

(2) True / False

1. All plant assets (fixed assets) must be depreciated for accounting purposes.
2. Recording depreciation on plant assets affects the balance sheet and the income statement.

No.1	No. 2
F	T

- True / False
- The first-in, first-out (FIFO) inventory method results in an ending inventory valued at the most recent cost. T
- MCQ:
  1. Inventories affect
    - a. only the balance sheet.
    - b. only the income statement.
    - ~~c.~~ both the balance sheet and the income statement
    - d. neither the balance sheet nor the income statement.
  1. Items waiting to be used in production are considered to be
    - ~~a.~~ raw materials.
    - b. Work in progress.
    - c. Finished goods.
    - d. merchandise inventory.

## Review Question

Understating ending inventory will overstate:

- a. assets.
- ☒ b. cost of goods sold.
- c. net income.
- d. owner's equity.

## ***Inventory Costing – Cost Flow Assumptions***

### **Review Question**

In a period of inflation, the cost flow method that results in the lowest income taxes is the:

- a. FIFO method.
- ☒ b. LIFO method.
- c. average cost method.
- d. gross profit method.

## Review Question

The cost flow method that often parallels the actual physical flow of merchandise is the:

- ☒ a. FIFO method.
- b. LIFO method.
- c. average cost method.
- d. gross profit method.

## ***True-False Statements***

- 5- The matching principle requires that efforts be matched with accomplishments

### **Answers to True-False Statements**

Item	1	2	3	4	5
Ans.	T	T	F	F	T

4-

## TRUE-FALSE STATEMENTS

- 1- Many business transactions affect more than one time period.
- 2- The time period assumption states that the economic life of a business entity can be divided into artificial time periods.
- 3- The time period assumption is often referred to as the matching principle.
- 4- A company's calendar year and fiscal year are always the same.



## Review

Which of the following statements is *incorrect* concerning the adjusted trial balance?

- a. An adjusted trial balance proves the equality of the total debit balances and the total credit balances in the ledger after all adjustments are made.
- b. The adjusted trial balance provides the primary basis for the preparation of financial statements.
- ☒ c. The adjusted trial balance lists the account balances segregated by assets and liabilities.
- d. The adjusted trial balance is prepared after the adjusting entries have been journalized and posted.



Adjusting entries are made to ensure that:

- a. expenses are recognized in the period in which they are incurred.
- b. revenues are recorded in the period in which they are earned.
- c. balance sheet and income statement accounts have correct balances at the end of an accounting period.
- ☒ d. all of the above.

## Review

One of the following statements about the accrual basis of accounting is *false*. That statement is:

- a. Events that change a company's financial statements are recorded in the periods in which the events occur.
- b. Revenue is recognized in the period in which it is earned.
- c. This basis is in accord with generally accepted accounting principles.
- ☒ d. Revenue is recorded only when cash is received, and expense is recorded only when cash is paid.

## Review

The time period assumption states that:

- a. revenue should be recognized in the accounting period in which it is earned.
- b. expenses should be matched with revenues.
- ☒ c. the economic life of a business can be divided into artificial time periods.
- d. the fiscal year should correspond with the calendar year.

4. The three types of business entities are:

(a) proprietorships, small businesses, and partnerships.

(b) proprietorships, partnerships, and corporations.

(c) proprietorships, partnerships, and large businesses.

(d) financial, manufacturing, and service companies.

### Additional True-False Questions

- 31. The double-entry system is a logical method for recording transactions and results in equal debits and credits for each transaction. **T**
- 32. The normal balance of an expense is a credit. **F**
- 33. The journal provides a chronological record of transactions. **T**
- 34. The ledger is merely a bookkeeping device and therefore does not provide much useful data for management. **F**
- 35. The chart of accounts is a listing of the accounts and the account numbers which identify their location in the ledger. **T**
- 36. The primary purpose of a trial balance is to prove the mathematical equality of the debits and credits after posting. **T**
- 37. The trial balance will not balance when incorrect account titles are used in journalizing or posting. **F**

23. The complete effect of a transaction on the accounts is disclosed in the journal. **T**
24. The account titles used in journalizing transactions need not be identical to the account titles in the ledger. **F**
25. The chart of accounts is a special ledger used in accounting systems. **F**
26. A general ledger should be arranged in the order in which accounts are presented in the financial statements, beginning with the balance sheet accounts. **T**
27. The number and types of accounts used by different business enterprises are the same if generally accepted accounting principles are being followed by the enterprises. **F**
28. Posting is the process of proving the equality of debits and credits in the trial balance. **F**
29. After a transaction has been posted, the reference column in the journal should not be blank. **T**
30. A trial balance does not prove that all transactions have been recorded or that the ledger is correct. **T**



10. A credit balance in a liability account indicates that an error in recording has occurred. **f**
11. The drawing account is a subdivision of the owner's capital account and appears as an expense on the income statement. **F**
12. Revenues are a subdivision of owner's capital. **T**
13. Under the double-entry system, revenues must always equal expenses. **f**
14. Transactions are entered in the ledger first and then they are analyzed in terms of their effect on the accounts. **F**
15. Business documents can provide evidence that a transaction has occurred. **T**
16. Each transaction must be analyzed in terms of its effect on the accounts before it can be recorded in a journal. **T**
17. Transactions are entered in the ledger accounts and then transferred to journals. **f**
18. All business transactions must be entered first in the general ledger. **F**
19. A simple journal entry requires only one debit to an account and one credit to an account. **T**
20. A compound journal entry requires several debits to one account and several credits to one account. **F**
21. Transactions are recorded in alphabetic order in a journal. **f**
22. A journal is also known as a book of original entry. **T**



## Q6:

2 - 4 Test Bank for Accounting Principles, Eighth Edition

### TRUE-FALSE STATEMENTS

1. A new account is opened for each transaction entered into by a business firm. **F**
2. The recording process becomes more efficient and informative if all transactions are recorded in one account. **F**
3. When the volume of transactions is large, recording them in tabular form is more efficient than using journals and ledgers. **F**
4. An account is often referred to as a T-account because of the way it is constructed. **T**
5. A debit to an account indicates an increase in that account. **F**
6. If a revenue account is credited, the revenue account is increased. **T**
7. The normal balance of all accounts is a debit. **F**
8. Debit and credit can be interpreted to mean increase and decrease, respectively. **F**
9. The double-entry system of accounting refers to the placement of a double line at the end of a column of figures. **F**

## *Self-test questions*

15. At January 31, 2017, the balance in Bota Inc.'s supplies account was \$2,000. During February, Bota purchased supplies of \$2,400 and used supplies of \$3,200. At the end of February, the balance in the supplies account should be
- a. \$2,000 debit.
  - b. \$2,800 credit.
  - c. \$4,400 debit.
  - d. \$1,200 debit.

Ans: d LO3 BT: AP Difficulty: Easy TOT: 1 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting

## Self-test Questions


14. Rusthe Company showed the following balances at the end of its first year:

Cash	\$ 19,000
Prepaid insurance	1,400
Accounts receivable	7,000
Accounts payable	5,600
Notes payable	8,400
Share capital-ordinary	4,800
Dividends	1,400
Revenues	45,000
Expenses	35,000

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

- a. \$65,200
- b. \$63,800
- c. \$62,400
- d. \$66,600

Ans: b LO2 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: RT AICPA BB: CT AICPA PC: PS

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12. Which of the following statements is *not* true?
- a. Expenses increase equity.
  - b. Expenses have normal debit balances.
  - c. Expenses decrease equity.
  - d. Expenses are a negative factor in the computation of net income.

Ans: a LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting

13. A credit to a liability account
- a. indicates an increase in the amount owed to creditors.
  - b. indicates a decrease in the amount owed to creditors.
  - c. is an error.
  - d. must be accompanied by a debit to an asset account.

## ***Self-test Questions***

10. 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.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting

11. A debit to an asset account indicates
- a. an error.
  - b. a credit was made to a liability account.
  - c. a decrease in the asset.
  - d. an increase in the asset.

Ans: d LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting

## Self-Test Questions

### MULTIPLE CHOICE QUESTIONS

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8. The left side of an account is
- blank.
  - a description of the account.
  - the debit side.
  - the balance of the account.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting

9. Which one of the following is **not** a part of an account?
- Credit side
  - Trial balance
  - Debit side
  - Title

Ans: b LO1 BT: K Difficulty: Easy TOT: 1 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting

## *Self-test Questions*

5. The chart of accounts is a listing of the accounts and the account numbers which identify their location in the ledger.

Ans: T LO8 BT: C Difficulty: Easy TOT: .5 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting

6. The primary purpose of a trial balance is to prove the mathematical equality of the debits and credits after posting.

Ans: T LO7 BT: K Difficulty: Easy TOT: .5 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting

7. The trial balance will not balance when incorrect account titles are used in journalizing or posting.

Ans: F LO7 BT: K Difficulty: Easy TOT: .5 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting



## *Self-test questions*

4. The general rules of debit and credit, and the steps in the recording process—the journal, ledger, and chart of accounts—are the same under both GAAP and IFRS.

Ans: T LO7 BT: K Difficulty: Medium TOT: .5 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting

5. A trial balance does not prove that all transactions have been recorded or that the ledger is correct.

Ans: T LO7 BT: K Difficulty: Easy TOT: .5 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting

## *Self-Test Questions*

### **TRUE-FALSE STATEMENTS**

**Q 1:**

1. A new account is opened for each transaction entered into by a business firm.

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting

2. The recording process becomes more efficient and informative if all transactions are recorded in one account.

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting

3. When the volume of transactions is large, recording them in tabular form is more efficient than using journals and ledgers.

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: RT AICPA BB: CT AICPA FN: Reporting

A trial balance will not balance if:

- a. a correct journal entry is posted twice.
- b. the purchase of supplies on account is debited to Supplies and credited to Cash.
- ☒ c. a \$100 cash drawing by the owner is debited to Owner's Drawing for \$1,000 and credited to Cash for \$100.
- d. a \$450 payment on account is debited to Accounts Payable for \$45 and credited to Cash for \$45.

## Posting:

- a. normally occurs before journalizing.
- b. transfers ledger transaction data to the journal.
- c. is an optional step in the recording process.
- ☒ d. transfers journal entries to ledger accounts.

Accounts that normally have debit balances are:

- a. assets, expenses, and revenues.
- b. assets, expenses, and owner's capital.
- c. assets, liabilities, and owner's drawings.
- ☒ d. assets, owner's drawings, and expenses.

## Review Question

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.

### Self-Test Questions

1. Which of the following does *not* describe accounting?
  - a. Language of business.
  - b. Is an end rather than a means to an end.
  - c. Useful for decision making.
  - d. Used by business, government, nonprofit organizations, and individuals.
  
2. External users of financial accounting information include all of the following *except*:
  - a. Investors.
  - b. Labor unions.
  - c. Line managers.
  - d. General public.
  
3. Which of the following is *not* a user of internal accounting information?
  - a. Store manager.
  - b. Chief executive officer.
  - c. Creditor.
  - d. Chief financial officer.

Answers: 1 b – 2- c 3- c



Which of the following financial statements is prepared as of a specific date?

- ☒ a. Balance sheet.
- b. Income statement.
- c. Owner's equity statement.
- d. Statement of cash flows.

Net income will result during a time period when:

- a. assets exceed liabilities.
- b. assets exceed revenues.
- c. expenses exceed revenues.
- ☒ d. revenues exceed expenses.

A business organized as a separate legal entity under state law having ownership divided into shares of stock is a

- a. proprietorship.
- b. partnership.
- ☒ c. corporation.
- d. sole proprietorship.

Combining the activities of Kellogg and General Mills would violate the

- a. cost principle.
- ☒ b. economic entity assumption.
- c. monetary unit assumption.
- d. ethics principle.

Ethics are the standards of conduct by which one's actions are judged as:

- a. right or wrong.
- b. honest or dishonest.
- c. fair or not fair.
- ☒ d. all of these options.