

## CHAPTER 3

## Concept Assessment

## Business Transactions and the Accounting Equation

Total Points	39
Student's Score	

**PART A** Accounting Vocabulary (15 points)

**Directions:** Using terms from the following list, complete the sentences below.  
Write the letter of the term you have chosen in the space provided.

- |                         |                |                   |
|-------------------------|----------------|-------------------|
| A. account              | G. capital     | M. owner's equity |
| B. accounting equation  | H. creditor    | N. property       |
| C. accounts payable     | I. equities    | O. revenue        |
| D. accounts receivable  | J. expenses    | P. withdrawal     |
| E. asset                | K. liabilities |                   |
| F. business transaction | L. on account  |                   |

- B**     0. The \_\_\_\_\_ is  $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$ .
1. A(n) \_\_\_\_\_ is an economic event that causes a change in assets, liabilities, or owner's equity.
2. The owner's claims to the total assets of the business are called \_\_\_\_\_.
3. A(n) \_\_\_\_\_ is any property or item of value owned by a business.
4. \_\_\_\_\_ are the creditor's claims to the assets of the business.
5. \_\_\_\_\_ is anything of value that is owned or controlled.
6. The increases or decreases in a specific item caused by business transactions are recorded in a(n) \_\_\_\_\_.
7. Buying \_\_\_\_\_ is the same as buying on credit.
8. \_\_\_\_\_ is income earned from the sale of goods and services.
9. The costs of goods and services used to operate a business are \_\_\_\_\_.
10. \_\_\_\_\_ is the total amount of money to be received in the future for goods and services sold on credit.
11. A person or business that sells property on credit, or any person or business to which money is owed, is called a(n) \_\_\_\_\_.
12. The total financial claims to the assets of a business are known as \_\_\_\_\_.
13. The amount of money owed to the creditors of a business is \_\_\_\_\_.
14. \_\_\_\_\_ refers to the dollar amount of the owner's equity in the business.
15. When the owner takes cash or other assets from the business for personal use, a \_\_\_\_\_ occurs.

**PART B** Property and Financial Claims (4 points)

**Directions:** Read each of the following statements to determine whether the statement is true or false.

Answer

- |   |                                    |  |
|---|------------------------------------|--|
| T | <input checked="" type="radio"/> F | 0. When you buy property on account, you acquire all of its property rights.   |
| T | F                                  | 1. One of the purposes of accounting is to provide financial information about property and the rights of a business to that property.   |
| T | F                                  | 2. A person who has control over but does not own an item of property has a legal right to that item.                                    |
| T | F                                  | 3. Both businesses and individuals may own and control property.   |
| T | F                                  | 4. The creditor's financial claim minus the owner's financial claim to an item of property always equals the total cost of the property. |

Concept Assessment cont.

## PART C Analyzing Business Transactions (10 points)

**Directions:** Listed below are the account names that are used by In-a-Minute Messenger Service for recording and reporting the financial information from business transactions.

- |                        |                       |                           |
|------------------------|-----------------------|---------------------------|
| 1. Cash in Bank        | 4. Delivery Equipment | 7. B. McCann, Capital     |
| 2. Accounts Receivable | 5. Office Equipment   | 8. B. McCann, Withdrawals |
| 3. Office Supplies     | 6. Accounts Payable   |                           |

Analyze each of the following transactions to determine the accounts affected. Then enter the numbers of the accounts affected by each transaction in the space at the left. Remember that at least two accounts will be affected by each transaction. The first transaction has been completed as an example.

Accounts  
Affected

- |               |  |
|---------------|--|
| <u>1,7</u>    | 0. The owner invested cash in the business.                            |
| <u>      </u> | 1. Paid for the monthly rent by check.                                 |
| <u>      </u> | 2. The owner transferred a new bicycle to the business for deliveries. |
| <u>      </u> | 3. Received cash for delivering messages.                              |
| <u>      </u> | 4. Purchased office equipment on account.                              |
| <u>      </u> | 5. Delivered messages for a client on account.                         |
| <u>      </u> | 6. Sold to a friend a bicycle helmet owned by the business on account. |
| <u>      </u> | 7. Issued a check to a creditor in partial payment of amount owed.     |
| <u>      </u> | 8. Purchased office supplies on account.                               |
| <u>      </u> | 9. Withdrew cash for personal use.                                     |
| <u>      </u> | 10. Wrote a check for the monthly telephone bill.                      |

## PART D Effects of Business Transactions on the Accounting Equation (10 points)

**Directions:** The business transactions completed by Carolyn Corley, Attorney at Law, appear below. Each business transaction will cause an increase (+), decrease (-), or no change (0) in the classification of accounts in the accounting equation. Analyze each transaction to determine how it affects the accounting equation (increase, decrease, no change). Then, in the space at the left, use +, -, or 0 to indicate the effect of each transaction on each part of the accounting equation.

Assets = Liabilities + Owner's Equity

- | +             | 0             | +             |   |
|---------------|---------------|---------------|---|
| <u>      </u> | <u>      </u> | <u>      </u> | 0. The owner transferred a typewriter to the business.        |
| <u>      </u> | <u>      </u> | <u>      </u> | 1. Bought office furniture on account.                        |
| <u>      </u> | <u>      </u> | <u>      </u> | 2. The owner invested cash in the business.                   |
| <u>      </u> | <u>      </u> | <u>      </u> | 3. Paid the monthly utility bill by check.                    |
| <u>      </u> | <u>      </u> | <u>      </u> | 4. Purchased office supplies for cash.                        |
| <u>      </u> | <u>      </u> | <u>      </u> | 5. Prepared a lease for a client on account.                  |
| <u>      </u> | <u>      </u> | <u>      </u> | 6. Withdrew cash from the business for personal use.          |
| <u>      </u> | <u>      </u> | <u>      </u> | 7. Bought a computer for cash.                                |
| <u>      </u> | <u>      </u> | <u>      </u> | 8. Received cash for completing legal services.               |
| <u>      </u> | <u>      </u> | <u>      </u> | 9. Wrote a check to a creditor for an amount owed on account. |
| <u>      </u> | <u>      </u> | <u>      </u> | 10. Wrote a check for the monthly rent.                       |

## CHAPTER 3 Quick Quiz

### Business Transactions and the Accounting Equation

#### PART A True or False

**Directions:** Read each of the following statements to determine whether the statement is true or false.

Answer

- |   |   |   |
|---|---|---|
| T | F | 1. The accounting equation should remain in balance after each transaction.                                   |
| T | F | 2. A business transaction affects at least two accounts.  |
| T | F | 3. "Assets + Liabilities = Owner's Equity" is another way to express the accounting equation.                 |
| T | F | 4. The increases and decreases caused by business transactions are recorded in specific accounts.             |
| T | F | 5. The free enterprise system is based on the right to own property.  |
| T | F | 6. The owner's personal financial transactions are part of the business's records.                            |
| T | F | 7. The total financial claims to the assets of a business are referred to as equities.                        |
| T | F | 8. The owner's claims to the assets of a business are liabilities.  |
| T | F | 9. When a business transaction occurs, the financial position of the business always changes.                 |
| T | F | 10. A creditor has a financial claim to the assets of a business.   |
| T | F | 11. An account is a record of only the increases in the balance of a specific item such as cash or equipment. |
| T | F | 12. The total financial claims do not have to equal the total cost of the property.                           |

Quick Quiz cont.

## PART B Multiple Choice

**Directions:** Only one of the choices given with each of the following statements is correct. Write the letter of the correct answer in the Answer column.

Answer

- |       |  |
|-------|--|
| _____ | 1. If the creditor's financial claim to property totals \$1,000 and the owner's financial claim to property totals \$11,000, the property value is<br>(A) \$10,000. (C) \$12,000.<br>(B) \$11,000. (D) \$1,000.  |
| _____ | 2. The account Accounts Receivable is an example of a(n)<br>(A) asset. (C) owner's equity.<br>(B) liability. (D) none of the above.  |
| _____ | 3. All of the following account names are asset names, except<br>(A) Office Furniture. (C) Cash in Bank.<br>(B) Accounts Payable. (D) Equipment.   |
| _____ | 4. If a business has assets of \$5,600 and liabilities of \$900, the owner's equity is<br>(A) \$6,500. (C) \$4,700.<br>(B) \$900. (D) \$5,600.   |
| _____ | 5. A business transaction that involves a purchase on account is considered to be a(n)<br>(A) cash transaction.<br>(B) credit transaction.<br>(C) investment by the owner.<br>(D) expense transaction.   |
| _____ | 6. If a business purchases a calculator on account, the accounts affected by this transaction are<br>(A) Cash in Bank and Accounts Payable.<br>(B) Office Equipment and Accounts Receivable.<br>(C) Office Equipment and Cash in Bank.<br>(D) Office Equipment and Accounts Payable. |
| _____ | 7. Each of the following is a business expense, except payment for<br>(A) advertising. (C) utility bills.<br>(B) monthly rent. (D) equipment.  |
| _____ | 8. The purchase of a desk on account will increase Office Furniture and will also increase<br>(A) Cash in Bank. (C) Accounts Receivable.<br>(B) Accounts Payable. (D) Jon McIvey, Capital.   |

**CHAPTER 3** Chapter Quiz**Business Transactions and the Accounting Equation****Completion**

**Directions:** Fill in the blank with the term that best completes each sentence.

1. \_\_\_\_\_ is anything of value that a business owns or controls.
2. Property rights are \_\_\_\_\_ claims to property.
3. \_\_\_\_\_ represents the financial claim to business assets.
4. An economic event for a business is a \_\_\_\_\_.
5. Accounts \_\_\_\_\_ represent amounts owed to a business.
6. Accounts \_\_\_\_\_ represent amounts owed by a business.
7. When a business uses credit to buy items, it is buying \_\_\_\_\_.
8. A business that earns money from selling goods or services earns \_\_\_\_\_.
9. The price a business pays for goods or services is an \_\_\_\_\_.
10. Money taken from the business by the owner for personal use is a \_\_\_\_\_.