

ACCOUNTING 201

CHAPTER 2

TRUE-FALSE STATEMENTS

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

Multiple Choice Questions

11. Which one of the following is *not* a part of an account?
 - a. Credit side
 - b. Trial balance
 - c. Debit side
 - d. Title
12. A T-account is
 - a. a way of depicting the basic form of an account.
 - b. what the computer uses to organize bytes of information.
 - c. a special account used instead of a trial balance.
 - d. used for accounts that have both a debit and credit balance.

13. Credits
- decrease both assets and liabilities.
 - decrease assets and increase liabilities.
 - increase both assets and liabilities.
 - increase assets and decrease liabilities
14. A debit to an asset account indicates
- an error.
 - a credit was made to a liability account.
 - a decrease in the asset.
 - an increase in the asset.
15. The normal balance of any account is the
- left side.
 - right side.
 - side which increases that account.
 - side which decreases that account.
16. The double-entry system requires that each transaction must be recorded
- in at least two different accounts.
 - in two sets of books.
 - in a journal and in a ledger.
 - first as a revenue and then as an expense.
17. Which of the following correctly identifies normal balances of accounts?
- | | |
|----------------------|--------|
| Assets | Debit |
| Liabilities | Credit |
| Stockholders' equity | Credit |
| Revenues | Debit |
| Expenses | Credit |
 - | | |
|----------------------|--------|
| Assets | Debit |
| Liabilities | Credit |
| Stockholders' equity | Credit |
| Revenues | Credit |
| Expenses | Credit |
 - | | |
|----------------------|--------|
| Assets | Credit |
| Liabilities | Debit |
| Stockholders' equity | Debit |
| Revenues | Credit |
| Expenses | Debit |
 - | | |
|----------------------|--------|
| Assets | Debit |
| Liabilities | Credit |
| Stockholders' equity | Credit |
| Revenues | Credit |
| Expenses | Debit |

18. Dawson's Sunny Delivery Service purchased equipment for \$2,500. Dawson paid \$500 in cash and signed a note for the balance. Dawson debited the equipment account, credited cash and
- Nothing further must be done.
 - Debit the Retained Earnings account for \$2,000.
 - Credited another asset account for \$500.
 - Credited a liability account for \$2,000.
19. Grayton-Smith Industries purchased supplies for \$1,000. They paid \$500 in cash and agreed to pay the balance in 30 days. The journal entry to record this transaction would include a debit to an asset account for \$1,000, a credit to a liability account for \$500. Which of the following would be the correct way to complete the recording of the transaction?
- Credit an asset account for \$500.
 - Credit another liability account for \$500.
 - Credit the Retained Earnings account for \$500.
 - Debit the Retained Earnings account for \$500.
20. The accounting equation for Lorenzo Enterprises is:
 Assets \$100,000 = Liabilities \$40,000 + Stockholders' equity \$60,000.
- If Lorenzo purchases equipment for \$25,000 and signs a note payable for the same amount, the new accounting equation will be:
- Assets \$100,000 = Liabilities \$40,000 + Stockholders' equity \$60,000.
 - Assets \$125,000 = Liabilities \$65,000 + Stockholders' equity \$60,000.
 - Assets \$125,000 = Liabilities \$40,000 + Stockholders' equity \$85,000.
 - Assets \$75,000 = Liabilities \$15,000 + Stockholders' equity \$60,000.
21. On June 1, 2006, Delbert West Inc. reported a cash balance of \$12,000. During June, Delbert made deposits of \$3,000 and made disbursements totalling \$16,000. What is the cash balance at the end of June?
- \$1,000 debit balance.
 - \$15,000 debit balance.
 - \$1,000 credit balance.
 - \$4,000 credit balance.
22. At January 1, 2006, Billy Burton Industries reported Retained Earnings of \$130,000. During 2006, Burton had a net loss of \$30,000 and paid dividends to the stockholders of \$20,000. At December 31, 2006, the balance in Retained Earnings is
- \$130,000 debit
 - \$140,000 credit
 - \$100,000 debit
 - \$80,000 credit
23. At December 1, 2006, Marco Polo Company's accounts receivable balance was \$1,200. During December, Marco had credit sales of \$5,000 and collected accounts receivable of \$4,000. At December 31, 2006, the accounts receivable balance is
- \$1,200 debit
 - \$2,200 debit
 - \$6,200 debit
 - \$2,200 credit

ANSWERS

True and False

1. F
2. F
3. F
4. T
5. F
6. T
7. F
8. F
9. F
10. F

Multiple Choice

11. B
12. A
13. B
14. D
15. C
16. A
17. D
18. D
19. A
20. B
21. C
22. D
23. B