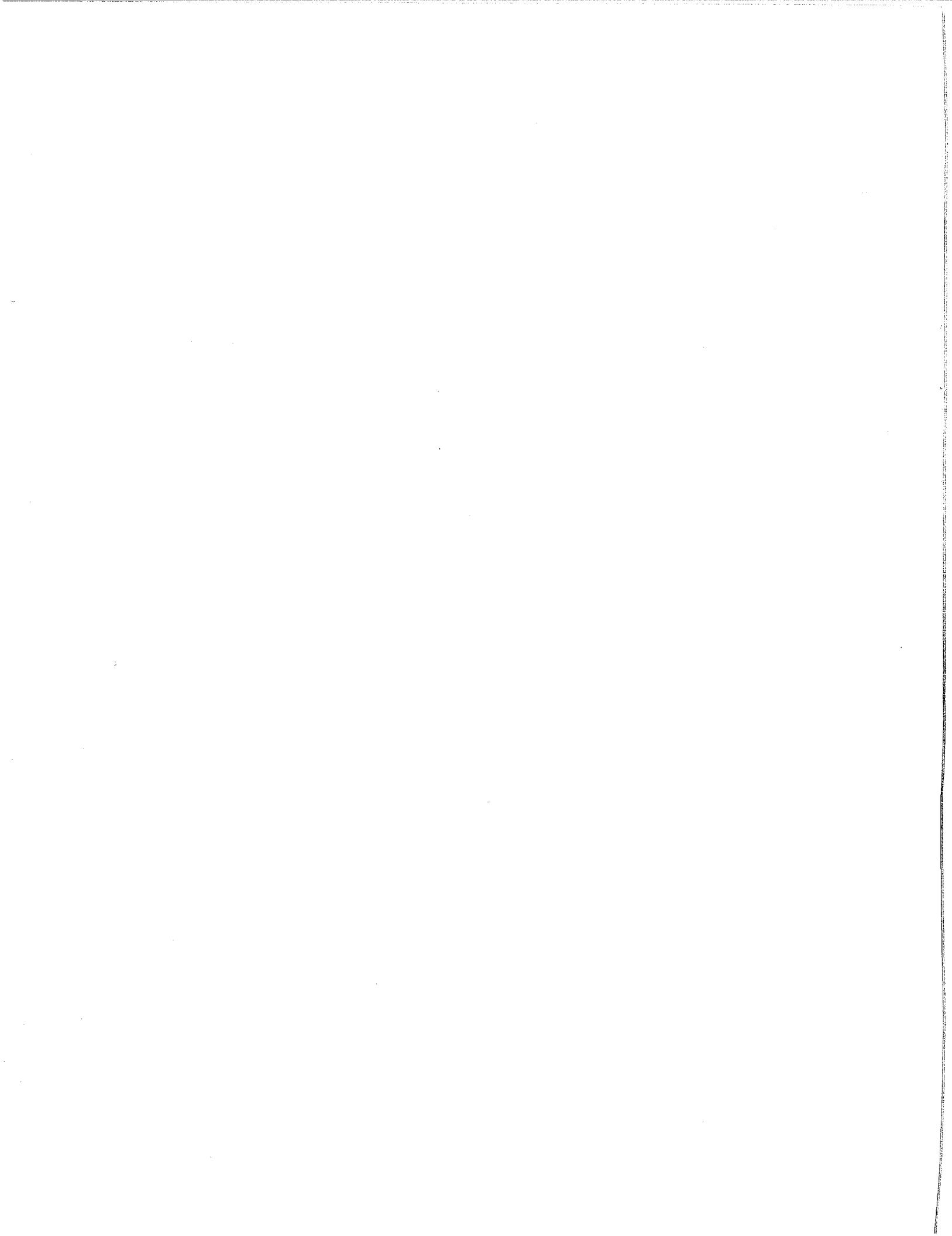


Booklet #1

Fundamentals of Accounting and Bookkeeping

The CSEA Examination Preparation Booklet Series is designed to help members prepare for New York State and local government civil service examinations. This booklet is designed for practice purposes only and its content may not conform to that of any particular civil service examination.

Copyright 2014
Not To Be Reprinted Without Permission



Introduction

This study guide is divided into two sections. The first section presents basic information about bookkeeping and accounting. It covers these topics:

1. Terms Used in Accounting
2. The Accounting Equation
3. Debits and Credits
4. The General Ledger
5. The Chart of Accounts
6. Normal Balances
7. Internal Controls

The second section of this study guide contains 50 practice questions. An answer key is located on page 22, followed by explanations of the correct answers, beginning on page 23.

Accounting Basics

1. Terms Used in Accounting

Accounting, like most professions, has its own specialized vocabulary. The following list includes the most commonly used accounting terms.

Account. A record in the general ledger used to store debit and credit amounts. Debits are shown on the left side of an account and credits are shown on the right side:

Title of Account	
Debits	Credits

Accountants often use the term “T accounts” because this arrangement resembles the letter “T.”

Accounts Payable. Money that an organization owes to vendors and suppliers of goods or services.

Accounts Receivable. Money that an organization is owed from sales of goods or services.

Accrual Basis of Accounting. A method of accounting that records income in the period it was earned (rather than received) and expenses in the period they were incurred (rather than paid).

Assets. The economic resources of an organization. Assets include such things as cash, accounts receivable, equipment, and vehicles.

Fixed Assets are assets that have long-term value, such as vehicle and buildings. The official term for fixed assets is Property, Plant, and Equipment.

Current Assets are assets that are likely to be used or converted to cash within a period of one year. They include such things as fuel and inventory.

Balance Sheet. A statement that summarizes an organization’s financial status at a particular point in time. The balance sheet is organized according to the basic accounting equation. In the private sector this equation is:

$$\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$$

In the public sector there are no owners, so the equation is a bit different:

$$\text{Assets} = \text{Liabilities} + \text{Net Assets}$$

Cash Basis of Accounting. A method of accounting that records income in the period it is received and expenses in the period they are paid.

Chart of Accounts. A listing of all an organization's accounts.

Credit. An entry in an accounting system that increases a liability or decreases an asset. Accountants use the terms *credit* and *debit* in a way that can be confusing to most people. See page 5 for a more detailed explanation of these terms.

Debit. An entry in an accounting system that increases an asset or decreases a liability. Accountants use the terms *credit* and *debit* in a way that can be confusing to most people. See page 5 for a more detailed explanation of these terms.

Depreciation. A method of allocating the value of an asset over the course of its useful life. Depreciation indicates how much the value of an asset has declined. For tax purposes, a business cannot treat the total cost of a major asset as a business expense in the year it was purchased. Rather, a business can deduct only the amount the value of the asset has declined.

Straight-line depreciation means that the value of an asset is assumed to be reduced by the same amount in each year of its useful life. For example, if a company bought a piece of equipment for \$1 million and it had a useful life of 10 years, it would be depreciated by \$100,000 per year.

Double Entry Bookkeeping. A system of bookkeeping in which every transaction is recorded as a debit to one account and a credit to another account.

Expenses. The costs of operating an organization. Expenses include such things as utilities, maintenance, and office supplies.

General Journal. A record of all an organization's financial transactions. Transactions are recorded in the General Journal in chronological order. The General Journal is sometimes called the "book of original entry" because it is the first bookkeeping record of a transaction.

The act of recording a transaction is called *journalizing*.

The act of transferring a transaction from the general journal to the general ledger is called *posting*.

General Ledger. An organization's main accounting records. The general ledger is organized by accounts, such as Cash, Equipment, or Accounts Payable.

Generally Accepted Accounting Principles (GAAP). The standards that govern all the accounting practices in the United States.

Income Statement. A financial statement that summarizes revenue and expenses for a given period. In the private sector, the income statement is often called the profit and loss statement.

Liabilities. Money owed to employees, vendors, suppliers, creditors, or governments (taxes and fees).

Net Income. Revenue minus expenses for a given period.

Revenue. The income an organization receives. In the private sector, revenue comes from the sale of goods and services. In the public sector, revenue comes primarily from taxes and fees but also from such sources as tuition and rentals.

Trial Balance. A worksheet listing all the accounts in the General Ledger with the amount of debits and credits for each. The purpose of the Trial Balance is to ensure that the books are “in balance”; that is, debits and credits are equal.

2. The Accounting Equation

Accounting is based on a simple equation. In the private sector this equation is:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

Assets are the resources of a business. If you owned a restaurant, your assets would include food, dinnerware, and cooking equipment.

Liabilities are things you owe. The liabilities of a restaurant would include items purchased on credit, wages owed to employees, and taxes.

The difference between assets and liabilities is owner's equity. Owner's equity is the value of the owner's stake in a business. For example, if a business had assets of \$5 million and liabilities of \$4 million, the owner's equity would be \$1 million.

In the public sector there are no owners, so the equation is a bit different:

$$\text{Assets} = \text{Liabilities} + \text{Net Assets}$$

The assets of a government organization are increased mainly by taxes and fees. The liabilities are increased by such things as wages owed to employees and payments owed to vendors.

3. Debits and Credits

In double-entry bookkeeping, every transaction is recorded twice—as a debit and a credit. Accountants use the terms *debit* and *credit* in a way that can be confusing to most people. To understand these terms, you need to remember two things:

A debit is not the same as a decrease.

A credit is not the same as an increase.

The effect of debits and credits depends on the type of account involved:

For asset accounts, an increase is recorded as a debit and a decrease is recorded as a credit.

For liability accounts, an increase is recorded as a credit and a decrease is recorded as a debit.

For revenue accounts, an increase is recorded as a credit and a decrease is recorded as a debit.

For expense accounts, an increase is recorded as a debit and a decrease is recorded as a credit.

For example, suppose you paid a bill from one of your suppliers. You would credit your cash account and debit your accounts payable account. Most people do not use the words *debit* and *credit* in this way. The key thing to remember is that a debit is not necessarily a decrease and a credit is not necessarily an increase.

One last thing to keep in mind: debits are entered on the left side of an account and credits are entered on the right side.

Here are some examples of how debits and credits would be recorded for various types of transactions.

You buy furniture for cash. The two accounts involved, Cash and Furniture, are both asset accounts.

Cash		Furniture	
Debit	Credit	Debit	Credit
	1,000		1,000

You buy furniture on credit. Furniture is an asset account. Accounts Payable is a liability account.

Furniture		Accounts Payable	
Debit	Credit	Debit	Credit
1,000			1,000

You pay a bill from a supplier. Cash is an asset account. Accounts Payable is a liability account.

Cash		Accounts Payable	
Debit	Credit	Debit	Credit
	500		500

A customer pays an invoice from you. Cash is an asset account. Accounts Receivable is an asset account.

Cash		Accounts Receivable	
Debit	Credit	Debit	Credit
700			700

4. The General Ledger

The General Ledger summarizes the financial transactions of an organization. Transactions are recorded first in the General Journal, which is arranged in chronological order. Then they are *posted* to the General Ledger, which is organized by accounts.

Here are two examples of what accounts in the General Ledger might look like.

Account Name: Cash			Account Number: 100		
Date	Description	Post Ref.	Debit	Credit	Balance
Oct 1	Beginning Balance				5000
Oct 8	Journal page 1	GJ-1-1	450		5450
Oct 20	Journal page 3	GJ-3-1		250	5200
Oct 21	Journal page 3	GJ-3-3	100		5300
Oct 31	Journal page 6	GJ-6-1	200		5500

This is an asset account, so increases are recorded as debits and decreases are recorded as credits.

The Description column might include more specific descriptions of transactions.

The Post Ref. column refers to specific entries in the General Journal.

Account Name: Accounts Payable			Account Number: 200		
Date	Description	Post Ref.	Debit	Credit	Balance
Oct 1	Beginning Balance				4000
Oct 4	Journal page 1	GJ-1-2	500		3500
Oct 19	Journal page 4	GJ-4-2	400		3100
Oct 20	Journal page 6	GJ-6-1		550	3650
Oct 31	Journal page 6	GJ-7-1		150	3800

This is a liability account, so increases are recorded as credits and decreases are recorded as debits.

5. The Chart of Accounts

The chart of accounts is a listing of all an organization's accounts. It typically includes two general categories of accounts.

Balance sheet accounts

- assets
- liabilities
- owner's equity
- net assets

Assets are the resources of an organization, including such things as cash, accounts receivable, furniture, and equipment.

Liabilities are amounts owed to employees, vendors, suppliers, creditors, and governments.

Owner's equity is the difference between assets and liabilities. It represents the value of an owner's stake in a business. In the public sector, owner's equity is usually replaced by the term net assets.

Income statement accounts

- operating revenues
- operating expenses
- non-operating revenues
- non-operating expenses and losses

Income statement accounts are related to the revenues and expenses of an organization.

In the public sector, such as a town government, operating revenues are derived from taxes and fees. Operating expenses are the costs of providing services to the town's residents. Operating expenses would include such things as building rental, utilities, and repairs.

Non-operating revenues are funds raised from sources outside an organization's main area of operations. For example, if a school district made its facilities available to civic groups for a small fee, the money raised would be non-operating revenue.

Non-operating expenses and losses are expenses and losses outside an organization's main area of operations. For example, if land owned by a school district declined in value, this would be a non-operating loss.

6. Normal Balance

All accounts have a "normal balance," which is either a debit balance or a credit balance. This just means that under normal conditions a particular type of account will have either a debit balance or a credit balance.

Assets and expenses have normal debit balances.

Liabilities, owner's equity, net assets, and revenue have normal credit balances.

7. Internal Controls

The term “internal controls” refers to processes that help an organization accomplish its goals. In the field of bookkeeping and accounting, internal controls are processes and procedures that help an organization make the best use of its assets by preventing fraud, waste, and misuse of assets.

One of the key concepts behind internal controls is segregation of duties. This simply means that no one person should be in a position to both commit and conceal errors or fraud. For example, the same person should not be responsible for both:

Ordering and receiving supplies.

Dispensing petty cash and verifying the balance of the petty cash account.

Receiving cash payments and verifying that the amount received matches the amount shown on copies of receipt slips.

Ideally, each step in a financial process should be performed by a different person.

Practice Questions

1. What term is used to describe resources used in the operation of an organization?
 - a. revenues
 - b. assets
 - c. liabilities
 - d. income
2. An agency pays an invoice from a vendor. A bookkeeper would:
 - a. debit Cash and credit Accounts Payable
 - b. credit Cash and debit Accounts Payable
 - c. credit Cash and debit Accounts Receivable
 - d. debit Cash and credit Net Assets
3. An agency uses straight line depreciation to determine the current value of its office equipment. The office equipment originally cost \$60,000, and the agency assumes it has a useful life of five years. What is the value of the equipment two years after it was purchased?
 - a. \$30,000
 - b. \$36,000
 - c. \$20,000
 - d. \$24,000
4. One staff member is responsible for dispensing petty cash and a different staff member is responsible for verifying the balance of the petty cash account. This is an example of:
 - a. segregation of duties
 - b. double entry bookkeeping
 - c. the basic accounting equation
 - d. redundancy

5. What term is used to describe the record where transactions are first recorded?
 - a. journal
 - b. general ledger
 - c. chart of accounts
 - d. balance sheet
6. What is the purpose of a trial balance?
 - a. to record transactions
 - b. to prevent fraud and misuse of assets
 - c. to determine if debits and credits are in balance
 - d. to identify past due invoices
7. A supplier delivers office equipment to an agency and submits an invoice. The bookkeeper at the agency would:
 - a. debit Equipment and debit Accounts Payable
 - b. credit Equipment and credit Accounts Payable
 - c. credit Equipment and debit Accounts Payable
 - d. debit Equipment and credit Accounts Payable
8. What term is used to describe a statement that summarizes revenues and expenses?
 - a. income statement
 - b. general ledger
 - c. general journal
 - d. trial balance
9. Which of the following is a statement of an organization's assets, liabilities, and owner's equity?
 - a. income statement
 - b. chart of accounts
 - c. general journal
 - d. balance sheet

10. Building rental, utilities, and repairs are examples of:

- liabilities
- assets
- operating expenses
- accounts receivable

11. An agency receives an invoice from a vendor who has provided a training program for the agency's employees. A bookkeeper would:

- credit Training Expense and debit Accounts Payable
- debit Training Expense and credit Accounts Payable
- debit Training Expense and debit Accounts Payable
- credit Training Expense and credit Accounts Payable

12. In an accrual accounting system, expenses are recognized:

- when they are paid
- when they are budgeted
- when they are projected
- when they are incurred

13. In the public sector, what term is often used instead of "owner's equity" in the basic accounting equation?

- liabilities
- assets
- net assets
- accounts receivable

14. Which of the following accounts has a "normal" credit balance?

- Cash
- Equipment
- Accounts Receivable
- Accounts Payable

15. The general ledger is organized
 - a. chronologically
 - b. by accounts
 - c. by size of transactions
 - d. by type of transactions
16. Revenue minus expenses equals
 - a. owner's equity
 - b. net income
 - c. assets
 - d. net assets
17. The accounts in the chart of accounts can be broadly divided into two categories: balance sheet accounts and
 - a. asset accounts
 - b. liability accounts
 - c. income statement accounts
 - d. ledger accounts
18. A school district raises cash by issuing bonds. This action:
 - a. increases assets and increases liabilities
 - b. decreases assets and increases liabilities
 - c. increases assets and decreases liabilities
 - d. decreases assets and decreases liabilities
19. What term is used to describe the process of transferring journal entries to the general ledger?
 - a. posting
 - b. balancing
 - c. recognizing
 - d. journalizing

20. Which of the following is a liability account?

- Cash
- Accounts Receivable
- Accounts Payable
- Equipment

21. Which of the following would be recorded as a debit?

- a decrease in an expense account
- a decrease in a revenue account
- a decrease in an asset account
- an increase in a liability account

22. Which of the following is not a type of asset?

- cash
- accounts receivable
- accounts payable
- inventory

23. Which of the following is not a current asset?

- cash
- accounts receivable
- equipment
- inventory

24. What term is used to describe claims against assets?

- net assets
- accounts receivable
- liabilities
- fund balance

Questions 25 through 28 are based on the following page from a general ledger.

Account Name: Cash			Account Number: 100		
Date	Description	Post Ref.	Debit	Credit	Balance
Oct 1	Beginning Balance				2500
Oct 8	Journal page 1	GJ-1-2	150		2650
Oct 20	Journal page 2	GJ-2-1		450	2200
Oct 21	Journal page 4	GJ-4-3	300		2500
Oct 31	Journal page 5	GJ-5-2	200		?

25. What type of account is this?

- liability
- expense
- revenue
- asset

26. What was the balance of this account on October 31?

- 2700
- 2300
- 2500
- 2000

27. What is the normal balance of this account?

- debit
- credit
- increase
- decrease

28. Which of the following accounts might have been credited when this account was debited on October 31?

- Accounts Payable
- Accounts Receivable
- Supplies
- Equipment

29. The bookkeeping and accounting process begins with:

- reporting the results of a transaction
- summarizing a transaction
- recording a transaction
- analyzing a transaction

30. The process of posting involves:

- establishing a chart of accounts
- determining if debits equal credits
- recording a transaction
- transferring a transaction to the general ledger

31. Which of the following is arranged in chronological order?

- general ledger
- general journal
- chart of accounts
- income statement

32. Segregation of duties is an example of:

- journalizing
- internal controls
- posting
- double-entry bookkeeping

Questions 33 through 36 are based on the following page from a general ledger.

Account Name: Accounts Receivable			Account Number: 110		
Date	Description	Post Ref.	Debit	Credit	Balance
Nov 1	Beginning Balance				5000
Nov 2	Journal page 1	GJ-1-2	1400		6400
Nov 12	Journal page 5	GJ-5-2	400		6800
Nov 25	Journal page 6	GJ-6-1		600	6200
Nov 30	Journal page 6	GJ-6-1		2200	?

33. What type of account is this?

- a. fixed asset
- b. current asset
- c. liability
- d. operating expense

34. What was the balance of this account on November 30?

- a. 4000
- b. 6800
- c. 6400
- d. 8400

35. Which of the following transactions occurred on November 25?

- a. a customer paid an invoice
- b. an invoice was issued to a customer
- c. supplies were purchased with cash
- d. equipment was purchased on credit

36. A credit to this account would be matched by a debit to which account?

- Accounts Payable
- Operating Expense
- Owner's Equity
- Cash

37. Which of the following is an income statement account?

- Cash
- Accounts Receivable
- Fuel Expense
- Accounts Payable

38. Net income is the difference between:

- assets and liabilities
- revenue and expenses
- accounts receivable and accounts payable
- debits and credits

39. Fixed assets are also referred to as:

- current assets
- owner's equity
- property, plant, and equipment
- net income

40. A town makes \$2,000 from the sale of obsolete equipment. This is an example of:

- net assets
- non-operating revenues
- net income
- current assets

41. The process of recording transactions is called:

- posting
- balancing
- journalizing
- recognizing

42. Which of the following is an example of segregation of duties?

- every debit is matched with a credit
- all transactions are transferred from the general journal to the general ledger
- more than one person is responsible for recording transactions
- one person issues checks and a different person reconciles the checking account

43. What is another name for the “book of original entry”?

- the income statement
- the balance sheet
- the general journal
- the general ledger

44. A school district pays a vendor to plow snow in its parking lots. This is:

- an operating expense
- a liability
- an asset
- revenue

45. A town pays an invoice from a vendor. A bookkeeper would:

- credit Cash and debit Accounts Payable
- debit Cash and credit Accounts Payable
- credit Cash and debit Accounts Receivable
- credit Cash and credit Accounts Payable

Questions 45 through 50 are based on the following page from the general ledger of a fire district.

Account Name: Accounts Payable			Account Number: 210		
Date	Description	Post Ref.	Debit	Credit	Balance
Apr 1	Beginning Balance				4200
Apr 2	Journal page 1	GJ-1-2	500		3700
Apr 10	Journal page 5	GJ-5-2	400		3300
Apr 24	Journal page 6	GJ-6-1		800	4100
Apr 30	Journal page 9	GJ-9-1		700	?

46. What type of account is this?

- a. fixed asset
- b. current asset
- c. revenue
- d. liability

47. What was the balance of this account on April 30?

- a. 3400
- b. 4800
- c. 4100
- d. 8200

48. Which of the following transactions occurred on April 2?

- a. the district received a refund from a vendor
- b. the district received an invoice
- c. the district paid an invoice
- d. the district received a dividend on an insurance policy

49. A debit to this account would be matched by a credit to which account?

- a. Accounts Receivable
- b. Cash
- c. Owner's Equity
- d. Net Income

50. What is the normal balance of this account?

- a. debit
- b. credit
- c. cash
- d. equity

Answer Key

1. b	26. a
2. b	27. a
3. b	28. b
4. a	29. c
5. a	30. d
6. c	31. b
7. d	32. b
8. a	33. b
9. d	34. a
10. c	35. a
11. b	36. d
12. d	37. c
13. c	38. b
14. d	39. c
15. b	40. b
16. b	41. c
17. c	42. d
18. a	43. c
19. a	44. a
20. c	45. a
21. b	46. d
22. c	47. b
23. c	48. c
24. c	49. b
25. d	50. b

Answers and Explanations

1. The correct answer is b. Assets are resources used in the operation of an organization. Assets include such things as cash, vehicles, and equipment.
2. The answer is choice b. Paying an invoice reduces the amounts in two accounts: Cash and Accounts Payable. Cash is an asset account and Accounts Payable is a liability account. A reduction in an asset is a credit. A reduction in a liability is a debit. So the bookkeeper would credit Cash and debit Accounts Payable.
3. The answer is choice b. Straight line depreciation assumes that an asset's value is reduced by the same amount during each year of its useful life. The equipment cost \$60,000 and it has a useful life of five years. So its value is reduced by \$12,000 per year. After two years, its value is \$36,000.
4. The correct answer is a. Segregation of duties is one of the main principles of internal controls. According to this principle, no one person should be in a position to both commit and conceal errors or fraud.
5. The correct answer is a. Transactions are first recorded in the journal, which is also called the "book of original entry."
6. The correct answer is c. A trial balance is a worksheet listing all the accounts in the general ledger with the amount of debits and credits for each. The purpose of the trial balance is to ensure that the books are "in balance"; that is, debits and credits are equal.
7. The correct answer is d. Equipment is an asset account. Accounts Payable is a liability account. An increase in an asset account is a debit. An increase in a liability account is a credit. Both of these accounts are increased. Therefore, a bookkeeper would debit Equipment and credit Accounts Payable.
8. The answer is choice a. The income statement summarizes revenue and expenses. The difference between the two is net income or net loss.
9. The correct answer is d. The balance sheet is a statement of the current amounts in the three components of the basic accounting equation: assets, liabilities, and owner's equity.
10. The correct answer is c. Operating expenses are the costs of running an organization.
11. The correct answer is b. Training Expense is an expense account. An increase in an expense account is a debit, so a bookkeeper would debit Training Expense. Accounts Payable is a liability account. An increase in a liability account is a credit, so a bookkeeper would credit Accounts Payable.

12. The correct answer is d. In an accrual accounting system, expenses are recognized when they are incurred. Most large organizations use an accrual system. Some small companies use a cash accounting system, in which expenses are recognized when they are paid and income is recognized when it is received.

13. The answer is choice c. In the private sector, the basic accounting equation is

$$\text{assets} = \text{liabilities} + \text{owner's equity}$$

In the public sector, there are no owners, so the term owner's equity is often replaced with net assets.

14. The answer is choice d. Accounts Payable is a liability account, and liability accounts have a normal credit balance. The other choices (Cash, Equipment, Accounts Receivable) are all asset accounts, and asset accounts have a normal debit balance.

15. The answer is choice b. The general ledger is organized by accounts. It includes two basic types of accounts: balance sheet accounts and income statement accounts.

16. The answer is choice b. Revenue minus expenses equals net income. The income statement is based on this equation.

17. The answer is choice c. Income statement accounts include revenues and expenses.

18. The answer is choice a. By issuing bonds, a school district is in effect borrowing money. So it is increasing an asset (Cash) and increasing a liability (Bonds Payable).

19. The correct answer is a. Transactions are first recorded in the journal. Then they are transferred to the general ledger in the process known as posting.

20. The correct answer is c. Liabilities are claims against assets. In other words, liabilities are what an organization owes. Accounts Payable are amounts an organization owes to vendors and suppliers.

21. The correct answer is b. For revenue accounts, a decrease is recorded as a debit. The transactions in the other choices would all be recorded as credits.

22. The answer is choice c. Accounts Payable is a liability account. It records what an organization owes to vendors and suppliers.

23. The answer is choice c. Current assets are assets that are likely to be used or converted to cash within a period of one year. Equipment does not fall into this category.

24. The correct answer is c. Liabilities are what an organization owes to vendors, suppliers, and creditors. They are claims against assets.

25. The correct answer is d. Cash is an asset account.

26. The correct answer is a. The balance after the previous entry on October 21 was 2500. The entry on October 31 was a debit of 200. This is an asset account, so a debit increases its balance: $2500 + 200 = 2700$.

27. The correct answer is a. This is an asset account. The normal balance of an asset account is a debit.

28. The correct answer is b. The debit on October 31 increased the balance of this account; that is, it increased the amount of cash in this account. This increase could have been caused by a decrease in Accounts Receivable (a customer paid an invoice). Accounts Receivable is an asset account, so a decrease in Accounts Receivable would be a credit.

29. The correct answer is c. The first step in the bookkeeping and accounting process is recording a transaction. Transactions are recorded in the general journal.

30. The correct answer is d. Transactions are first recorded in the general journal, which is sometimes called the “book of original entry.” Then they are transferred to the general ledger in the process known as “posting.”

31. The correct answer is b. The general journal is arranged in chronological order. Transactions are recorded in the order in which they occur.

32. The correct answer is b. Segregation of duties is a principle that prevents one person from being in a position to both commit and conceal errors or fraud. It is an example of internal controls, which are processes and procedures that help an organization make the best use of its assets by preventing fraud, waste, and misuse.

33. The correct answer is b. Accounts Receivable is a current assets account. Current assets are assets that are likely to be used or converted to cash within a period of one year.

34. The correct answer is a. The balance after the previous entry on November 25 was 6200. The entry on November 30 was a credit of 2200. This is an asset account, so a credit decreases its balance: $6200 - 2200 = 4000$.

35. The correct answer is a. Accounts Receivable is an asset account, so a credit is a decrease. The balance of Accounts Receivable would be decreased when a customer paid an invoice.

36. The correct answer is d. Since this is an asset account, a credit would be a reduction. A reduction in Accounts Receivable would occur when a customer paid an invoice. When a customer paid an invoice, there would be an increase in the Cash account. Cash is an asset account, so an increase would be a debit.

37. The answer is choice c. Income statement accounts include revenues and expenses. Fuel Expense is an expense account. The other choices are all balance sheet accounts.

38. The answer is choice b. Net income is the difference between revenue and expenses. In other words: revenue – expenses = net income.

39. The correct answer is c. The official accounting term for fixed assets is property, plant, and equipment. Fixed assets are assets that will not be used or converted to cash in a period of one year.

40. The correct answer is b. Non-operating revenues are funds raised from sources outside an organization's main area of operations. A town government is not mainly in the business of selling obsolete equipment, so income from this transaction would be considered non-operating revenue.

41. The correct answer is c. The process of recording transactions is called journalizing. Transactions are recorded first in the general journal. Then they are posted to the general ledger.

42. The correct answer is d. Segregation of duties means that no one person should be in a position to both commit and conceal errors or fraud. Having one person issue checks and a different person reconcile the checking account would prevent the person who issues checks from committing fraud.

43. The correct answer is c. The general journal is sometimes called the book of original entry because it is the place where transactions are first recorded.

44. The correct answer is a. Operating expenses are the costs involved in the normal functioning of an organization. In this case, snow plowing is necessary for the school district to keep its buildings accessible.

45. The correct answer is a. This transaction would decrease Cash and decrease Accounts Payable. Cash is an asset account, so a decrease would be a credit. Accounts Payable is a liability account, so a decrease would be a debit.

46. The correct answer is d. Accounts Payable is a liability account. Liabilities are amounts that an organization owes to employees, vendors, suppliers, creditors, etc.

47. The correct answer is b. The balance of this account on April 24 was 4100. The credit of 700 on April 30 increased the balance to 4800. (A credit to a liability account is an increase.)

48. The correct answer is c. The debit on April 2 reduced the balance of this account. The balance of Accounts Payable is reduced when an organization pays an invoice.

49. The correct answer is b. This account would be debited when the district paid an invoice. Paying an invoice would reduce the balance of the Cash account. Cash is an asset, so a reduction in Cash would be a credit.
50. The correct answer is b. Accounts Payable is a liability account. The normal balance of a liability account is a credit.