What is the proper order that describes the steps in the accounting process?

I. Prepare and analyze the trial balance

II. Record relevant transactions and events in a journal

III. Analyze each transaction and event from source documents

IV. Post journal information to ledger accounts

A) III, IV, I, and II.

B) I, II, III, and IV.

C) III, II, IV, and I.

D) III, II, I, and IV.

E) II, III, I, and IV.

Feedback: The correct order of the steps as numbered above is: III, II, IV, and I. The accounting process begins by analyzing each transaction and event from source documents. Next, relevant transactions and events are recorded in a journal. Then, the journal information is posted into ledger accounts. Lastly, the trial balance is prepared and analyzed. (Learning Objective C1)

A bill (or invoice) received from a vendor and supplier is an example of which of the following?

A) Financial statements

B) Accounts

C) Source documents

D) Journal entry

E) None of the above

Feedback: A bill (or invoice) received from a supplier or vendor is a source document. Source documents identify and describe transactions and events entering the accounting process. They are the sources of accounting information. (Learning Objective C1)

Which of the following is not a liability account?

A) Unearned revenue

B) Accounts receivable

C) Salaries payable

D) Notes payable

E) Mortgage payable

Feedback: Liabilities are claims (by creditors) against assets, which means they are obligations to transfer assets or provide products or services to other entities. When customers pay in advance for products or services (before revenue is earned), the revenue recognition principle requires that the seller consider this payment as unearned revenue, a liability that is settled in the future when a company delivers its products or services. Accounts Receivable is a current asset account representing the amount of money owed to the company by its customers. The remaining choices all include the word, payable, in the account title, which signifies that they are obligations of the company. (Learning Objective C2)

Which of the following is a formal promise to pay a future amount and is classified depending on when it must be repaid?

A) Accounts payable

B) Accounts receivable

C) Note payable

D) Prepaid insurance

E) Both accounts payable and accounts receivable

Feedback: Accounts payable refer to oral or implied promises to pay later and commonly arise from purchases of merchandise, supplies, equipment, and services. A note payable is a formal promise, usually denoted by signing a promissory note, to pay a future amount and is classified depending on when it must be repaid. (Learning Objective C2)

Which of the following type(s) of accounts affect equity?

A) Common stock

B) Dividends

C) Retained earnings

D) A and B only

E) A, B, and C

Feedback: Equity is impacted by four types of accounts: Common stock, dividends, revenues, and expenses. (Learning Objective C2)

Which of the following would be used in the entry to record a transaction in which the customer pays in advance for products or services before they are earned?

A) Dividends

B) Prepaid account

C) Unearned revenue

D) Accounts payable

E) None of the above

Feedback: Dividends is an equity account. When customers pay in advance for products or services (before revenue is earned), the revenue recognition principle requires that the seller consider this payment as unearned revenue, a liability that is settled in the future when a company delivers its products or services. The seller would increase cash (with a debit) and increase the liability account, unearned revenue, (with a credit) to properly record this type of transaction. (Learning Objective A1)

Which of the following is the term used to describe the list of accounts that a company uses which includes an identification number assigned to each account?

A) A ledger

B) A chart of accounts

C) A journal

D) A trial balance

E) A source document

Feedback: A ledger is a record containing all accounts used by a company and their balances. A chart of accounts is a list of accounts a company uses which includes an identification number assigned to each account. (Learning Objective C3)

On March 15, Armstrong Corporation performed consulting services on account for a customer. Armstrong collected $5,000 on account from that customer on April 22. Which of the following general journal entries would be used to record the transaction that took place on April 22?

A) Debit assets for $5,000, credit equity for $5,000.

B) Debit cash for $5,000, credit consulting service revenue for $5,000.

C) Debit cash for $5,000, credit accounts receivable for $5,000.

D) Debit accounts receivable for $5,000, credit consulting service revenue for $5,000.

E) Debit accounts receivable for $5,000, credit cash for $5,000.

Feedback: The customer is paying Armstrong on account. Cash increases and accounts receivable, the account that is used to keep track of what customers owe, decreases. Both accounts are assets, which increase with debits and decrease with credits. This transaction would be accounted for as follows: Debit cash for $5,000 and credit accounts receivable for $5,000. (Learning Objective A1)

Caroline Duffy contributed $10,000 in cash and equipment worth $3,000 to open a new business that she has incorporated. Which of the following general journal entries would be used to record this transaction?

A) Debit assets for $13,000, credit common stock for $13,000.

B) Debit cash for $10,000, credit common stock for $10,000.

C) Debit cash and equipment for $13,000, credit common stock for $13,000.

D) Debit cash for $10,000, debit equipment for $3,000, credit common stock for $13,000.

E) Debit cash for $10,000, debit equipment for $3,000, credit dividends for $13,000.

Feedback: Cash and equipment are being exchanged for an ownership interest in the new corporation; that ownership interest will be represented by the issuance of shares of common stock to the owner. This transaction would be accounted for as follows: Debit cash for $10,000, debit equipment for $3,000, credit common stock for $13,000. (Learning Objective A1)

On January 31, Harrington Corporation, a consulting company, had accounts receivable in the amount of $10,000, During February, payments from customers on account totaled $5,000. At the end of February, accounts receivable was $12,000. What was the amount of consulting services provided to customers on credit during the month of February?

A) $2,000

B) $3,000

C) $7,000

D) $27,000

E) Cannot be determined

Feedback: Beginning accounts receivable of $10,000 + services provided to customers on credit (unknown) – payments from customers on account of $5,000 = ending accounts receivable of $12,000; services provided to customers on account = $7,000. (Learning Objective A1)

Assets total $100,000, liabilities total $10,000, and equity totals $90,000. What is the debt ratio?

A) 0.10

B) 0.20

C) 0.50

D) 0.75

E) 0.90

Feedback: Total liabilities of $10,000 divided by total assets of $100,000 = a debt ratio of 0.10. (Learning Objective A2)

The ordering of accounts in a trial balance is:

A) Alphabetical.

B) From the highest dollar to the lowest dollar value.

C) From the lowest dollar to the highest dollar value.

D) In chart of account order.

E) Random.

Feedback: Accounts are listed on a trial balance in the same order as in the chart of accounts. (Learning Objective P2)

Beginning Retained Earnings totaled $12,000. During the period, stockholders invested $50,000. The ending Retained Earnings balance was $32,000. If dividends of $10,000 were paid during the period, what was the net income (or net loss) of the business?

A) Net income, $20,000

B) Net loss, $2,000

C) Net income, $2,000

D) Net income, $30,000

E) None of the above

Feedback: Beginning retained earnings + net income (or – net loss) of the period – dividends paid during the period = ending retained earnings, or beginning Retained earnings of $12,000 + net income (the unknown) – dividends of $10,000 = ending retained earnings of $32,000; net income = $30,000. The investment by stockholders is credited to the Common Stock account. (Learning Objectives C3, A1, P1, and P3)

Which of the following accounts would not appear on the income statement?

A) Professional fees earned

B) Unearned consulting revenue

C) Dividends

D) Office supplies expense

E) B and C

Feedback: The equation for the income statement is revenues – expenses = net income (or net loss). As such, only revenues and expenses appear on the income statement. Professional fee earned, a revenue account, and office supplies expense, an expense account, would appear on the income statement. When customers pay in advance for products or services (before revenue is earned), this payment is considered as unearned revenue, a liability that is settled in the future when a company delivers its products or services. Liabilities are reported on the balance sheet (Choice B). The dividends account is used to record asset distributions to stockholders. Dividends declared are reported on the statement of retained earnings (Choice C). (Learning Objective P3)

Which of the following statement is true concerning U.S. GAAP and IFRS balance sheets?

A) Both U.S. GAAP and IFRS require that current items present first in the balance sheet.

B) Only U.S. GAAP requires current items present first in the balance sheet.

C) Only IFRS requires current items present first in the balance sheet.

D) Only U.S. GAAP requires that current items present separately from noncurrent items in the balance sheet.

E) All of the above.

Feedback: Both U.S. GAAP and IFRS require balance sheets to separate current items from noncurrent items. However, while U.S. GAAP balance sheets report current items first, IFRS balance sheets normally (but are not required to) present noncurrent items first, and equity before liabilities. (Learning Objective Global View)