

**Financial Accounting for Undergraduates**  
**3<sup>rd</sup> Edition by Wallace, Nelson, Christensen, and Ferris**

**Practice Quiz Solutions**

**Chapter 2. Processing Accounting Information**

1. In the accounting cycle, preparing financial statements comes before which of the following steps?
- a. Analyzing transactions
  - b. Recording transactions
  - c. Preparing an unadjusted trial balance
  - d. Prepare a post-closing trial balance

Answer: *d*

2. The Schultz Corporation purchased equipment costing \$5,000 by taking out a bank loan. What would be the effect on the accounting equation?

<b>Assets</b>	<b>Liabilities</b>	<b>Shareholders' Equity</b>
a. Increase \$5,000	Decrease \$5,000	No Effect
b. Increase \$5,000	Increase \$5,000	No Effect
c. Decrease \$5,000	Decrease \$5,000	No Effect
d. Decrease \$5,000	Increase \$5,000	No Effect

Answer: *b*

3. The Inventory account has a normal balance of \_\_\_\_\_ and is increased via a \_\_\_\_\_ .
- e. Debit; Debit
  - f. Credit; Debit
  - g. Debit; Credit
  - h. Credit; Credit

Answer: *a*

4. A journal entry that contains more than just two accounts is called:
- An adjusting journal entry
  - A closing journal entry
  - A compound journal entry
  - A complex journal entry

Answer: c

5. Which of the following statements is *true* regarding the general ledger?
- All transactions are initially recorded in the general ledger.
  - The general ledger is produced based on the balances in the balance sheet.
  - The general ledger is produced based on the balances in the trial balance.
  - The general ledger is a collection of all of the accounts in the accounting system.

Answer: d

6. On December 1, the owners of Smith & Sons invested \$10,000 cash in the business in exchange for shares of common stock. What is the correct journal entry?

	<b>Account Name</b>	<b>Debit</b>	<b>Credit</b>
a.	Common stock	10,000	
	Cash		10,000
b.	Cash	10,000	
	Due to owners		10,000
c.	Cash	10,000	
	Common stock		10,000
d.	Due to owners	10,000	
	Cash		10,000

Answer: c

7. Which of the following transactions does not affect the balance sheet totals?
- a. Ordered equipment that will be paid for upon delivery in two months
  - b. Purchased \$1,000 of supplies on account
  - c. Paid \$5,000 cash on an outstanding account payable
  - d. Borrowed \$10,000 cash from the bank

Answer: a

8. Smith & Sons borrowed \$1,000 from Bank of America. This journal entry would involve a credit entry to which of the following accounts:
- a. Cash
  - b. Accounts receivable
  - c. Notes payable
  - d. Current liabilities

Answer: c

9. Smith & Sons purchased supplies on account. This transaction will affect:
- a. Only the balance sheet
  - b. Only the income statement
  - c. Both the balance sheet and the income statement
  - d. Only the statement of stockholders' equity

Answer: a