*University of Mohamed Khidher – Biskra Branch: Accounting*

*Faculty of economics, Commercial and Management Sciences Level: First (1) year Master*

***Exercises (series N° 02)***

***Exercise N° 01***

1. The financial statement that reports the revenues and expenses for a period of time such as a year or a month is the

 **a)** Balance Sheet **b)** Income Statement  **c)** Statement Of Cash Flows

1. The financial statement that reports the assets, liabilities, and stockholders' (owner's) equity at a specific date is the
2. Balance Sheet **b)** Income Statement **c)** Statement Of Cash Flows
3. Under the accrual basis of accounting, revenues are reported in the accounting period when the
4. Cash Is Received **b)** Service Or Goods Have Been Delivered
5. Under the accrual basis of accounting, expenses are reported in the accounting period when the
6. Cash Is Paid **b)** Expense Matches The Revenues Or Is Used Up
7. Revenues minus expenses equals \_\_\_\_\_\_\_\_\_\_
8. Resources owned by a company (such as cash, accounts receivable, vehicles) are reported on the balance sheet and are referred to as \_\_\_\_\_\_\_\_\_\_
9. Assets are usually reported on the balance sheet at which amount?
10. Cost **b)** Current Market Value **c)** Expected Selling Price
11. Obligations (amounts owed) are reported on the balance sheet and are referred to as  \_\_\_\_\_\_\_\_\_\_
12. Liabilities often have the word  \_\_\_\_\_\_\_\_\_\_  in their account title.
13. Unearned Revenues is what type of account?
14. Asset **b)** Liability **c)** Stockholders' (Owner's) Equity
15. Accounting entries involve a minimum of how many accounts?
16. One **b)** Two **c)** Three
17. The listing of all of the accounts available for use in a company's accounting system is known as the \_\_\_\_\_\_\_\_\_\_
18. Assets minus liabilities equals \_\_\_\_\_\_\_\_\_\_
19. Which term is associated with "left" or "left-side"?
20. Debit **b)** Credit
21. Which term is associated with "right" or "right-side"?
22. Debit **b)** Credit
23. When cash is received, the account Cash will be

 **a)** Debited **b)** Credited

 **17.** When a company pays a bill, the account Cash will be

 **a)** Debited **b)** Credited

 **18.** What will usually cause an asset account to increase?

 **a)** Debit **b)** Credit

 **19**. What will usually cause the liability account Accounts Payable to increase?

 **a)** Debit **b)** Credit

 **20.** Entries to expenses such as Rent Expense are usually

 **a)** Debits **b)** Credits

 **21**. Entries to revenues accounts such as Service Revenues are usually

 **a)** Debits **b)** Credits

***Exercise N° 02***

**Use the following information for questions 1 and 2:**
A company receives $500 of cash as an additional investment in the company by its owner, Mary Smith. The company's [**Cash**](https://www.accountingcoach.com/terms/C/cash) account is increased and [**Mary Smith, Capital**](https://www.accountingcoach.com/terms/M/mary-smith-capital) is increased.

1. Should the $500 entry to the Cash account be a **debit**?
	1. Yes **b)** No
2. Should the $500 entry to Mary Smith, Capital be a **debit**?
	1. Yes **b)** No

**Use the following information for questions 3 through 6:**
A company using the accrual method of accounting performed services on account in August. The services were for $2,000 and the company gave the customer credit terms that state the amount is to be paid to the company in September.

1. Assuming that the company prepares monthly income statements, what will be the account **debited** for $2,000 in **August**?
	1. Cash **b)** Accounts Receivable **c)** Service Revenue
2. Which account should the company **credit** for $2,000 in **August**?
	1. Cash **b)** Accounts Receivable **c)** Service Revenue
3. In **September** when the company receives the $2,000 from the customer, which account should the company **debit**?
	1. Cash **b)** Accounts Receivable **c)** Service Revenue
4. In **September** when the company receives the $2,000 from the customer, which account should the company **credit**?
	1. Cash **b)** Accounts Receivable **c)** Service Revenue
5. To **increase** the balance in the following accounts, would you debit the account or would you credit the account?

Accounts Payable **a)** Debit **b)** Credit

Cash **a)** Debit **b)** Credit

Land **a)** Debit **b)** Credit

Notes Payable **a)** Debit **b)** Credit

Accounts Receivable **a)** Debit **b)** Credit

Mary Smith, Capital **a)** Debit **b)** Credit

Supplies **a)** Debit **b)** Credit

Supplies Expense **a)** Debit **b)** Credit

Prepaid Insurance **a)** Debit **b)** Credit

Service Revenue **a)** Debit **b)** Credit

Mary Smith, Drawing **a)** Debit **b)** Credit

Equipment **a)** Debit **b)** Credit

Unearned Revenue **a)** Debit **b)** Credit

1. To **decrease** the balance in the following accounts, would you debit the account or would you credit the account?

Accounts Payable **a)** Debit **b)** Credit

Cash **a)** Debit **b)** Credit

Land **a)** Debit **b)** Credit

Notes Payable **a)** Debit **b)** Credit

Accounts Receivable **a)** Debit **b)** Credit

Mary Smith, Capital **a)** Debit **b)** Credit

Supplies **a)** Debit **b)** Credit

Supplies Expense **a)** Debit **b)** Credit

Prepaid Insurance **a)** Debit **b)** Credit

Service Revenue **a)** Debit **b)** Credit

Mary Smith, Drawing **a)** Debit **b)** Credit

Equipment **a)** Debit **b)** Credit

Unearned Revenue **a)** Debit **b)** Credit

1. What is the **normal balance** for the following accounts?

Accounts Payable **a)** Debit **b)** Credit

Cash **a)** Debit **b)** Credit

Land **a)** Debit **b)** Credit

Notes Payable **a)** Debit **b)** Credit

Accounts Receivable **a)** Debit **b)** Credit

Mary Smith, Capital **a)** Debit **b)** Credit

Supplies **a)** Debit **b)** Credit

Supplies Expense **a)** Debit **b)** Credit

Prepaid Insurance **a)** Debit **b)** Credit

Service Revenue **a)** Debit **b)** Credit

Mary Smith, Drawing **a)** Debit **b)** Credit

Equipment **a)** Debit **b)** Credit

Unearned Revenue **a)** Debit **b)** Credit

1. Generally when an expense is involved in a transaction, an expense will be
	1. Debit **b)** Credit
2. Generally when revenues are involved in a transaction, a revenue account will be
	1. Debit **b)** Credit
3. The accountant's word to indicate that an entry will be recorded on the left-side of an account is
	1. Debit **b)** Credit
4. A contra-asset account such as Accumulated Depreciation will likely have which balance?
	1. Debit **b)** Credit

1. A contra-liability account such as Discount on Notes Payable will likely have which balance?
	1. Debit **b)** Credit

**Exercise N°03**

1. \_\_\_\_\_\_\_\_\_\_-entry bookkeeping means that every transaction will affect two or more accounts.
2. A \_\_\_\_\_\_\_\_\_\_ amount will appear on the left side of a T-account.
	1. Debit **b)** Credit
3. A listing of the balances in the accounts in order to determine whether debits are equal to credits is a \_\_\_\_\_\_\_\_\_\_balance.
4. The listing of accounts that are available for posting transactions is the \_\_\_\_\_\_\_\_\_\_ of accounts.
5. When a check is written, a cash account should be \_\_\_\_\_\_\_\_\_\_.
	1. Debited **b)** Credited
6. Liability accounts will normally have \_\_\_\_\_\_\_\_\_\_ balances.
	1. Debit **b)** Credit
7. Revenue accounts will normally have \_\_\_\_\_\_\_\_\_\_ balances.
	1. Debit **b)** Credit
8. The bookkeeping or accounting equation is Assets = Liabilities + Owner's

\_\_\_\_\_\_\_\_\_\_

1. The book of original entry is the definition of a \_\_\_\_\_\_\_\_\_\_.
	1. Journal **b)** Ledger
2. When a sale is made on credit, the seller will debit the asset account Accounts

\_\_\_\_\_\_\_\_\_\_

1. Asset, \_\_\_\_\_\_\_\_\_, and stockholders' equity accounts are known as balance sheet accounts.
2. Accrued expenses are likely to pertain to transactions that have \_\_\_\_\_\_\_\_\_\_ been paid.
	1. Already **b)** Not Yet
3. Deferred revenues likely involve cash amounts that have \_\_\_\_\_\_\_\_\_\_ been received.
	1. Already **b)** Not Yet
4. Cash and Accounts Receivable are two examples of accounts that are reported on the classified balance sheet under the heading \_\_\_\_\_\_\_\_\_\_ assets.
5. A supplier of goods or services is known as a \_\_\_\_\_\_\_\_\_\_.
	1. Debtor **b)** Vendor

**Exercise N° 04**

1. The basic accounting equation is Assets = Liabilities + \_\_\_\_\_\_\_\_\_\_
2. For each of the transactions in items 3 through 14, indicate the two (or more) effects on the accounting equation of the business or company.
3. The owner invests personal cash in the business.

Assets **a)** Increase **b)** Decrease **c)** No Effect

Liabilities **a)** Increase **b)** Decrease **c)** No Effect

Owner's (or Stockholders') Equity **a)** Increase **b)** Decrease **c)** No Effect

1. The owner withdraws cash from the business for personal use.

Assets **a)** Increase **b)** Decrease **c)** No Effect

Liabilities **a)** Increase **b)** Decrease **c)** No Effect

Owner's (or Stockholders') Equity **a)** Increase **b)** Decrease **c)** No Effect

1. The company receives cash from a bank loan.

Assets **a)** Increase **b)** Decrease **c)** No Effect

Liabilities **a)** Increase **b)** Decrease **c)** No Effect

Owner's (or Stockholders') Equity **a)** Increase **b)** Decrease **c)** No Effect

1. The company repays the bank that had lent money to the company.

Assets **a)** Increase **b)** Decrease **c)** No Effect

Liabilities **a)** Increase **b)** Decrease **c)** No Effect

Owner's (or Stockholders') Equity **a)** Increase **b)** Decrease **c)** No Effect

1. The company purchases equipment with its cash.

Assets **a)** Increase **b)** Decrease **c)** No Effect

Liabilities **a)** Increase **b)** Decrease **c)** No Effect

Owner's (or Stockholders') Equity **a)** Increase **b)** Decrease **c)** No Effect

1. The owner contributes his/her personal truck to the business.

Assets **a)** Increase **b)** Decrease **c)** No Effect

Liabilities **a)** Increase **b)** Decrease **c)** No Effect

Owner's (or Stockholders') Equity **a)** Increase **b)** Decrease **c)** No Effect

1. The company purchases a significant amount of supplies on credit.

Assets **a)** Increase **b)** Decrease **c)** No Effect

Liabilities **a)** Increase **b)** Decrease **c)** No Effect

Owner's (or Stockholders') Equity **a)** Increase **b)** Decrease **c)** No Effect

1. The company purchases land by paying half in cash and signing a note payable for the other half.

Assets **a)** Increase **b)** Decrease **c)** No Effect

Liabilities **a)** Increase **b)** Decrease **c)** No Effect

Owner's (or Stockholders') Equity **a)** Increase **b)** Decrease **c)** No Effect **Information for Items 11 through 13**
Company X provides consulting services to Client Q in May. Company X bills Client Q in May for the agreed upon amount of $5,000. The sales invoice shows that the amount will be due in June.

1. In May, Company X records the transaction by a debit to *Accounts Receivable* for $5,000 and a credit to *Service Revenues* for $5,000. What is the effect of this entry upon the accounting equation for **Company X**?

Assets **a)** Increase **b)** Decrease **c)** No Effect

Liabilities **a)** Increase **b)** Decrease **c)** No Effect

Owner's (or Stockholders') Equity **a)** Increase **b)** Decrease **c)** No Effect

1. In June, Company X receives the $5,000. What is the effect on the accounting equation **and** which *accounts* are affected at **Company X**?

Assets **a)** Increase **b)** Decrease **c)** No Effect

Liabilities **a)** Increase **b)** Decrease **c)** No Effect

Owner's (or Stockholders') Equity **a)** Increase **b)** Decrease **c)** No Effect

1. What is the effect on **Client Q's** accounting equation in May when Client Q records the transaction as a debit to *Consultant Expense* for $5,000 and a credit to *Accounts Payable* for $5,000?

Assets **a)** Increase **b)** Decrease **c)** No Effect

Liabilities **a)** Increase **b)** Decrease **c)** No Effect

Owner's (or Stockholders') Equity **a)** Increase **b)** Decrease **c)** No Effect

1. 13.What is the effect on **Client Q's** accounting equation in June when Client Q remits the $5,000? Also, which *accounts* will be involved?

Assets **a)** Increase **b)** Decrease **c)** No Effect

Liabilities **a)** Increase **b)** Decrease **c)** No Effect

Owner's (or Stockholders') Equity **a)** Increase **b)** Decrease **c)** No Effect

1. Which of the following will cause owner's equity to increase?
	1. Expenses **b)** Owner Draws **c)** Revenue
2. Which of the following will cause owner's equity to decrease?
	1. Net Income **b)** Net Loss **c)** Revenue
3. The accounting equation should remain in balance because every transaction affects how many accounts?
	1. Only One **b)** Only Two **c)** Two Or More
4. A corporation's net income is eventually recorded in the following stockholders' equity account: \_\_\_\_\_\_\_\_\_\_

**Exercise N° 05**

1. The balance sheet heading will specify a
	1. Period Of Time **b)** Point In Time
2. Which of the following is a category or element of the balance sheet?

Expenses

* 1. Gains **b)** Liabilities **c)** Losses
1. Which of the following is an asset account?
	1. Accounts Payable **b)** Prepaid Insurance **c)** Unearned Revenue
2. What is the normal balance for an asset account?
	1. Debit **b)** Credit
3. What is the normal balance for liability accounts?
	1. Debit **b)** Credit
4. What is the normal balance for stockholders' equity and owner's equity accounts?
	1. Debit **b)** Credit
5. What is the normal balance for contra asset accounts?
	1. Debit **b)** Credit
6. Client Jay pays ABC Co. $1,000 in December for ABC to perform services for Jay in 45 days. ABC uses the accrual basis of accounting. In December ABC will debit Cash for $1,000. What will be the other account involved in the December accounting entry prepared by ABC (and what type of account is it)?

Accounts Receivable (asset)

* 1. Prepaid Services (asset) **b)** Service Revenues (revenue) **c)**Unearned Revenues (liability)
1. ABC Co. performed services for Client Kay in December and billed Kay $4,000 with terms of net 30 days. ABC follows the accrual basis of accounting. In January ABC received the $4,000 from Kay. In January ABC will debit Cash, since cash was received. What account should ABC credit in the January entry?
	1. Accounts Receivable **b)** Service Revenue **c)** Owner's Equity
2. ABC Co. follows the accrual basis of accounting and performs a service on account (on credit) in December. The service was billed at the agreed upon amount of $3,500. ABC Co. debited Accounts Receivable for $3,500 and credited Service Revenue for $3,500. The effect of this entry on the balance sheet of ABC is to increase assets by $3,500 and to
	1. Decrease Assets By $3,500 **b)** Increase Owner's (Stockholders') Equity By $3,500
3. Which of the following would **not** be a current asset?
	1. Accounts Receivable **b)** Land **c)** Prepaid Insurance **d)** Supplies
4. Which of the following would normally be a current liability?
	1. Note Payable Due In Two Years **b)**Unearned Revenue
5. When an owner draws $5,000 from a sole proprietorship or when a corporation declares and pays a $5,000 dividend, the asset Cash decreases by $5,000. What is the other effect on the balance sheet?
	1. Owner's/Stockholders' Equity Decreases **b)** None
6. ABC Co. incurs cleanup expense of $500 on December 30. The supplier's invoice states that the $500 is due by January 10 and ABC will pay the invoice on January 9. ABC follows the accrual basis of accounting and its accounting year ends on December 31. What is the effect of the cleanup service on the December balance sheet of ABC?
	1. Assets Decreased **b)** Liabilities Increased **c)** No Effect On Owner's Equity
7. Deferred credits will appear on the balance sheet with the
	1. Assets **b)** Liabilities **c)** Owner's/Stockholders' Equity
8. Notes Payable could **not** appear as a line on the balance sheet in which classification?
	1. Current Assets **b)** Current Liabilities **c)** Long-term Liabilities
9. On December 1, ABC Co. hired Juanita Perez to begin working on January 2 at a monthly salary of $4,000. ABC's balance sheet of December 31 will show a liability of
	1. $4,000 **b)** $48,000 **c)** No Liability
10. ABC Co. has current assets of $50,000 and total assets of $150,000. ABC has current liabilities of $30,000 and total liabilities of $80,000. What is the amount of ABC's owner's equity?
	1. $20,000 **b)** $30,000 **c)** $70,000 **d)** $120,000
11. The amount reported on the balance sheet for Property, Plant and Equipment is the company's estimate of the fair market value as of the balance sheet date.
	1. True **b)** False
12. The total amount reported for stockholders' equity is the approximate fair value or net worth of the corporation as of the balance sheet date.
	1. True **b)** False
13. The book value of a corporation is the total amount of stockholders' equity reported on the balance sheet.
	1. True **b)** False

**Exercise N° 06**

1. Which of the following names is NOT associated with the income statement?

P & L

* 1. Statement Of Financial Position b) Statement Of Operations
1. The income statement heading will specify which of the following?
	1. A POINT In Time b) A PERIOD Of Time
2. Amounts earned by a company in its main operating activities are
	1. Revenues b) Gains
3. A company disposes of equipment that it no longer uses in its business. The amount received by the company is more than the amount the asset is carried at in the accounting records. The company will report a(n)
	1. Expense b) Gain c) Loss d) Revenue
4. On December 1 a company borrowed $100,000 at 12% per year. The interest will be paid quarterly, with the first payment due on March 1. What should the company report on its income statement for December?
	1. Nothing b) Interest Expense Of $1,000
5. Is a retailer's Interest Expense an operating expense or a non-operating expense?
	1. Operating Expense b) Non-operating Expense
6. The income statement line **gross profit** will appear on which income statement format?
	1. Single-step b) Multiple-step
7. The income statement format that segregates the operating revenues and expenses from the non-operating revenues and expenses is the
	1. Single-step b) Multiple-step
8. Interest earned on investments would appear in which section of a retailer's multiple-step income statement?
	1. Non-operating b) Operating c) Would Not Appear
9. Net Sales minus the Cost of Goods Sold equals
	1. Gross Profit b) Income From Operations c) Net Income
10. The combination of Selling Expenses and Administrative Expenses is referred to as
	1. General Expenses b) Operating Expenses c) Total Expenses
11. Gross Profit minus Operating Expenses is best defined as
	1. Net Income b) Net Sales c) Operating Income
12. What is defined as sales minus all variable expenses?
	1. Contribution Margin b) Gross Profit c) Net Income
13. A corporation's net income will cause an increase to which of the following?
	1. Accumulated Other Comprehensive Income b) Common Stock
14. Retained Earnings