

5.7: End of chapter exercises

Questions

1. What is an account?
2. What is a chart of accounts?
3. What differences might you expect between the chart of accounts of a small service company and a large manufacturing company?
4. How is a typical chart of accounts grouped to make the accounting process easier?
5. Where should new accounts be added to the chart of accounts?
6. What is the expanded accounting equation?
7. An investment of cash by stockholders in a corporation would result in changes to what two accounts?
8. Retained earnings can be broken down into what three elements?
9. What are the two elements where increases in those elements reduce stockholders' equity?
10. What is a difference between borrowing from a bank and getting cash from stockholders in return for stock?
11. Which changes in assets also result in a change in stockholders equity?
12. What is an example of a liability that grows or accrues over time?
13. When borrowing money from a bank, what is the impact on the accounting equation?
14. When assets are used up over time, the asset is decreased and what is increased?
15. What are the five steps in the revenue recognition model?
16. In what order are the financial statements prepared?
17. Where do the items listed on the cash flow statement come from on the accounting equation worksheet?

True/False

1. ____ The number of accounts on the chart of accounts is strictly limited.
2. ____ Every account on the chart of accounts must be identified by one of the accounting elements
3. ____ An account on the chart of accounts could be both a liability and a revenue.
4. ____ The term prepaid is usually associated with an asset account.
5. ____ Unearned revenue would usually be listed in the asset section of a chart of accounts.
6. ____ The FASB dictates to companies what their chart of accounts must look like.
7. ____ The accounting equation stays in balance except when dealing with dividends.
8. ____ Gains and losses are listed under retained earnings because they change the amount of retained earnings.
9. ____ Paying cash for prepaid insurance will not change retained earnings.
10. ____ Using electricity in June and receiving a bill from the electric company in June will result in an increase in assets during June.
11. ____ Selling inventory for a price more than what was paid will increase retained earnings.
12. ____ Amounts to be reported on the financial statement come from the accounting equation worksheet.
13. ____ Accounts receivable at the end of 2023 would become the beginning balance for accounts receivable in 2024.
14. ____ Cost of Goods Sold for the year 2023 would become the beginning balance for Cost of Goods Sold in 2024.
15. ____ Every total from the accounting equation worksheet will have a place to go on the financial statements.
16. ____ When unearned revenue is earned, liabilities are decreased.
17. ____ For revenue recognition the transaction price is adjusted for discounts and rebates that are most likely to take place.
18. ____ Allocating the transaction price to the performance obligations is not necessary if there is only one performance obligation.

Multiple Choice

Which of the following would most likely be found in the expenses section of a chart of accounts?

- A. Accounts receivable
- B. Salaries payable
- C. Utilities
- D. Capital stock

When looking at the names of accounts and determining where they belong, the term deferred is usually used to show:

- A. Something that is to be received or earned later.
- B. An amount owed for services received now.
- C. The same as the term accrued.
- D. Only amounts associated with stockholders' equity.

Cash invested by stockholders in the company in return for stock will have the following effect:

- A. Increase expenses
- B. Decrease current liabilities
- C. Increase revenue
- D. Increase current assets

Which of the following is NOT a way that assets change on the accounting equation?

- A. One asset is exchanged for another asset.
- B. An asset is earned by providing goods or services to customers.
- C. An asset is purchased by using a liability.
- D. All of the above are examples of how assets can change.

Using cash to pay off a loan that is due in 10 years will have the following effect on the accounting equation:

- A. A decrease in long term liabilities
- B. An increase in current assets
- C. A decrease in revenues
- D. An increase in long term assets

Interest Earned would most likely be reported on which of the financial statements?

- A. Balance sheet
- B. Income statement
- C. Statement of stockholders equity
- D. Statement of contingencies

Marvin Inc. sells products to customers for \$250 that originally cost \$150. The total impact on the expanded accounting equation of this transactions is:

- A. Increase in current liabilities for \$100.
- B. Increase in current assets for \$100.
- C. Increase in retained earnings for \$250.
- D. Decrease in retained earnings for \$150.

From the dividends column of the expanded accounting equation worksheet, the total would go on which of the financial statements?

- A. Statement of stockholders equity.
- B. Income statement
- C. Balance sheet
- D. Statement of amounts received by owners

If amounts of cash are received from a customer and under the revenue recognition model, they are determined to have not been earned yet, the company receiving the cash would properly:

- A. Increase assets
- B. Increase liabilities
- C. Increase revenue
- D. Increase expenses

Problems

1. Indicate in which section (Asset, Liability, Equity, Revenue, Expenses, Gains/Losses) the following accounts would most likely be found in:
 - Interest payable
 - Interest receivable
 - Interest earned
 - Interest expense
 - Inventory
 - Cost of Goods Sold
 - Sales
 - Deferred revenue
 - Land
 - Security deposits paid
 - Investment in the stock of another company
2. Prepare an expanded accounting equation worksheet for the Zeon Company to show the effect of the following transactions on the given dates – our accounting period is January:
 - January 2 Investment of \$75,000 in cash into the business by stockholders.
 - January 4 Paid \$10,000 in cash toward a building whose total cost is \$90,000 with the rest being borrowed from the bank to be paid back in 5 years.
 - January 10 Bought inventory on credit for \$4,600
 - January 14 Paid cash wages to employees who worked in January for the business for \$850.
 - January 21 Sold merchandise for \$3,200 in cash. This merchandise (inventory) originally cost \$1,540.
 - January 30 Received a bill from the utilities company for \$290 for utilities used during January that will be due in February.
 - January 31 Paid cash dividends of \$50 to stockholders.
3. Prepare the income statement, statement of stockholders equity, balance sheet and cash flow statement for the month of January for Zeon.
4. Prepare an expanded accounting equation worksheet for the Zeon Company for February given what was done in January and the following transactions:
 - February 5 Paid \$450 in cash to the bank on the loan borrowed in January and paid \$300 in interest on that loan (total paid 750).
 - February 11 Paid the bill from the utilities company from January
 - February 12 Paid the accounts payable associated with the inventory purchased in January.
 - February 18 Sold merchandise to a customer for \$2,300 in cash. This merchandise originally cost \$1,090.
 - February 27 Received a bill from the utilities company for \$235 for utilities used during February that will be due in March.
 - February 28 Paid cash dividends of \$55 to stockholders.
5. Prepare the income statement, statement of stockholders equity, balance sheet and cash flow statement for the month of February for Zeon.

Research/Discussion

1. Find the financial statements for Harley Davidson at <https://d18rn0p25nwr6d.cloudfront.net/CIK-0000793952/3d1dcda6-97b8-48e6-bb1e-db78509fdb91.pdf> on page 57. If you were creating an accounting equation worksheet for Harley for 2023, list

which accounts you would need in your worksheet and indicate the beginning balance if any that you would use to begin the worksheet for 2023.

2. Describe what trends you see in the financial information reported by Harley over the past three years specifically on the income statement.
3. For 2022 how much did the motorcycles and related products sold to dealerships cost for Harley to buy and make? What is Harley Davidson's other source of revenue?
4. Finding the revenue recognition footnote for Harley Davidson starting on page 65, next to motorcycles what is Harley's next largest revenue source? In reading the footnote about Harley's application of the revenue recognition model, what two adjustments does Harley make to the transaction price (amount expected to be received) when applying the model (second and third paragraph)? What liability account do they use to show amounts they expect to pay back to customers?

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