

CHAPTER 4

REVIEW EXERCISES (page 123)
Using Your Knowledge**Exercise 1, p. 123**

Indicate whether each of the following statements is true or false by entering a T or an F in the space provided. Explain the reason for each F response in the space provided.

- | | |
|--|------------------|
| A. An account may not keep track of more than two balance sheet items at any one time because it has only two sides. | <u> F </u> |
| B. Many accountants use the equation analysis sheet instead of the ledger. | <u> F </u> |
| C. There is an account in the ledger for the total assets figure. | <u> F </u> |
| D. T-accounts are ideal for small businesses. | <u> F </u> |
| E. The first dollar amount recorded in an account is placed on the same side as that account would appear in the fundamental accounting equation. | <u> T </u> |
| F. There is no account for capital because it can always be found by subtracting the total assets from the total liabilities. | <u> F </u> |
| G. A transaction analysis sheet serves as an accounting source document. | <u> F </u> |
| H. For every transaction, there is always one debit amount and one credit amount, which are equal. | <u> F </u> |
| I. A balanced accounting entry is a correct accounting entry. | <u> F </u> |
| J. The balance of an account that is not zero must be either a debit or a credit. | <u> T </u> |
| K. The J.R. Dahl account in the ledger of ABC Company is either an account payable or an account receivable. | <u> T </u> |
| L. Eric Lai is our customer whose account has a credit balance. The credit balance means that he purchased our services on credit. | <u> F </u> |
| M. An exceptional balance is opposite to what would be normal. | <u> T </u> |
| N. A credit customer is given a cash refund because of unsatisfactory service. The account of this customer will now have an exceptional balance. | <u> F </u> |
| O. A ledger contains an exceptional balance. A trial balance cannot be taken until the exceptional item is transferred to another part of the ledger. | <u> F </u> |
| P. A trial balance that is in balance proves that there are no errors in the accounts. | <u> F </u> |
| Q. A trial balance is taken using an electronic calculator. When the Total key is pressed, the figure 89.00 comes up. Therefore, the accountant must discover one error in the amount of \$89. | <u> F </u> |
| R. The business buys supplies and pays cash. The accounting entry made in the accounts is debit Bank and credit Supplies. This causes the ledger to be out of balance. | <u> F </u> |

CHAPTER 4 REVIEW EXERCISES (continued)**Exercise 1, p. 123** (continued)**Explanations for F Responses**

- A. *An account keeps track of only one balance sheet item because it represents the debits and credits for that one item.*
- B. *Students use equation analysis sheets as a tool for understanding accounting theory. Accountants use the ledger to organize the accounts.*
- C. *A total assets figure is not found in the ledger because it is not an individual account. It is found on the balance sheet as a total of all the asset accounts.*
- D. *T-accounts are used to teach accounting theory. They are not used by small businesses.*
- F. *There is a capital account in the ledger.*
- G. *The transaction analysis sheet is not a source document. It is a tool used to teach transaction analysis.*
- H. *For every transaction, the debit side must equal the credit side but there could be more than one debit or credit amount.*
- I. *A balanced accounting entry is not always correct. Debit and credit amounts may equal each other, but they could represent the wrong amounts, or they could be placed in the wrong accounts.*
- L. *If Eric Lai is a customer, the credit balance in his account means that he likely overpaid the amount that he owed us.*
- N. *Since a refund is cash, it would not affect the customer's account.*
- O. *The exceptional balance means the balance is opposite to what is normal not that the account is out of balance or incorrect. A trial balance can be taken without any adjustment to the exceptional balance.*
- P. *A balanced trial balance does not prove there are no errors. For example, if a value were in the wrong account, the ledger would balance but it would be inaccurate.*
- Q. *The \$89 may not be the amount of the error. It only proves that there are one or more errors in the ledger and that the total difference is \$89.*
- R. *The ledger is in balance because the debit and credit match; it is inaccurate because the amounts are entered backwards.*

Exercise 2, p. 124

- A. *The Bank account was overstated. The debit side of the Bank account has \$500 too much; the credit side has \$500 too little. The net effect is a \$1000 overstatement.*
- B. *The total of the debit column of the trial balance was overstated by \$1000, the same amount that Bank was overstated.*
- C. *The total of the credit column of the trial balance was correctly stated. The errors occurred on the debit column, as only asset accounts were affected.*

CHAPTER 4 REVIEW EXERCISES (continued)

Exercise 3, p. 124

Answers will vary. The debit balance could still exist on the records because the cheque was not recorded. Or there may have been two bills for the same amount and M. Finney received payment on only the first one. Or the \$375 may have been entered in the wrong account.

Exercise 4, p. 124

- A. *A credit without a debit (or debits) of equal value will always cause the trial balance to be out of balance. The trial balance would be out by \$1500, the value of the missing debit.*
- B. *The debit and credit amounts are equal so the trial balance would balance.*
- C. *The debit and credit amounts are not equal so the trial balance would be out of balance. The trial balance would be out \$90, the difference between the debit and the credit (\$100 – \$10).*
- D. *The debit and credit amounts are equal so the trial balance would balance.*

Comprehensive Exercises

Exercise 5, p. 125

A. to C.

<p>Bank</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black; padding: 5px;"> <table style="width: 100%; border-collapse: collapse;"> <tr><td style="text-align: right;">2 216</td><td style="text-align: left;">500 (2)</td></tr> <tr><td style="text-align: right;">(1) 200</td><td style="text-align: left;">1 000 (5)</td></tr> <tr><td style="text-align: right;">(3) 402</td><td style="text-align: left;">50 (6)</td></tr> <tr><td style="text-align: right;">(4) 100</td><td style="text-align: left;">875 (7)</td></tr> <tr><td style="border-top: 1px solid black; text-align: right;">2 918</td><td style="border-top: 1px solid black; text-align: left;">2 425</td></tr> <tr><td style="text-align: right;">(493)</td><td></td></tr> </table> </td> <td style="width: 50%; padding: 5px;"> <table style="width: 100%; border-collapse: collapse;"> <tr><td style="text-align: center; padding: 5px;">357</td></tr> </table> </td> </tr> </table>	<table style="width: 100%; border-collapse: collapse;"> <tr><td style="text-align: right;">2 216</td><td style="text-align: left;">500 (2)</td></tr> <tr><td style="text-align: right;">(1) 200</td><td style="text-align: left;">1 000 (5)</td></tr> <tr><td style="text-align: right;">(3) 402</td><td style="text-align: left;">50 (6)</td></tr> <tr><td style="text-align: right;">(4) 100</td><td style="text-align: left;">875 (7)</td></tr> <tr><td style="border-top: 1px solid black; text-align: right;">2 918</td><td style="border-top: 1px solid black; text-align: left;">2 425</td></tr> <tr><td style="text-align: right;">(493)</td><td></td></tr> </table>	2 216	500 (2)	(1) 200	1 000 (5)	(3) 402	50 (6)	(4) 100	875 (7)	2 918	2 425	(493)		<table style="width: 100%; border-collapse: collapse;"> <tr><td style="text-align: center; padding: 5px;">357</td></tr> </table>	357	<p>A/R—G. Anderson</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td style="text-align: center; padding: 5px;">357</td></tr> </table>	357	<p>A/R—G. Brand</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td style="text-align: center; padding: 5px;">(4) 150</td></tr> </table>	(4) 150
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