6. Earned video rental revenue on account, $1,800.
7. Purchased office furniture on cash, $400.
8. Received cash on account, $600.
9. Paid cash on account, $100.
10. Sold land for $15,000, which was the cost of the land.
11. Rented videos and received cash of $300.
12. Paid $200 cash to purchase supplies that will be used in the future.

**Instructions:** List the numbers of the above transactions and describe the effect of each transaction on assets, liabilities, and owner’s equity. For example, the first answer is:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| |  | | --- | | **Serial No:** | | |  | | --- | | **Two accounts** | | |  | | --- | | **Effect in transaction** | |
| **1** | |  | | --- | | Cash  Capital | | |  | | --- | | Increase in Assets and  increase in owner’s equity | |

**Problem 5:** IT Computer Timeshare Company entered into the following transactions during May 2017.

1. Purchased computers for $20,000 from Digital Equipment on account.

2. Paid $4,000 cash for May rent on storage space.

3. Received $17,000 cash from customers for contracts billed in April.

4. Performed computer services for Viking Construction Company for $4,000 cash.

5. Paid Tri-State Power Co. $11,000 cash for energy usage in May.

6. IT invested an additional $29,000 in the business.

7. Paid Digital Equipment for the computers purchased in (1) above.

8. Incurred advertising expense for May of $1,200 on account.

**Instructions**

**Prepare a tabular summary of the transactions.**

**Problem 6:** Trixie Maye started her own consulting fi rm, Matrix Consulting, on May 1, 2017. The following transactions occurred during the month of May.

May 1 Trixie invested $7,000 cash in the business.

2 Paid $900 for office rent for the month.

3 Purchased $600 of supplies on account.

5 Paid $125 to advertise in the County News.

9 Received $4,000 cash for services performed.

12 Withdrew $1,000 cash for personal use.

15 Performed $5,400 of services on account.

17 Paid $2,500 for employee salaries.

20 Paid for the supplies purchased on account on May 3.

23 Received a cash payment of $4,000 for services performed on account on May 15.

26 Borrowed $5,000 from the bank on a note payable.

29 Purchased equipment for $4,200 on account.

30 Paid $275 for utilities.

**Instructions**

**Show the effects of the previous transactions on the accounting equation using the following format.**

**Question-7:** Sonya Jared opened a law office on July 1, 2020. On July 31, the balance sheet showed Cash $5,000, Accounts Receivable $1,500, Supplies $500, Equipment $6,000, Accounts Payable $4,200, and Owner’s Capital $8,800. During August, the following transactions occurred.

1. Collected $1,200 of accounts receivable.
2. Paid $2,800 cash on accounts payable.
3. Recognized revenue of $7,500 of which $4,000 is collected in cash and the balance is due in September.
4. Purchased additional equipment for $2,000, paying $400 in cash and the balance on account.
5. Paid salaries $2,800, rent for August $900, and advertising expenses $400.
6. Withdrew $700 in cash for personal use.
7. Received $2,000 from Standard Federal Bank—money borrowed on a note payable.
8. Incurred utility expenses for month on account $270.

**Instructions:** Prepare a tabular analysis of the August transactions beginning with July 31 balances. The column headings should be as follows: Cash, Accounts Receivable, Supplies, Equipment, Notes Payable, Accounts Payable, and Owner’s Equity