

## Chapter 02

### Review of the Accounting Process

#### True / False Questions

1. Owners' equity can be expressed as assets minus liabilities.

True False

2. Debits increase asset accounts and decrease liability accounts.

True False

3. Balance sheet accounts are referred to as temporary accounts because their balances are always changing.

True False

4. After an unadjusted trial balance is prepared, the next step in the accounting processing cycle is the preparation of financial statements.

True False

5. Adjusting journal entries are required to comply with the realization and matching principles.

True False

6. Accruals occur when the cash flow precedes either revenue or expense recognition.

True False

7. The adjusted trial balance contains only permanent accounts.

True False

8. The income statement summarizes the operating activity of a firm at a particular point in time.

True False

9. The balance sheet can be considered a change or flow statement.

True False

10. The statement of cash flows summarizes transactions that caused cash to change during a reporting period.

True False

11. The statement of shareholders' equity discloses the changes in the temporary shareholders' equity accounts.

True False

12. The post-closing trial balance contains only permanent accounts.

True False

13. The closing process brings all temporary accounts to a zero balance and updates the balance in the retained earnings account.

True False

14. A reversing entry at the beginning of a period for salaries would include a debit to salaries expense.

True False

15. The sale of merchandise on account would be recorded in a sales journal.

True False

16. The payment of cash to a supplier would be recorded in a purchases journal.

True False

### Multiple Choice Questions

17. The accounting equation can be stated as:

A.  $A + L - OE = 0$ .

B.  $A - L + OE = 0$ .

C.  $-A + L - OE = 0$ .

D.  $A - L - OE = 0$ .

18. Examples of external transactions include all of the following except:

- A. Paying employees salaries.
- B. Purchasing equipment.
- C. Depreciating equipment.
- D. Collecting a receivable.

19. Examples of internal transactions include all of the following except:

- A. Writing off an uncollectible account.
- B. Recording the expiration of prepaid insurance.
- C. Recording unpaid wages.
- D. Paying wages to company employees.

20. XYZ Corporation receives \$100,000 from investors for issuing them shares of its stock. XYZ's journal entry to record this transaction would include a:

- A. Debit to investments.
- B. Credit to retained earnings.
- C. Credit to capital stock.
- D. Credit to revenue.

21. Incurring an expense for advertising on account would be recorded by:

- A. Debiting liabilities.
- B. Crediting assets.
- C. Debiting an expense.
- D. Debiting assets.

22. A sale on account would be recorded by:

- A. Debiting revenue.
- B. Crediting assets.
- C. Crediting liabilities.
- D. Debiting assets.

23. Mary Parker Co. invested \$15,000 in ABC Corporation and received capital stock in exchange.  
Mary Parker Co.'s journal entry to record this transaction would include a:

- A. Debit to investments.
- B. Credit to retained earnings.
- C. Credit to capital stock.
- D. Debit to expense.

24. Hughes Aircraft sold a four-passenger airplane for \$380,000, receiving a \$50,000 down payment and a 12% note for the balance. The journal entry to record this sale would include a:

- A. Credit to cash.
- B. Debit to cash discount.
- C. Debit to note receivable.
- D. Credit to note receivable.

25. Somerset Leasing received \$12,000 for 24 months rent in advance. How should Somerset record this transaction?

- |                     |        |        |
|---------------------|--------|--------|
| A. Prepaid rent     | 12,000 |        |
| Rent expense        |        | 12,000 |
|                     |        |        |
| B. Cash             | 12,000 |        |
| Unearned revenue    |        | 12,000 |
|                     |        |        |
| C. Interest expense | 12,000 |        |
| Interest payable    |        | 12,000 |
|                     |        |        |
| D. Salaries expense | 12,000 |        |
| Salaries payable    |        | 12,000 |

26. Davis Hardware Company uses a perpetual inventory system. How should Davis record the sale of merchandise, costing \$620 and sold for \$960 on account?

- |    |                     |     |     |
|----|---------------------|-----|-----|
| A. | Inventory           | 620 |     |
|    | Accounts receivable |     | 620 |
|    | Sales               | 960 |     |
|    | Revenue from sales  |     | 960 |
|    |                     |     |     |
| B. | Accounts receivable | 960 |     |
|    | Sales revenue       |     | 960 |
|    | Cost of goods sold  | 620 |     |
|    | Inventory           |     | 620 |
|    |                     |     |     |
| C. | Inventory           | 620 |     |
|    | Gain on sale        | 340 |     |
|    | Sales revenue       |     | 960 |
|    |                     |     |     |
| D. | Accounts receivable | 960 |     |
|    | Sales revenues      |     | 620 |
|    | Gain on sale        |     | 340 |

27. Ace Bonding Company purchased merchandise inventory on account. The inventory costs \$2,000 and is expected to sell for \$3,000. How should Ace record the purchase?

- |      |                    |       |       |
|------|--------------------|-------|-------|
| A.   | Inventory          | 2,000 |       |
|      | Accounts payable   |       | 2,000 |
| <br> |                    |       |       |
| B.   | Cost of goods sold | 2,000 |       |
|      | Deferred revenue   | 1,000 |       |
|      | Sales in advance   |       | 3,000 |
| <br> |                    |       |       |
| C.   | Cost of goods sold | 2,000 |       |
|      | Inventory payable  |       | 2,000 |
| <br> |                    |       |       |
| D.   | Cost of goods sold | 2,000 |       |
|      | Profit             | 1,000 |       |
|      | Sales payable      |       | 3,000 |

28. Which of the following accounts has a debit balance?

- A. Accounts payable.
- B. Accrued taxes.
- C. Accumulated depreciation.
- D. Advertising expense.



29. An example of a contra account is:

- A. Depreciation expense.
- B. Accounts receivable.
- C. Sales revenue.
- D. Accumulated depreciation.

30. Making insurance payments in advance is an example of:

- A. An accrued receivable transaction.
- B. An accrued liability transaction.
- C. An unearned revenue transaction.
- D. A prepaid expense transaction.

31. Recording revenue that is earned, but not yet collected, is an example of:

- A. A prepaid expense transaction.
- B. An unearned revenue transaction.
- C. An accrued liability transaction.
- D. An accrued receivable transaction.

32. When a magazine company collects cash for selling a subscription, it is an example of:

- A. An accrued liability transaction.
- B. An accrued receivable transaction.
- C. A prepaid expense transaction.
- D. An unearned revenue transaction.

33. On December 31, 2012, Coolwear, Inc. had a balance in its prepaid insurance account of \$48,400. During 2013, \$86,000 was paid for insurance. At the end of 2013, after adjusting entries were recorded, the balance in the prepaid insurance account was 42,000. Insurance expense for 2013 would be:

- A. \$6,400.
- B. \$134,400.
- C. \$86,000.
- D. \$92,400.

34. Adjusting entries are primarily needed for:

- A. Cash basis accounting.
- B. Accrual accounting.
- C. Current value accounting.
- D. Manual accounting systems.

35. Prepayments occur when:

- A. Cash flow precedes expense recognition.
- B. Sales are delayed pending credit approval.
- C. Customers are unable to pay the full amount due when goods are delivered.
- D. Manufactured goods await quality control inspections.

36. Accruals occur when cash flows:

- A. Occur before expense recognition.
- B. Occur after revenue or expense recognition.
- C. Are uncertain.
- D. May be substituted for goods or services.

37. On December 31, 2013, the end of Larry's Used Cars' first year of operations, the accounts receivable was \$53,600. The company estimates that \$1,200 of the year-end receivables will not be collected. Accounts receivable in the 2013 balance sheet will be valued at:

- A. \$53,600.
- B. \$54,800.
- C. \$52,400.
- D. \$1,200.

38. Cal Farms reported supplies expense of \$2,000,000 this year. The supplies account decreased by \$200,000 during the year to an ending balance of \$400,000. What was the cost of supplies the Cal Farms purchased during the year?

- A. \$1,600,000.
- B. \$1,800,000.
- C. \$2,200,000.
- D. \$2,400,000.

39. Which of the following is not an adjusting entry?

- A. Prepaid rent  
    Rent expense
- B. Cash  
    Unearned revenue
- C. Interest expense  
    Interest payable
- D. Salaries expense  
    Salaries payable

40. The adjusting entry required when amounts previously recorded as unearned revenues are earned includes:

- A. A debit to a liability.
- B. A debit to an asset.
- C. A credit to a liability.
- D. A credit to an asset.

41. Which of the following accounts has a credit balance?

- A. Salary expense.
- B. Accrued income taxes payable.
- C. Land.
- D. Prepaid rent.

42. When a tenant makes an end-of-period adjusting entry credit to the "Prepaid rent" account:
- A. (S)he usually debits cash.
  - B. (S)he usually debits an expense account.
  - C. (S)he debits a liability account.
  - D. (S)he does none of the above.
43. When a business makes an end-of-period adjusting entry with a debit to supplies expense, the usual credit entry is made to:
- A. Accounts payable.
  - B. Supplies.
  - C. Cash.
  - D. Retained earnings.
44. The adjusting entry required to record accrued expenses includes:
- A. A credit to cash.
  - B. A debit to an asset.
  - C. A credit to an asset.
  - D. A credit to liability.

45. Carolina Mills purchased \$270,000 in supplies this year. The supplies account increased by \$10,000 during the year to an ending balance of \$66,000. What was supplies expense for Carolina Mills during the year?

- A. \$300,000.
- B. \$280,000.
- C. \$260,000.
- D. \$240,000.

46. Yummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2013, and charged the \$4,200 premium to Insurance expense. At its December 31, 2013, year-end, Yummy Foods would record which of the following adjusting entries?

- |    |                   |       |       |
|----|-------------------|-------|-------|
| A. | Insurance expense | 875   |       |
|    | Prepaid insurance |       | 875   |
| B. | Prepaid insurance | 875   |       |
|    | Insurance expense |       | 875   |
| C. | Insurance expense | 875   |       |
|    | Prepaid insurance | 3,325 |       |
|    | Insurance payable |       | 4,200 |
| D. | Prepaid insurance | 3,325 |       |
|    | Insurance expense |       | 3,325 |

47. The employees of Neat Clothes work Monday through Friday. Every other Friday the company issues payroll checks totaling \$32,000. The current pay period ends on Friday, July 3. Neat Clothes is now preparing quarterly financial statements for the three months ended June 30. What is the adjusting entry to record accrued salaries at the end of June?

- A. Salaries expense                      22,400  
    Prepaid salaries                      9,600  
        Salaries payable                      32,000
- B. Salaries expense                      6,400  
    Salaries payable                      6,400
- C. Prepaid salaries                      9,600  
    Salaries payable                      9,600
- D. Salaries expense                      22,400  
    Salaries payable                      22,400

48. On September 1, 2013, Fortune Magazine sold 600 one-year subscriptions for \$81 each. The total amount received was credited to unearned subscriptions revenue. What is the required adjusting entry at December 31, 2013?

- |    |                                |        |        |
|----|--------------------------------|--------|--------|
| A. | Unearned subscriptions revenue | 48,600 |        |
|    | Subscriptions revenue          |        | 16,200 |
|    | Prepaid subscriptions          |        | 32,400 |
|    |                                |        |        |
| B. | Unearned subscriptions revenue | 16,200 |        |
|    | Subscriptions revenue          |        | 16,200 |
|    |                                |        |        |
| C. | Unearned subscriptions revenue | 16,200 |        |
|    | Subscriptions payable          |        | 16,200 |
|    |                                |        |        |
| D. | Unearned subscriptions revenue | 32,400 |        |
|    | Subscriptions revenue          |        | 32,400 |



49. Mama's Pizza Shoppe borrowed \$8,000 at 9% interest on May 1, 2013, with principal and interest due on October 31, 2014. The company's fiscal year ends June 30, 2013. What adjusting entry is necessary on June 30, 2013?

A. No entry.

B. Interest expense	240	
Interest payable		240

C. Interest expense	120	
Interest payable		120

D. Prepaid interest	120	
Interest payable		120

50. On September 15, 2013, Oliver's Mortuary received a \$6,000, nine-month note bearing interest at an annual rate of 10% from the estate of Jay Hendrix for services rendered. Oliver's has a December 31 year-end. What adjusting entry will the company record on December 31, 2013?

A.	Interest receivable	175	
	Interest revenue		175
B.	Interest receivable	230	
	Interest revenue		230
C.	Interest receivable	175	
	Notes receivable		175
D.	Interest receivable	600	
	Interest revenue		175
	Cash		425

51. In its first year of operations Acme Corp. had income before tax of \$400,000. Acme made income tax payments totaling \$150,000 during the year and has an income tax rate of 40%. What is the balance in income tax payable at the end of the year?

- A. \$160,000 credit.
- B. \$150,000 credit.
- C. \$10,000 credit.
- D. \$10,000 debit.

52. Eve's Apples opened business on January 1, 2013, and paid for two insurance policies effective that date. The liability policy was \$36,000 for 18 months, and the crop damage policy was \$12,000 for a two-year term. What is the balance in Eve's prepaid insurance as of December 31, 2013?
- A. \$9,000.
  - B. \$18,000.
  - C. \$30,000.
  - D. \$48,000.
53. Fink Insurance collected premiums of \$18,000,000 from its customers during the current year. The adjusted balance in the Unearned premiums account increased from \$6 million to \$8 million dollars during the year. What is Fink's revenue from earned insurance premiums for the current year?
- A. \$10,000,000.
  - B. \$16,000,000.
  - C. \$18,000,000.
  - D. \$20,000,000.
54. On November 1, 2013, Tim's Toys borrows \$30,000,000 at 9% to finance the holiday sales season. The note is for a six-month term and both principal and interest are payable at maturity. What is the balance of interest payable for the loan as of December 31, 2013?
- A. \$112,500.
  - B. \$225,000.
  - C. \$450,000.
  - D. \$1,350,000.

55. A future economic benefit owned or controlled by an entity is:

- A. A revenue.
- B. An asset.
- C. A liability.
- D. A contra asset until used.

56. Cost of goods sold is:

- A. An asset account.
- B. A revenue account.
- C. An expense account.
- D. A permanent equity account.

57. The balance in retained earnings at the end of the year is determined by retained earnings at the beginning of the year:

- A. Plus revenues, minus liabilities.
- B. Plus accruals, minus deferrals.
- C. Plus net income, minus dividends.
- D. Plus assets, minus liabilities.

58. In its first year of operations Best Corp. had income before tax of \$500,000. Best made income tax payments totaling \$210,000 during the year and has an income tax rate of 40%. What was Best's net income for the year?

- A. \$290,000.
- B. \$294,000.
- C. \$300,000.
- D. \$306,000.

59. Dave's Duds reported cost of goods sold of \$2,000,000 this year. The inventory account increased by \$200,000 during the year to an ending balance of \$400,000. What was the cost of merchandise that Dave's purchased during the year?

- A. \$1,600,000.
- B. \$1,800,000.
- C. \$2,200,000.
- D. \$2,400,000.

60. Permanent accounts would not include:

- A. Interest expense.
- B. Wages payable.
- C. Prepaid rent.
- D. Unearned revenues.

61. Permanent accounts would not include:

- A. Cost of goods sold.
- B. Inventory.
- C. Current liabilities.
- D. Accumulated depreciation.

62. The purpose of closing entries is to transfer:

- A. Accounts receivable to retained earnings when an account is fully paid.
- B. Balances in temporary accounts to a permanent account.
- C. Inventory to cost of goods sold when merchandise is sold.
- D. Assets and liabilities when operations are discontinued.

63. Temporary accounts would not include:

- A. Salaries payable.
- B. Depreciation expense.
- C. Supplies expense.
- D. Cost of goods sold.

64. When converting an income statement from a cash basis to an accrual basis, expenses:

- A. Exceed cash payments to suppliers.
- B. Equal cash payments to suppliers.
- C. Are less than cash payments to suppliers.
- D. May exceed or be less than cash payments to suppliers.

65. When the amount of revenue collected in advance decreases during an accounting period:

- A. Accrual-basis revenues exceed cash collections from customers.
- B. Accrual-basis net income exceeds cash-basis net income.
- C. Accrual-basis revenues are less than cash collections from customers.
- D. Accrual-basis net income is less than cash-basis net income.

66. When converting an income statement from a cash basis to an accrual basis, which of the following is incorrect?

- A. An adjustment for depreciation reduces net income.
- B. A decrease in salaries payable decreases net income.
- C. A reduction in prepaid expenses decreases net income.
- D. An increase in accrued payables decreases net income.

67. Molly's Auto Detailers maintains its records on the cash basis. During 2013, Molly's collected \$72,000 from customers and paid \$21,000 in expenses. Depreciation expense of \$5,000 would have been recorded on the accrual basis. Over the course of the year, accounts receivable increased \$4,000, prepaid expenses decreased \$2,000, and accrued liabilities decreased \$1,000. Molly's accrual basis net income was:

- A. \$38,000.
- B. \$54,000.
- C. \$49,000.
- D. \$42,000.

68. Pat's Custom Tuxedo Shop maintains its records on the cash basis. During this past year Pat's collected \$42,000 in tailoring fees, and paid \$14,000 in expenses. Depreciation expense totaled \$2,000. Accounts receivable increased \$1,500, supplies increased \$4,000, and accrued liabilities increased \$2,500. Pat's accrual basis net income was:

- A. \$18,000.
- B. \$34,000.
- C. \$23,000.
- D. \$29,000.

69. The Hamada Company sales for 2013 totaled \$150,000 and purchases totaled \$95,000. Selected January 1, 2013, balances were: accounts receivable, \$18,000; inventory, \$14,000; and accounts payable, \$12,000. December 31, 2013, balances were: accounts receivable, \$16,000; inventory, \$15,000; and accounts payable, \$13,000. Net cash flows from these activities were:

- A. \$45,000.
- B. \$55,000.
- C. \$58,000.
- D. \$74,000.

70. When the amount of interest receivable decreases during an accounting period:

- A. Accrual-basis interest revenues exceed cash collections from borrowers.
- B. Accrual-basis net income exceeds cash-basis net income.
- C. Accrual-basis interest revenues are less than cash collections from borrowers.
- D. Accrual-basis net income is less than cash-basis net income.



71. When converting an income statement from a cash basis to an accrual basis, cash received for services:

- A. Exceed service revenue.
- B. May exceed or be less than service revenue.
- C. Is less than service revenue.
- D. Equals service revenue.

72. Compared to the accrual basis of accounting, the cash basis of accounting produces a higher amount of income by the net decrease during the accounting period of:

	<u>Accounts Receivable</u>	<u>Accrued Liabilities</u>
a.	Yes	No
b.	No	Yes
c.	Yes	Yes
d.	No	No

- A. Option a
- B. Option b
- C. Option c
- D. Option d

73. On June 1, Royal Corp. began operating a service company with an initial cash investment by shareholders of \$2,000,000. The company provided \$6,400,000 of services in June and received full payment in July. Royal also incurred expenses of \$3,000,000 in June that were paid in August. During June, Royal paid its shareholders cash dividends of \$1,000,000. What was the company's income before income taxes for the two months ended July 31 under the following methods of accounting?

	<u>Cash Basis</u>	<u>Accrual Basis</u>
a.	\$3,400,000	\$3,400,000
b.	\$5,400,000	\$2,400,000
c.	\$6,400,000	\$3,400,000
d.	\$6,400,000	\$2,400,000

- A. Option a
- B. Option b
- C. Option c
- D. Option d

74. When Castle Corporation pays insurance premiums, the transaction is recorded as a debit to prepaid insurance. Additional information for the year ended December 31 is as follows:

Prepaid insurance at January 1	\$52,500
Insurance expense recognized during the year	218,750
Prepaid insurance at December 31	61,250

What was the total amount cash paid by Castle for insurance premiums during the year?

- A. \$218,750
- B. \$166,250
- C. \$210,000
- D. \$227,500

## Matching Questions

75. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- |                               |   |
|-------------------------------|---|
| 1. Accruals                   | Assets or liabilities created when cash flows precede recognition. _____  |
| 2. Adjusted trial balance     | A list of only permanent accounts and their balances prepared to show that the accounting equation is in balance. _____ |
| 3. Prepayments                | Assets or liabilities created when recognition precedes cash flows. _____   |
| 4. Post-closing trial balance | A list of accounts and their balances prepared before the effects of internal transactions are recorded. _____          |
| 5. Unadjusted trial balance   | A list of accounts and balances containing the source data for preparation of financial statements. _____               |

76. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- |                               |   |                                     |
|-------------------------------|---|-------------------------------------|
|                               | Portrays financial position at a point in |                                     |
| 1. Adjusting entries          |   | time. ____                          |
| 2. Post-closing trial balance | Records internal transactions not         |                                     |
|                               |   | previously reported. ____           |
|                               | Represents outflows of resources          |                                     |
| 3. Balance sheet              |   | incurred to generate revenues. ____ |
| 4. Statement of cash flows    | Reports operating, investing, and         |                                     |
|                               |   | financing activities. ____          |
|                               | The last step in the accounting           |                                     |
| 5. Expenses                   |   | processing cycle. ____              |

77. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- |                     |   |  |
|---------------------|---|--|
|                     | Requires adjusting entries to update the        |  |
| 1. Gains            |   | inventory account. ____                |
| 2. Periodic system  | When cash flow precedes either expense or       |  |
|                     |   | revenue recognition. ____              |
| 3. Perpetual system | Requires entries to cost of goods sold          |  |
|                     |   | account when merchandise is sold. ____ |
|                     | Recorded when there are dispositions of         |  |
| 4. Prepayments      | assets for consideration less than book values. | ____                                   |
|                     | Recorded when there are dispositions of         |  |
|                     | assets for consideration in excess of book      |  |
| 5. Losses           |   | values. ____                           |

78. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- |                    |  |       |
|--------------------|--|-------|
| 1. Credit          | Contains all the accounts of an entity.                        | _____ |
| 2. Closing entries | Refers to the right side of an account.                        | _____ |
| 3. General journal | Used to record any type of transaction in chronological order. | _____ |
| 4. General ledger  | Asset and expense accounts normally have this type of balance. | _____ |
| 5. Debit           | Used to reset temporary accounts to a zero balance.            | _____ |

79. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- |                      |   |       |
|----------------------|---|-------|
| 1. Post              | Refers to nonowners' claims against the assets of a firm.                           | _____ |
| 2. Retained earnings | Represents the cumulative amount of net income, less distributions to shareholders. | _____ |
| 3. Special journals  | Record chronologically the effects of transactions in debit/credit form.            | _____ |
| 4. Liabilities       | Transfer balances from journals to ledgers.   | _____ |
| 5. Journalize        | Used to record repetitive types of transactions.                                    | _____ |

80. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- |                            |  |       |
|----------------------------|--|-------|
| 1. Unearned<br>revenues    | Used to identify external transactions.                                    | _____ |
| 2. Transaction<br>analysis | Refers to inflows of assets from the sale of<br>goods and services.        | _____ |
| 3. Special journals        | Determines the effects of an event in terms<br>of the accounting equation. | _____ |
| 4. Revenues                | Liabilities created by a customer's<br>prepayment.                         | _____ |
| 5. Source<br>documents     | Used to record repetitive types of<br>transactions.                        | _____ |

81. Listed below are 10 terms followed by a list of phrases that describe or characterize the terms.  
Match each phrase with the correct term.

- |                              |  |       |
|------------------------------|--|-------|
|                              | A list of the general ledger accounts and                                |       |
| 1. Adjusting entries         | their balances.  | _____ |
| 2. Accrued receivables       | Revenue earned before cash is received.                                  | _____ |
| 3. Revenues                  | Cash received from a customer in advance of providing a good or service. | _____ |
| 4. Temporary accounts        | Changes in the retained earnings component of shareholders' equity.      | _____ |
| 5. Post-closing balance      | Expenses incurred but not yet paid.                                      | _____ |
| 6. Accrued liabilities       | Records the effects of internal transactions.                            | _____ |
| 7. General ledger            | Asset recorded when an expense is paid for in advance.                   | _____ |
| 8. Unearned revenues         | Collection of storage areas, called _____ accounts.                      | _____ |
| 9. Prepaid expense           | Refers to inflows of assets from the sale of goods and services.         | _____ |
| 10. Unadjusted trial balance | Last step in the accounting processing cycle.                            | _____ |

### Short Answer Questions

Below is a list of accounts in no particular order. Assume that all accounts have normal balances.

**Required:**

In column A, indicate whether a debit will:

1. Increase the account balance, or
2. Decrease the account balance.

In column B, classify each account according to the following scheme. For contra accounts, indicate the classification of the account to which it relates.

1. A current asset in the balance sheet.
2. A noncurrent asset in the balance sheet.
3. A current liability in the balance sheet.
4. A long-term liability in the balance sheet.
5. A permanent equity account in the balance sheet.
6. A revenue account in the income statement.
7. An expense account shown in the income statement.
8. Account does not appear in either the balance sheet or the income statement.

	A	B
	Effect of a	Classification
	debit on account	
EXAMPLE: Advertising expense	1	7



82. Buildings and equipment (B&E)

83. Short-term notes payable

84. Cost of goods sold

85. Accounts receivable

86. Inventory

87. Unearned revenues

88. Property taxes payable

89. Retained earnings

90. Interest revenue

91. Supplies expense

92. Prepaid rent

93. Capital stock

1100	Cash	2170	Property taxes payable
1120	Short-term investments	2180	Rent payable
1130	Notes receivable	2200	Long-term notes payable
1140	Accounts receivable	3100	Capital stock
1145	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Unearned revenues	6270	Wages and salaries expense
2150	Salaries & wages payable	6400	Interest expense
2160	Dividends payable	6999	Income summary account

Using the chart of accounts provided, indicate by account number the account or accounts that would be debited and credited in the following transactions and indicate the type of transaction as: (1) an external transaction, (2) an internal transaction recorded as an adjusting journal entry, or (3) a closing entry. The company uses a perpetual inventory system. All prepayments are initially recorded in permanent accounts.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
EXAMPLE: Sold \$110,000,000 in capital stock for	1100	3100	1

94. Purchased building and equipment for \$10,000,000, paying 20% cash and issuing a 30-year note for the balance.

95. Invested idle cash in short-term money market funds.

96. Purchased inventory on account.

97. Sold inventory on account.

98. Sold merchandise to a customer in exchange for a promissory note.

99. Accrued the interest earned but not collected on notes receivable.

100. Collected a note receivable at maturity, including the interest that had already been accrued.

101. Collected cash on account from customers.

102. Sold inventory for cash.

103. Received payment for services to be performed next year.



104. Wages have been earned but are unpaid at the end of an accounting period.

105. Closed the income summary account, assuming there was a net income for the period.

106. Accrued property taxes were paid.

107.Declared cash dividends on common stock.

108.Paid rent for the next three months.

109. Rite Shoes was involved in the transactions described below.

**Required:**

Prepare the appropriate journal entry for each transaction. If an entry is not required, state "No Entry."

1. Purchased \$8,200 of inventory on account.
2. Paid weekly salaries, \$920.
3. Recorded sales for the first week: Cash: \$7,100; On account: \$5,300.
4. Paid for inventory purchased in event (1).
5. Placed an order for \$6,200 of inventory.

110. Prepare journal entries to record the following transactions of Daisy King Ice Cream Company. If an entry is not required, state "No Entry."

1. Started business by issuing 10,000 shares of capital stock for \$20,000.
2. Signed a franchise agreement to pay royalties of 5% of sales.
3. Leased a building for three years at \$500 per month and paid six months' rent in advance.
4. Purchased equipment for \$5,400, paying \$1,000 down and signing a two-year, 10% note for the balance.
5. Purchased \$1,800 of supplies on account.
6. Recorded cash sales of \$800 for the first week.
7. Paid weekly wages, \$320.
8. Paid for supplies purchased in item (5).
9. Paid royalties due on first week's sales.
10. Recorded depreciation on equipment, \$50.

111. Flint Hills, Inc. has prepared a year-end 2013 trial balance. Certain accounts in the trial balance do not reflect all activities that have occurred.

**Required:**

Prepare adjusting journal entries, as needed, for the following items.

1. The Supplies account shows a balance of \$540, but a count of supplies reveals only \$210 on hand.
2. Flint Hills initially records the payments of all insurance premiums as expenses. The trial balance shows a balance of \$420 in Insurance expense. A review of insurance policies reveals that \$125 of insurance is unexpired.
3. Flint Hills employees work Monday through Friday, and salaries of \$2,400 per week are paid each Friday. Flint Hills' year-end falls on Tuesday.
4. On December 31, 2013, Flint Hills received a utility bill for December electricity usage of \$190 that will be paid in early January.

112. The following is selected financial information for Osmond Dental Laboratories for 2012 and 2013:

	<u>2012</u>	<u>2013</u>
Retained earnings, January 1	\$53,000	?
Net income	37,000	42,000
Dividends declared and paid	15,000	18,000
Capital stock	70,000	?

Osmond issued 2,000 shares of additional capital stock in 2013 for \$20,000. There were no other capital transactions.

**Required:**

Prepare a statement of shareholders' equity for Osmond Dental Laboratories for the year ended December 31, 2013.

113. The Yankel Corporation's controller prepares adjusting entries only at the end of the fiscal year.

The following adjusting entries were prepared on December 31, 2013:

	<u>Debit</u>	<u>Credit</u>
Interest expense	1,800	
Interest payable		1,800
Insurance expense	60,000	
Prepaid insurance		60,000
Interest receivable	3,000	
Interest revenue		3,000

Additional information:

1. The company borrowed \$30,000 on June 30, 2013. Principal and interest are due on June 30, 2014. This note is the company's only interest-bearing debt.
2. Insurance for the year on the company's office buildings is \$90,000. The insurance is paid in advance.
3. On August 31, 2013, Yankel lent money to a customer. The customer signed a note with principal and interest at 9% due in one year.

**Required:**

Determine the following:

1. What is the interest rate on the company's note payable?
2. The 2013 insurance payment was made at the beginning of which month?
3. How much did Yankel lend its customer on August 31?

Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item of information, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2013 Income Statement and 12/31/13 Balance Sheet.

Assume no income taxes.

Use the following code for your answers and be sure to include the dollar amounts of the effects next to the letter O or U:

N = No Effect

O = Overstated

U = Understated

114.	Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
	\$2,000 interest on a loan was not yet paid or recorded				



115.	Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
	The estimated uncollectible accounts receivable is now zero and should be \$25,000.				

116.	Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
	\$10,000 of the paid and recorded rent expense pertains to the year 2014.				

117.	Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
	\$20,000 in depreciation on some equipment was still unrecorded.				

118.	Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
	\$4,000 in cash dividends declared and paid in December 2013 were unrecorded.				

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/13. You notice several omissions and incorrect items during your review, some of which are noted below. For each one, you are to determine what effect, if any, these items would have on the stated components of O'Brian Co.'s 2013 Income Statement and 12/31/13 Balance Sheet if they are not corrected or updated. Assume no income taxes.

Use the following code for your answers. You need not include any dollar amounts.

N = No Effect

O = Overstated

U = Understated

119.

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
Uncollectible accounts of \$7,000, as a percentage of sales, are estimated at the end of the year. The entry has not been made.				

120.	Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
	The journal entry for depreciation on equipment for 2013 was recorded for \$48,000. It should have been \$66,000.				

121.	Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
	Cash dividends declared and paid on December 15, 2013, were not recorded.				

122.	Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
	\$10,000 of the rent revenue collected and recorded as earned this year pertains to 2014.				

123.	Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
	Interest earned during the year on a note receivable was not yet collected or recorded				

124.	Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
	Supplies purchased during the year for \$1,000 cash were recorded by a debit to Supplies Expense and a credit to Cash. Only \$200 of supplies remain at the end of the year, but no further entries have been made.				

The adjusted trial balance for China Tea Company at December 31, 2013, is presented below:

	<u>Debit</u>	<u>Credit</u>
Cash	10,500	
Accounts receivable	150,000	
Prepaid rent	5,000	
Inventory	25,000	
Equipment	300,000	
Accumulated depreciation - equipment		125,000
Accounts payable		30,000
Notes payable - due in three months		30,000
Salaries payable		4,000
Interest payable		1,000
Capital stock		200,000
Retained earnings		50,000
Sales revenue		400,000
Costs of goods sold	180,000	
Salaries expense	120,000	
Rent expense	15,000	
Depreciation expense	30,000	
Interest expense	2,000	
Advertising expense	2,500	
Totals	<u>840,000</u>	<u>840,000</u>

125. Prepare the closing entries for China Tea Company for the year ended December 31, 2013.

126. Prepare an income statement for China Tea Company for the year ended December 31, 2013.

127. Prepare a classified balance sheet for China Tea Company as of December 31, 2013.

The following information, based on the 12/31/13 Annual Report to Shareholders of Krafty Foods  
(\$ in millions):

Accounts payable	1,897
Accounts receivable (net)	3,131
Accrued liabilities and taxes	4,105
Cash and cash equivalents	162
Cost of sales	17,531
Current payables to parent and affiliates	1,652
Current portion of long-term debt	540
Deferred income taxes and other liabilities	10,311
Earnings retained in the business as of 12/31/13	2,391
Goodwill and other intangible assets (net)	35,957
Income tax expense	1,565
Interest and other debt expense, net	1,437
Inventories	3,026
Long-term debt	8,134
Long-term notes payable to parent and affiliates	5,000
Marketing, general and administration expenses	11,460
Operating revenues	33,875
Other current assets	687
Other noncurrent assets	3,726
Other stockholders' equity	(2,568)
Paid-in capital for common and preferred stock	23,655
Property, plant and equipment (net)	9,109
Short-term borrowings	681

128. Based on the information presented above, prepare the 2013 Income Statement for Krafty Foods.



129. Based on the information presented above, prepare the 12/31/13 Balance Sheet for Krafty Foods.

The December 31, 2013 (preclosing) adjusted trial balance for Kline Enterprises was as follows:

<u>Account Title</u>	<u>Debits</u>	<u>Credits</u>
Accounts payable .....		90,000
Accounts receivable.....	170,000	
Accumulated depreciation – equipment.....		260,000
Capital stock.....		490,000
Cash .....	26,000	
Cost of goods sold .....	480,000	
Depreciation expense .....	60,000	
Equipment .....	700,000	
Interest expense .....	4,000	
Inventory .....	150,000	
Note payable (due in six months) .....		60,000
Rent expense .....	30,000	
Retained earnings .....		62,000
Salaries payable .....		8,000
Sales revenue .....		<u>770,000</u>
Salaries expense .....	<u>120,000</u>	
TOTALS.....	<u>1,740,000</u>	<u>1,740,000</u>

**Required:**

Assuming no income taxes, compute the following, and place your answer in the space provided:

130.Kline's 2013 net income (or loss):

131.Kline's 12/31/13 total current assets:

132.Kline's 12/31/13 total current liabilities:

133.Kline's 12/31/13 total shareholders' equity:

134.Presented below is income statement information of the Nebraska Corporation for the year ended December 31, 2013.

Sales revenue	\$620,000	Cost of goods sold	\$355,000
Salaries expense	90,000	Insurance expense	20,000
Dividend revenue	3,000	Depreciation expense	18,000
Miscellaneous expense	12,000	Income tax expense	35,000
Loss on sale of investments	8,000	Rent expense	10,000

**Required:**

Prepare the necessary closing entries at December 31, 2013.

135. Raintree Corporation maintains its records on a cash basis. At the end of each year the company's accountant obtains the necessary information to prepare accrual basis financial statements. The following cash flows occurred during the year ended December 31, 2013:

Cash receipts:	
From customers	\$450,000
Interest on note	3,000
Issue of common stock	<u>50,000</u>
Total cash receipts	<u>\$503,000</u>

Cash disbursements:	
Purchase of merchandise	\$220,000
Annual insurance payment	9,000
Payment of salaries	180,000
Dividends paid to shareholders	6,000
Annual rent payment	<u>12,000</u>
Total cash disbursements	<u>\$427,000</u>

Selected balance sheet information:

	<u>12/31/12</u>	<u>12/31/13</u>
Cash	\$25,000	\$101,000
Accounts receivable	42,000	70,000
Inventory	60,000	82,000
Prepaid insurance	2,000	?
Prepaid rent	7,000	?
Interest receivable	1,500	?
Note receivable	50,000	50,000
Equipment	150,000	150,000
Accumulated depreciation—equipment	(40,000)	(55,000)
Accounts payable (for merchandise)	50,000	62,000
Salaries payable	20,000	28,000
Common stock	200,000	250,000

Additional information:

1. On June 30, 2012, Raintree lent a customer \$50,000. Interest at 6% is payable annually on each June 30. Principal is due in 2016.
2. The annual insurance payment is made in advance on March 31.
3. Annual rent on the company's facilities is paid in advance on September 30.

**Required:**

1. Prepare an accrual basis income statement for 2013 (ignore income taxes).
2. Determine the following balance sheet amounts on December 31, 2013:
  - a. Interest receivable
  - b. Prepaid insurance
  - c. Prepaid rent

136. Silicon Chip Company's fiscal year-end is December 31. At the end of 2013, it owed employees \$22,000 in wages that will be paid on January 7, 2014.

**Required:**

1. Prepare an adjusting entry to record accrued salaries, a reversing entry on January 1, 2014, and an entry to record the payment of wages on January 7, 2014.
2. Prepare journal entries to record the accrued salaries on December 31 and the payment of salaries on January 7, assuming a reversing entry is not made.

## Essay Questions

137. Describe the difference between external events and internal events, and give two examples of each.

138. Describe what is meant by unearned revenues and give two examples.

139. Describe what is meant by prepaid expenses and give two examples.

140. What is an accrued liability?

141. What is the difference between permanent accounts and temporary accounts, and why does an accounting system have both types of accounts?

142. What is the purpose of the statement of cash flows? List the three major categories of cash flows and give an example of a cash transaction for each category.

143. What is the purpose of the closing process?



144. Claymore Corporation maintains its books on a cash basis. During 2013, the company collected \$825,000 in fees from its clients and paid \$512,000 in expenses. You are able to determine the following information about accounts receivable, supplies, prepaid rent, salaries payable, and interest payable:

	<u>January 1, 2013</u>	<u>December 31, 2013</u>
Accounts receivable	\$110,000	\$120,000
Supplies	15,000	18,000
Prepaid rent	12,000	11,000
Salaries payable	16,500	14,200
Interest payable	4,000	5,500

In addition, 2013 depreciation expense on office equipment and furniture is \$55,000.

**Required:**

Determine accrual basis income for 2013.

145. The accounting system of Carlton and Sons consists of a general journal (GJ), a cash receipts journal (CR), a cash disbursements journal (CD), a sales journal (SJ), and a purchases journal (PJ). For each of the following, indicate which journal should be used to record the transaction.

<u>Transaction</u>	<u>Journal</u>
1. Received interest on a loan.	_____
2. Recorded amortization expense.	_____
3. Purchased machinery for cash.	_____
4. Purchased merchandise on account.	_____
5. Sold merchandise on credit (the sale only, not the cost of the merchandise).	_____
6. Sold merchandise for cash (the sale only, not the cost of the merchandise).	_____
7. Paid advertising bill.	_____
8. Recorded accrued salaries payable.	_____
9. Paid utility bill.	_____
10. Recorded depreciation expense.	_____
11. Sold machinery for cash.	_____
12. Collected cash from customers on account.	_____
13. Paid employees wages.	_____
14. Paid interest on a loan.	_____

## Chapter 02 Review of the Accounting Process **Answer Key**

### True / False Questions

1. Owners' equity can be expressed as assets minus liabilities.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Analyze routine economic events-transactions-and record their effects on a company's financial position using the accounting equation format.*

*Topic: Analyze Routine Economic Events Using the Accounting Equation*

2. Debits increase asset accounts and decrease liability accounts.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

3. Balance sheet accounts are referred to as temporary accounts because their balances are always changing.

**FALSE**

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

4. After an unadjusted trial balance is prepared, the next step in the accounting processing cycle is the preparation of financial statements.

**FALSE**

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Post the effects of journal entries to general ledger accounts and prepare an unadjusted trial balance.*

*Topic: Post and Prepare an Unadjusted Trial Balance*

5. Adjusting journal entries are required to comply with the realization and matching principles.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Identify and describe the different types of adjusting journal entries.*

*Topic: Identify and Describe Adjusting Entries*

6. Accruals occur when the cash flow precedes either revenue or expense recognition.

**FALSE**

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Identify and describe the different types of adjusting journal entries.*

*Topic: Identify and Describe Adjusting Entries*

7. The adjusted trial balance contains only permanent accounts.

**FALSE**

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

8. The income statement summarizes the operating activity of a firm at a particular point in time.

**FALSE**

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Topic: Describe the Four Basic Financial Statements*

9. The balance sheet can be considered a change or flow statement.

**FALSE**

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Topic: Describe the Four Basic Financial Statements*

10. The statement of cash flows summarizes transactions that caused cash to change during a reporting period.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Topic: Describe the Four Basic Financial Statements*

11. The statement of shareholders' equity discloses the changes in the temporary shareholders' equity accounts.

**FALSE**

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Topic: Describe the Four Basic Financial Statements*

12. The post-closing trial balance contains only permanent accounts.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-07 Explain the closing process.*

*Topic: Explain the Closing Process*

13. The closing process brings all temporary accounts to a zero balance and updates the balance in the retained earnings account.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-07 Explain the closing process.*

*Topic: Explain the Closing Process*

14. A reversing entry at the beginning of a period for salaries would include a debit to salaries expense.

**FALSE**

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-Appendix 2B Reversing Entries.*

*Topic: Reversing Entries*

15. The sale of merchandise on account would be recorded in a sales journal.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-Appendix 2C Subsidiary Ledgers and Special Journals.*

*Topic: Subsidiary Ledgers and Special Journals*

16. The payment of cash to a supplier would be recorded in a purchases journal.

**FALSE**

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-Appendix 2C Subsidiary Ledgers and Special Journals.*

*Topic: Subsidiary Ledgers and Special Journals*

## **Multiple Choice Questions**



17. The accounting equation can be stated as:

- A.  $A + L - OE = 0$ .
- B.  $A - L + OE = 0$ .
- C.  $-A + L - OE = 0$ .
- D.  $A - L - OE = 0$ .

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Analyze routine economic events-transactions-and record their effects on a company's financial position using the accounting equation format.*

*Topic: Analyze Routine Economic Events Using the Accounting Equation*

18. Examples of external transactions include all of the following except:

- A. Paying employees salaries.
- B. Purchasing equipment.
- C. Depreciating equipment.
- D. Collecting a receivable.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Analyze routine economic events-transactions-and record their effects on a company's financial position using the accounting equation format.*

*Topic: Analyze Routine Economic Events Using the Accounting Equation*

19. Examples of internal transactions include all of the following except:

- A. Writing off an uncollectible account.
- B. Recording the expiration of prepaid insurance.
- C. Recording unpaid wages.
- D. Paying wages to company employees.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Analyze routine economic events-transactions-and record their effects on a company's financial position using the accounting equation format.*

*Topic: Analyze Routine Economic Events Using the Accounting Equation*

20. XYZ Corporation receives \$100,000 from investors for issuing them shares of its stock. XYZ's journal entry to record this transaction would include a:

- A. Debit to investments.
- B. Credit to retained earnings.
- C. Credit to capital stock.
- D. Credit to revenue.

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Analyze routine economic events-transactions-and record their effects on a company's financial position using the accounting equation format.*

*Topic: Analyze Routine Economic Events Using the Accounting Equation*

21. Incurring an expense for advertising on account would be recorded by:

- A. Debiting liabilities.
- B. Crediting assets.
- C.** Debiting an expense.
- D. Debiting assets.

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Analyze routine economic events-transactions-and record their effects on a company's financial position using the accounting equation format.*

*Topic: Analyze Routine Economic Events Using the Accounting Equation*

22. A sale on account would be recorded by:

- A. Debiting revenue.
- B. Crediting assets.
- C. Crediting liabilities.
- D.** Debiting assets.

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

23. Mary Parker Co. invested \$15,000 in ABC Corporation and received capital stock in exchange. Mary Parker Co.'s journal entry to record this transaction would include a:

- A. Debit to investments.
- B. Credit to retained earnings.
- C. Credit to capital stock.
- D. Debit to expense.

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

24. Hughes Aircraft sold a four-passenger airplane for \$380,000, receiving a \$50,000 down payment and a 12% note for the balance. The journal entry to record this sale would include a:

- A. Credit to cash.
- B. Debit to cash discount.
- C. Debit to note receivable.
- D. Credit to note receivable.

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

25. Somerset Leasing received \$12,000 for 24 months rent in advance. How should Somerset record this transaction?

- |                  |                  |        |        |
|------------------|------------------|--------|--------|
| A.               | Prepaid rent     | 12,000 |        |
|                  | Rent expense     |        | 12,000 |
| <b><u>B.</u></b> | Cash             | 12,000 |        |
|                  | Unearned revenue |        | 12,000 |
| C.               | Interest expense | 12,000 |        |
|                  | Interest payable |        | 12,000 |
| D.               | Salaries expense | 12,000 |        |
|                  | Salaries payable |        | 12,000 |

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

26. Davis Hardware Company uses a perpetual inventory system. How should Davis record the sale of merchandise, costing \$620 and sold for \$960 on account?

- |                  |                     |     |     |
|------------------|---------------------|-----|-----|
| A.               | Inventory           | 620 |     |
|                  | Accounts receivable |     | 620 |
|                  | Sales               | 960 |     |
|                  | Revenue from sales  |     | 960 |
|                  |                     |     |     |
| <b><u>B.</u></b> | Accounts receivable | 960 |     |
|                  | Sales revenue       |     | 960 |
|                  | Cost of goods sold  | 620 |     |
|                  | Inventory           |     | 620 |
|                  |                     |     |     |
| C.               | Inventory           | 620 |     |
|                  | Gain on sale        | 340 |     |
|                  | Sales revenue       |     | 960 |
|                  |                     |     |     |
| D.               | Accounts receivable | 960 |     |
|                  | Sales revenues      |     | 620 |
|                  | Gain on sale        |     | 340 |

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

27. Ace Bonding Company purchased merchandise inventory on account. The inventory costs \$2,000 and is expected to sell for \$3,000. How should Ace record the purchase?

- |    |                    |       |       |
|----|--------------------|-------|-------|
| A. | Inventory          | 2,000 |       |
|    | Accounts payable   |       | 2,000 |
|    |                    |       |       |
| B. | Cost of goods sold | 2,000 |       |
|    | Deferred revenue   | 1,000 |       |
|    | Sales in advance   |       | 3,000 |
|    |                    |       |       |
| C. | Cost of goods sold | 2,000 |       |
|    | Inventory payable  |       | 2,000 |
|    |                    |       |       |
| D. | Cost of goods sold | 2,000 |       |
|    | Profit             | 1,000 |       |
|    | Sales payable      |       | 3,000 |

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

28. Which of the following accounts has a debit balance?

- A. Accounts payable.
- B. Accrued taxes.
- C. Accumulated depreciation.
- D. Advertising expense.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Post the effects of journal entries to general ledger accounts and prepare an unadjusted trial balance.*

*Topic: Post and Prepare an Unadjusted Trial Balance*

29. An example of a contra account is:

- A. Depreciation expense.
- B. Accounts receivable.
- C. Sales revenue.
- D. Accumulated depreciation.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Post the effects of journal entries to general ledger accounts and prepare an unadjusted trial balance.*

*Topic: Post and Prepare an Unadjusted Trial Balance*

30. Making insurance payments in advance is an example of:

- A. An accrued receivable transaction.
- B. An accrued liability transaction.
- C. An unearned revenue transaction.
- D. A prepaid expense transaction.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Create*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Identify and describe the different types of adjusting journal entries.*

*Topic: Identify and Describe Adjusting Entries*



31. Recording revenue that is earned, but not yet collected, is an example of:

- A. A prepaid expense transaction.
- B. An unearned revenue transaction.
- C. An accrued liability transaction.
- D. An accrued receivable transaction.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Create*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Identify and describe the different types of adjusting journal entries.*

*Topic: Identify and Describe Adjusting Entries*

32. When a magazine company collects cash for selling a subscription, it is an example of:

- A. An accrued liability transaction.
- B. An accrued receivable transaction.
- C. A prepaid expense transaction.
- D. An unearned revenue transaction.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Create*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Identify and describe the different types of adjusting journal entries.*

*Topic: Identify and Describe Adjusting Entries*

33. On December 31, 2012, Coolwear, Inc. had a balance in its prepaid insurance account of \$48,400. During 2013, \$86,000 was paid for insurance. At the end of 2013, after adjusting entries were recorded, the balance in the prepaid insurance account was 42,000. Insurance expense for 2013 would be:

- A. \$6,400.
- B. \$134,400.
- C. \$86,000.
- D.** \$92,400.

$$\text{Insurance expense} = \$48,400 + 86,000 - 42,000 = \underline{\$92,400}$$

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Identify and describe the different types of adjusting journal entries.*

*Topic: Identify and Describe Adjusting Entries*

34. Adjusting entries are primarily needed for:

- A. Cash basis accounting.
- B.** Accrual accounting.
- C. Current value accounting.
- D. Manual accounting systems.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Identify and describe the different types of adjusting journal entries.*

*Topic: Identify and Describe Adjusting Entries*

35. Prepayments occur when:

- A. Cash flow precedes expense recognition.
- B. Sales are delayed pending credit approval.
- C. Customers are unable to pay the full amount due when goods are delivered.
- D. Manufactured goods await quality control inspections.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Identify and describe the different types of adjusting journal entries.*

*Topic: Identify and Describe Adjusting Entries*

36. Accruals occur when cash flows:

- A. Occur before expense recognition.
- B. Occur after revenue or expense recognition.
- C. Are uncertain.
- D. May be substituted for goods or services.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Identify and describe the different types of adjusting journal entries.*

*Topic: Identify and Describe Adjusting Entries*

37. On December 31, 2013, the end of Larry's Used Cars' first year of operations, the accounts receivable was \$53,600. The company estimates that \$1,200 of the year-end receivables will not be collected. Accounts receivable in the 2013 balance sheet will be valued at:

- A. \$53,600.
- B. \$54,800.
- C. \$52,400.
- D. \$1,200.

$$\text{Accounts receivable} = \$53,600 - 1,200 = \underline{\$52,400}$$

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Identify and describe the different types of adjusting journal entries.*

*Topic: Identify and Describe Adjusting Entries*

38. Cal Farms reported supplies expense of \$2,000,000 this year. The supplies account decreased by \$200,000 during the year to an ending balance of \$400,000. What was the cost of supplies the Cal Farms purchased during the year?

- A. \$1,600,000.
- B. \$1,800,000.**
- C. \$2,200,000.
- D. \$2,400,000.

Supplies	
Bal.	600,000
	?
	2,000,000
Bal.	400,000

Supplies purchases:  $\$400,000 + 2,000,000 - 600,000 = \underline{\$1,800,000}$

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Identify and describe the different types of adjusting journal entries.*

*Topic: Identify and Describe Adjusting Entries*

39. Which of the following is not an adjusting entry?

- A. Prepaid rent  
Rent expense
- B.** Cash  
Unearned revenue
- C. Interest expense  
Interest payable
- D. Salaries expense  
Salaries payable

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Create*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

40. The adjusting entry required when amounts previously recorded as unearned revenues are earned includes:

- A.** A debit to a liability.
- B. A debit to an asset.
- C. A credit to a liability.
- D. A credit to an asset.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Create*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

41. Which of the following accounts has a credit balance?

- A. Salary expense.
- B.** Accrued income taxes payable.
- C. Land.
- D. Prepaid rent.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

42. When a tenant makes an end-of-period adjusting entry credit to the "Prepaid rent" account:

- A. (S)he usually debits cash.
- B.** (S)he usually debits an expense account.
- C. (S)he debits a liability account.
- D. (S)he does none of the above.

*AACSB: Reflective Thinking*

*AICPA FN: Reporting*

*Blooms: Create*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

43. When a business makes an end-of-period adjusting entry with a debit to supplies expense, the usual credit entry is made to:

- A. Accounts payable.
- B. Supplies.**
- C. Cash.
- D. Retained earnings.

*AACSB: Reflective Thinking*

*AICPA FN: Reporting*

*Blooms: Create*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

44. The adjusting entry required to record accrued expenses includes:

- A. A credit to cash.
- B. A debit to an asset.
- C. A credit to an asset.
- D. A credit to liability.**

*AACSB: Reflective Thinking*

*AICPA FN: Reporting*

*Blooms: Create*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*



45. Carolina Mills purchased \$270,000 in supplies this year. The supplies account increased by \$10,000 during the year to an ending balance of \$66,000. What was supplies expense for Carolina Mills during the year?

- A. \$300,000.
- B. \$280,000.
- C. \$260,000.
- D. \$240,000.

Supplies		
Bal.	56,000	
	270,000	?
Bal.	66,000	

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

46. Yummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2013, and charged the \$4,200 premium to Insurance expense. At its December 31, 2013, year-end, Yummy Foods would record which of the following adjusting entries?

- A. Insurance expense                               875  
       Prepaid insurance   875
- B. Prepaid insurance                               875  
       Insurance expense   875
- C. Insurance expense                               875  
    Prepaid insurance                               3,325  
       Insurance payable   4,200
- D. Prepaid insurance                               3,325  
       Insurance expense   3,325

Entry on 8/1:     Insurance expense                               4,200  
   Cash   4,200

Unused at 12/31: \$4,200 x 19/24 = \$3,325

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

47. The employees of Neat Clothes work Monday through Friday. Every other Friday the company issues payroll checks totaling \$32,000. The current pay period ends on Friday, July 3. Neat Clothes is now preparing quarterly financial statements for the three months ended June 30. What is the adjusting entry to record accrued salaries at the end of June?

A. Salaries expense                    22,400  
     Prepaid salaries                    9,600  
         Salaries payable                    32,000

B. Salaries expense                    6,400  
     Salaries payable                    6,400

C. Prepaid salaries                    9,600  
     Salaries payable                    9,600

D. Salaries expense                    22,400  
     Salaries payable                    22,400

Amount accrued:  $\$32,000 \times 7/10 = \$22,400$

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

48. On September 1, 2013, Fortune Magazine sold 600 one-year subscriptions for \$81 each. The total amount received was credited to unearned subscriptions revenue. What is the required adjusting entry at December 31, 2013?

- |           |                                |        |        |
|-----------|--------------------------------|--------|--------|
| A.        | Unearned subscriptions revenue | 48,600 |        |
|           | Subscriptions revenue          |        | 16,200 |
|           | Prepaid subscriptions          |        | 32,400 |
|           |                                |        |        |
| <u>B.</u> | Unearned subscriptions revenue | 16,200 |        |
|           | Subscriptions revenue          |        | 16,200 |
|           |                                |        |        |
| C.        | Unearned subscriptions revenue | 16,200 |        |
|           | Subscriptions payable          |        | 16,200 |
|           |                                |        |        |
| D.        | Unearned subscriptions revenue | 32,400 |        |
|           | Subscriptions revenue          |        | 32,400 |

Entry on 9/1:	Cash	48,600	
	Unearned subscriptions revenue		48,600

Amount earned:  $\$48,600 \times 4/12 = \$16,200$

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

49. Mama's Pizza Shoppe borrowed \$8,000 at 9% interest on May 1, 2013, with principal and interest due on October 31, 2014. The company's fiscal year ends June 30, 2013. What adjusting entry is necessary on June 30, 2013?

A. No entry.

B. Interest expense                    240  
    Interest payable                                    240

C. Interest expense                    120  
    Interest payable                                    120

D. Prepaid interest                    120  
    Interest payable                                    120

Accrued interest expense:  $\$8,000 \times 9\% \times 2/12 = \$120$

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

50. On September 15, 2013, Oliver's Mortuary received a \$6,000, nine-month note bearing interest at an annual rate of 10% from the estate of Jay Hendrix for services rendered. Oliver's has a December 31 year-end. What adjusting entry will the company record on December 31, 2013?

- |    |                     |     |     |
|----|---------------------|-----|-----|
| A. | Interest receivable | 175 |     |
|    | Interest revenue    |     | 175 |
|    |                     |     |     |
| B. | Interest receivable | 230 |     |
|    | Interest revenue    |     | 230 |
|    |                     |     |     |
| C. | Interest receivable | 175 |     |
|    | Notes receivable    |     | 175 |
|    |                     |     |     |
| D. | Interest receivable | 600 |     |
|    | Interest revenue    |     | 175 |
|    | Cash                |     | 425 |

Accrued interest revenue:  $\$6,000 \times 10\% \times 3.5/12 = \$175$

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

51. In its first year of operations Acme Corp. had income before tax of \$400,000. Acme made income tax payments totaling \$150,000 during the year and has an income tax rate of 40%. What is the balance in income tax payable at the end of the year?

- A. \$160,000 credit.
- B. \$150,000 credit.
- C.** \$10,000 credit.
- D. \$10,000 debit.

$$\text{Income tax expense} = \$400,000 \times 40\% = \$160,000$$

Income Tax Payable	
150,000	160,000
10,000	10,000

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

52. Eve's Apples opened business on January 1, 2013, and paid for two insurance policies effective that date. The liability policy was \$36,000 for 18 months, and the crop damage policy was \$12,000 for a two-year term. What is the balance in Eve's prepaid insurance as of December 31, 2013?

- A. \$9,000.
- B. \$18,000.**
- C. \$30,000.
- D. \$48,000.

Prepaid liability insurance: $\$36,000 \times 6/18$	\$12,000
Prepaid hazard insurance: $\$12,000 \times 12/24$	<u>6,000</u>
Total prepaid insurance at 12/31/13	<u>\$18,000</u>

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*



53. Fink Insurance collected premiums of \$18,000,000 from its customers during the current year. The adjusted balance in the Unearned premiums account increased from \$6 million to \$8 million dollars during the year. What is Fink's revenue from earned insurance premiums for the current year?

- A. \$10,000,000.
- B. \$16,000,000.**
- C. \$18,000,000.
- D. \$20,000,000.

Cash collections	\$18,000,000
Deduct increase in unearned premiums	<u>( 2,000,000)</u>
Premiums earned	<u>\$16,000,000</u>

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

54. On November 1, 2013, Tim's Toys borrows \$30,000,000 at 9% to finance the holiday sales season. The note is for a six-month term and both principal and interest are payable at maturity. What is the balance of interest payable for the loan as of December 31, 2013?
- A. \$112,500.
  - B. \$225,000.
  - C. \$450,000.**
  - D. \$1,350,000.

Accrued interest payable =  $\$30,000,000 \times 9\% \times 2/12 = \underline{\$450,000}$

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

55. A future economic benefit owned or controlled by an entity is:
- A. A revenue.
  - B. An asset.**
  - C. A liability.
  - D. A contra asset until used.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Topic: Describe the Four Basic Financial Statements*

56. Cost of goods sold is:

- A. An asset account.
- B. A revenue account.
- C.** An expense account.
- D. A permanent equity account.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Topic: Describe the Four Basic Financial Statements*

57. The balance in retained earnings at the end of the year is determined by retained earnings at the beginning of the year:

- A. Plus revenues, minus liabilities.
- B. Plus accruals, minus deferrals.
- C.** Plus net income, minus dividends.
- D. Plus assets, minus liabilities.

*AACSB: Reflective Thinking*

*AICPA FN: Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Topic: Describe the Four Basic Financial Statements*

58. In its first year of operations Best Corp. had income before tax of \$500,000. Best made income tax payments totaling \$210,000 during the year and has an income tax rate of 40%. What was Best's net income for the year?

- A. \$290,000.
- B. \$294,000.
- C. \$300,000.**
- D. \$306,000.

Income before tax	\$500,000
Income tax (\$500,000 x 40%)	<u>(200,000)</u>
Net income	<u>\$300,000</u>

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Topic: Describe the Four Basic Financial Statements*

59. Dave's Duds reported cost of goods sold of \$2,000,000 this year. The inventory account increased by \$200,000 during the year to an ending balance of \$400,000. What was the cost of merchandise that Dave's purchased during the year?

- A. \$1,600,000.
- B. \$1,800,000.
- C. \$2,200,000.**
- D. \$2,400,000.

Cost of goods sold	\$2,000,000
Add increase in inventories	<u>200,000</u>
Purchases	<u>\$2,200,000</u>

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Topic: Describe the Four Basic Financial Statements*

60. Permanent accounts would not include:

- A. Interest expense.**
- B. Wages payable.
- C. Prepaid rent.
- D. Unearned revenues.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-07 Explain the closing process.*

*Topic: Explain the Closing Process*

61. Permanent accounts would not include:

- A. Cost of goods sold.
- B. Inventory.
- C. Current liabilities.
- D. Accumulated depreciation.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-07 Explain the closing process.*

*Topic: Explain the Closing Process*

62. The purpose of closing entries is to transfer:

- A. Accounts receivable to retained earnings when an account is fully paid.
- B. Balances in temporary accounts to a permanent account.
- C. Inventory to cost of goods sold when merchandise is sold.
- D. Assets and liabilities when operations are discontinued.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Create*

*Difficulty: 2 Medium*

*Learning Objective: 02-07 Explain the closing process.*

*Topic: Explain the Closing Process*

63. Temporary accounts would not include:

- A. Salaries payable.
- B. Depreciation expense.
- C. Supplies expense.
- D. Cost of goods sold.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-07 Explain the closing process.*

*Topic: Explain the Closing Process*

64. When converting an income statement from a cash basis to an accrual basis, expenses:

- A. Exceed cash payments to suppliers.
- B. Equal cash payments to suppliers.
- C. Are less than cash payments to suppliers.
- D. May exceed or be less than cash payments to suppliers.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-08 Convert from cash basis net income to accrual basis net income.*

*Topic: Cash vs. Accrual Net Income*

65. When the amount of revenue collected in advance decreases during an accounting period:

- A.** Accrual-basis revenues exceed cash collections from customers.
- B. Accrual-basis net income exceeds cash-basis net income.
- C. Accrual-basis revenues are less than cash collections from customers.
- D. Accrual-basis net income is less than cash-basis net income.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-08 Convert from cash basis net income to accrual basis net income.*

*Topic: Cash vs. Accrual Net Income*

66. When converting an income statement from a cash basis to an accrual basis, which of the following is incorrect?

- A. An adjustment for depreciation reduces net income.
- B.** A decrease in salaries payable decreases net income.
- C. A reduction in prepaid expenses decreases net income.
- D. An increase in accrued payables decreases net income.

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-08 Convert from cash basis net income to accrual basis net income.*

*Topic: Cash vs. Accrual Net Income*



67. Molly's Auto Detailers maintains its records on the cash basis. During 2013, Molly's collected \$72,000 from customers and paid \$21,000 in expenses. Depreciation expense of \$5,000 would have been recorded on the accrual basis. Over the course of the year, accounts receivable increased \$4,000, prepaid expenses decreased \$2,000, and accrued liabilities decreased \$1,000. Molly's accrual basis net income was:

- A. \$38,000.
- B. \$54,000.
- C. \$49,000.
- D. \$42,000.

Cash receipts	\$72,000
Cash disbursements	<u>(21,000)</u>
Cash basis net income	51,000
Deduct: Depreciation expense	(5,000)
Add: Increase in accounts receivable	4,000
Deduct: Decrease in prepaid expenses	(2,000)
Add: Decrease in accrued liabilities	<u>1,000</u>
Accrual basis net income	<u>\$49,000</u>

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-08 Convert from cash basis net income to accrual basis net income.*

*Topic: Cash vs. Accrual Net Income*

68. Pat's Custom Tuxedo Shop maintains its records on the cash basis. During this past year Pat's collected \$42,000 in tailoring fees, and paid \$14,000 in expenses. Depreciation expense totaled \$2,000. Accounts receivable increased \$1,500, supplies increased \$4,000, and accrued liabilities increased \$2,500. Pat's accrual basis net income was:

- A. \$18,000.
- B. \$34,000.
- C. \$23,000.
- D. \$29,000.

Cash receipts	\$42,000
Cash disbursements	<u>(14,000)</u>
Cash basis net income	28,000
Deduct depreciation expense	(2,000)
Add increase in accounts receivable	1,500
Add increase in supplies	4,000
Deduct increase in accrued liabilities	<u>(2,500)</u>
	<u>\$29,000</u>

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-08 Convert from cash basis net income to accrual basis net income.*

*Topic: Cash vs. Accrual Net Income*

69. The Hamada Company sales for 2013 totaled \$150,000 and purchases totaled \$95,000. Selected January 1, 2013, balances were: accounts receivable, \$18,000; inventory, \$14,000; and accounts payable, \$12,000. December 31, 2013, balances were: accounts receivable, \$16,000; inventory, \$15,000; and accounts payable, \$13,000. Net cash flows from these activities were:

- A. \$45,000.
- B. \$55,000.
- C. \$58,000.
- D. \$74,000.

Sales	\$150,000	Purchases	\$95,000
Add decrease in A/R	<u>2,000</u>	Deduct increase in A/P	<u>(1,000)</u>
Cash collections	\$152,000	Cash disbursements	\$94,000

Net cash flows = \$152,000 - \$94,000 = \$58,000

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-08 Convert from cash basis net income to accrual basis net income.*

*Topic: Cash vs. Accrual Net Income*

70. When the amount of interest receivable decreases during an accounting period:

- A. Accrual-basis interest revenues exceed cash collections from borrowers.
- B. Accrual-basis net income exceeds cash-basis net income.
- C.** Accrual-basis interest revenues are less than cash collections from borrowers.
- D. Accrual-basis net income is less than cash-basis net income.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-08 Convert from cash basis net income to accrual basis net income.*

*Topic: Cash vs. Accrual Net Income*

71. When converting an income statement from a cash basis to an accrual basis, cash received for services:

- A. Exceed service revenue.
- B.** May exceed or be less than service revenue.
- C. Is less than service revenue.
- D. Equals service revenue.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-08 Convert from cash basis net income to accrual basis net income.*

*Topic: Cash vs. Accrual Net Income*

72. Compared to the accrual basis of accounting, the cash basis of accounting produces a higher amount of income by the net decrease during the accounting period of:

	<u>Accounts Receivable</u>	<u>Accrued Liabilities</u>
a.	Yes	No
b.	No	Yes
c.	Yes	Yes
d.	No	No

- A.** Option a  
B. Option b  
C. Option c  
D. Option d

A net decrease in accounts receivable means that cash collections exceeded accrual revenue. Therefore, cash basis income would be higher when compared to accrual basis. A net decrease in accrued liabilities indicates that cash payments for expenses are greater than accrual expenses. Therefore, cash basis income would be lower than accrual basis income.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-08 Convert from cash basis net income to accrual basis net income.*

*Topic: Cash vs. Accrual Net Income*

73. On June 1, Royal Corp. began operating a service company with an initial cash investment by shareholders of \$2,000,000. The company provided \$6,400,000 of services in June and received full payment in July. Royal also incurred expenses of \$3,000,000 in June that were paid in August. During June, Royal paid its shareholders cash dividends of \$1,000,000. What was the company's income before income taxes for the two months ended July 31 under the following methods of accounting?

	<u>Cash Basis</u>	<u>Accrual Basis</u>
a.	\$3,400,000	\$3,400,000
b.	\$5,400,000	\$2,400,000
c.	\$6,400,000	\$3,400,000
d.	\$6,400,000	\$2,400,000

- A. Option a  
 B. Option b  
**C. Option c**  
 D. Option d

Cash basis income: Cash collected in July	\$6,400,000
Accrual basis income:	
Revenue recognized in June	\$6,400,000
Less: Expenses recognized in June	<u>(3,000,000)</u>
Income	\$3,400,000

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-08 Convert from cash basis net income to accrual basis net income.*

*Topic: Cash vs. Accrual Net Income*

74. When Castle Corporation pays insurance premiums, the transaction is recorded as a debit to prepaid insurance. Additional information for the year ended December 31 is as follows:

Prepaid insurance at January 1	\$52,500
Insurance expense recognized during the year	218,750
Prepaid insurance at December 31	61,250

What was the total amount cash paid by Castle for insurance premiums during the year?

- A. \$218,750
- B. \$166,250
- C. \$210,000
- D. \$227,500

Expense recognized	\$218,750
Add: Increase in prepaid insurance	<u>8,750</u>
Cash paid for insurance	\$227,500

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-08 Convert from cash basis net income to accrual basis net income.*

*Topic: Cash vs. Accrual Net Income*

## Matching Questions

75. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- |                               |   |          |
|-------------------------------|---|----------|
|                               | Assets or liabilities created when cash flows                         |          |
| 1. Accruals                   | precede recognition.  | <u>3</u> |
|                               | A list of only permanent accounts and their                           |          |
| 2. Adjusted trial balance     | balances prepared to show that the accounting equation is in balance. | <u>4</u> |
|                               | Assets or liabilities created when                                    |          |
| 3. Prepayments                | recognition precedes cash flows.                                      | <u>1</u> |
|                               | A list of accounts and their balances                                 |          |
| 4. Post-closing trial balance | prepared before the effects of internal transactions are recorded.    | <u>5</u> |
|                               | A list of accounts and balances containing                            |          |
| 5. Unadjusted trial balance   | the source data for preparation of financial statements.              | <u>2</u> |

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Learning Objective: 02-04 Identify and describe the different types of adjusting journal entries.*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Learning Objective: 02-07 Explain the closing process.*

*Topic: Explain the Closing Process*

*Topic: Identify and Describe Adjusting Entries*

*Topic: Record Transactions Using the General Journal*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*



76. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- |                               |  |                                |
|-------------------------------|--|--------------------------------|
|                               | Portrays financial position at a point in  |                                |
| 1. Adjusting entries          |  | time. <u>3</u>                 |
| 2. Post-closing trial balance | Records internal transactions not          | previously reported. <u>1</u>  |
|                               | Represents outflows of resources incurred  |                                |
| 3. Balance sheet              |  | to generate revenues. <u>5</u> |
| 4. Statement of cash flows    | Reports operating, investing, and          | financing activities. <u>4</u> |
|                               | The last step in the accounting processing |                                |
| 5. Expenses                   |  | cycle. <u>2</u>                |

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Identify and describe the different types of adjusting journal entries.*

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Learning Objective: 02-07 Explain the closing process.*

*Learning Objective: 02-08 Convert from cash basis net income to accrual basis net income.*

*Topic: Cash vs. Accrual Net Income*

*Topic: Describe the Four Basic Financial Statements*

*Topic: Explain the Closing Process*

*Topic: Identify and Describe Adjusting Entries*

77. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- |                     |   |
|---------------------|---|
| 1. Gains            | Requires adjusting entries to update the inventory account. <u>2</u>                                |
| 2. Periodic system  | When cash flow precedes either expense or revenue recognition. <u>4</u>                             |
| 3. Perpetual system | Requires entries to cost of goods sold account when merchandise is sold. <u>3</u>                   |
| 4. Prepayments      | Recorded when there are dispositions of assets for consideration less than book values. <u>5</u>    |
| 5. Losses           | Recorded when there are dispositions of assets for consideration in excess of book values. <u>1</u> |

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Identify and Describe Adjusting Entries*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

78. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- |                    |  |          |
|--------------------|--|----------|
| 1. Credit          | Contains all the accounts of an entity.                        | <u>4</u> |
| 2. Closing entries | Refers to the right side of an account.                        | <u>1</u> |
| 3. General journal | Used to record any type of transaction in chronological order. | <u>3</u> |
| 4. General ledger  | Asset and expense accounts normally have this type of balance. | <u>5</u> |
| 5. Debit           | Used to reset temporary accounts to a zero balance.            | <u>2</u> |

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Learning Objective: 02-07 Explain the closing process.*

*Topic: Explain the Closing Process*

*Topic: Identify and Describe Adjusting Entries*

79. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- |                      |   |                     |
|----------------------|---|---------------------|
|                      | Refers to nonowners' claims against the assets                                      |                     |
| 1. Post              |   | of a firm. <u>4</u> |
| 2. Retained earnings | Represents the cumulative amount of net income, less distributions to shareholders. | <u>2</u>            |
| 3. Special journals  | Record chronologically the effects of transactions in debit/credit form.            | <u>5</u>            |
| 4. Liabilities       | Transfer balances from journals to ledgers.   | <u>1</u>            |
| 5. Journalize        | Used to record repetitive types of transactions.                                    | <u>3</u>            |

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Analyze routine economic events-transactions-and record their effects on a company's financial position using the accounting equation format.*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Learning Objective: 02-03 Post the effects of journal entries to general ledger accounts and prepare an unadjusted trial balance.*

*Learning Objective: 02-Appendix 2C Subsidiary Ledgers and Special Journals.*

*Topic: Analyze Routine Economic Events Using the Accounting Equation*

*Topic: Post and Prepare an Unadjusted Trial Balance*

*Topic: Record Transactions Using the General Journal*

*Topic: Subsidiary Ledgers and Special Journals*

80. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- |                         |   |          |
|-------------------------|---|----------|
| 1. Unearned revenues    | Used to identify external transactions.                                 | <u>5</u> |
| 2. Transaction analysis | Refers to inflows of assets from the sale of goods and services.        | <u>4</u> |
| 3. Special journals     | Determines the effects of an event in terms of the accounting equation. | <u>2</u> |
| 4. Revenues             | Liabilities created by a customer's prepayment.                         | <u>1</u> |
| 5. Source documents     | Used to record repetitive types of transactions.                        | <u>3</u> |

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Analyze routine economic events-transactions-and record their effects on a company's financial position using the accounting equation format.*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Learning Objective: 02-Appendix 2C Subsidiary Ledgers and Special Journals.*

*Topic: Analyze Routine Economic Events Using the Accounting Equation*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

*Topic: Subsidiary Ledgers and Special Journals*

81. Listed below are 10 terms followed by a list of phrases that describe or characterize the terms. Match each phrase with the correct term.

	A list of the general ledger accounts and	
1. Adjusting entries	their balances.	<u>10</u>
2. Accrued receivables	Revenue earned before cash is received.	<u>2</u>
3. Revenues	Cash received from a customer in advance of providing a good or service.	<u>8</u>
4. Temporary accounts	Changes in the retained earnings component of shareholders' equity.	<u>4</u>
5. Post-closing trial balance	Expenses incurred but not yet paid.	<u>6</u>
6. Accrued liabilities	Records the effects of internal transactions.	<u>1</u>
7. General ledger	Asset recorded when an expense is paid for in advance.	<u>9</u>
8. Unearned revenues	Collection of storage areas, called accounts.	<u>7</u>
9. Prepaid expense	Refers to inflows of assets from the sale of goods and services.	<u>3</u>
10. Unadjusted trial balance	Last step in the accounting processing cycle.	<u>5</u>

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Analyze routine economic events-transactions-and record their effects on a company's financial position using the accounting equation format.*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Learning Objective: 02-03 Post the effects of journal entries to general ledger accounts and prepare an unadjusted trial balance.*

*Learning Objective: 02-04 Identify and describe the different types of adjusting journal entries.*

*Learning Objective: 02-07 Explain the closing process.*

*Topic: Analyze Routine Economic Events Using the Accounting Equation*

*Topic: Explain the Closing Process*

*Topic: Identify and Describe Adjusting Entries*

*Topic: Post and Prepare an Unadjusted Trial Balance*

*Topic: Record Transactions Using the General Journal*

## **Short Answer Questions**

Below is a list of accounts in no particular order. Assume that all accounts have normal balances.

**Required:**

In column A, indicate whether a debit will:

1. Increase the account balance, or
2. Decrease the account balance.

In column B, classify each account according to the following scheme. For contra accounts, indicate the classification of the account to which it relates.

1. A current asset in the balance sheet.
2. A noncurrent asset in the balance sheet.
3. A current liability in the balance sheet.
4. A long-term liability in the balance sheet.
5. A permanent equity account in the balance sheet.
6. A revenue account in the income statement.
7. An expense account shown in the income statement.
8. Account does not appear in either the balance sheet or the income statement.

	A	B
	Effect of a debit on account	Classification
EXAMPLE: Advertising expense	1	7

82. Buildings and equipment (B&E)

	Effect	Classification
Buildings and equipment (B&E)	1	2



*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

83. Short-term notes payable

	Effect	Classification
Short-term notes payable	2	3

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

84. Cost of goods sold

	Effect	Classification
Cost of goods sold	1	7

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

85. Accounts receivable

	Effect	Classification
Accounts receivable	1	1

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

86. Inventory

	Effect	Classification
Inventory	1	1

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

87. Unearned revenues

	Effect	Classification
Unearned revenues	2	3

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

88. Property taxes payable

	Effect	Classification
Property taxes payable	2	3

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

89. Retained earnings

	Effect	Classification
Retained earnings	2	5

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

90. Interest revenue

	Effect	Classification
Interest revenue	2	6

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

91. Supplies expense

	Effect	Classification
Supplies expense	1	7

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

92. Prepaid rent

	Effect	Classification
Prepaid rent	1	1

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

93. Capital stock

	Effect	Classification
Capital stock	2	5

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

1100	Cash	2170	Property taxes payable
1120	Short-term investments	2180	Rent payable
1130	Notes receivable	2200	Long-term notes payable
1140	Accounts receivable	3100	Capital stock
1145	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Unearned revenues	6270	Wages and salaries expense
2150	Salaries & wages payable	6400	Interest expense
2160	Dividends payable	6999	Income summary account

Using the chart of accounts provided, indicate by account number the account or accounts that would be debited and credited in the following transactions and indicate the type of transaction as: (1) an external transaction, (2) an internal transaction recorded as an adjusting journal entry, or (3) a closing entry. The company uses a perpetual inventory system. All prepayments are initially recorded in permanent accounts.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
EXAMPLE: Sold \$110,000,000 in capital stock for	1100	3100	1

94. Purchased building and equipment for \$10,000,000, paying 20% cash and issuing a 30-year note for the balance.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Purchased building and equipment for \$10,000,000, paying 20% cash and issuing a 30-year note for the balance.	1320	1100, 2200	1

*AACSB: Analytic*  
*AICPA FN: Reporting*  
*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

95. Invested idle cash in short-term money market funds.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Invested idle cash in short-term money market funds.	1120	1100	1

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

96. Purchased inventory on account.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Purchased inventory on account.	1200	2130	1

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*



97. Sold inventory on account.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Sold inventory on account.	1140, 6000	5000, 1200	1

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

98. Sold merchandise to a customer in exchange for a promissory note.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Sold merchandise to a customer in exchange for a promissory note.	1130, 6000	5000, 1200	1

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

99. Accrued the interest earned but not collected on notes receivable.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Accrued the interest earned but not collected on notes receivable.	1150	5300	2

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

100. Collected a note receivable at maturity, including the interest that had already been accrued.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Collected a note receivable at maturity, including the interest that had already been accrued	1100	1130, 1150	1

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

101. Collected cash on account from customers.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Collected cash on account from customers.	1100	1140	1

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

102. Sold inventory for cash.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Sold inventory for cash.	1100, 6000	5000, 1200	1

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

103. Received payment for services to be performed next year.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Received payment for services to be performed next year.	1100	2140	1

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

104. Wages have been earned but are unpaid at the end of an accounting period.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Accrued wages due but unpaid at the end of an accounting period.	6270	2150	2

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

105. Closed the income summary account, assuming there was a net income for the period.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Closed the income summary account, assuming there was a net income for the period.	6999	3200	3

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-07 Explain the closing process.*

*Topic: Explain the Closing Process*

106. Accrued property taxes were paid.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Accrued property taxes were paid.	2170	1100	1

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

107. Declared cash dividends on common stock.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Declared cash dividends on common stock.	3200	2160	1

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

108. Paid rent for the next three months.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Paid rent for the next three months.	1260	1100	1

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

109. Rite Shoes was involved in the transactions described below.

**Required:**

Prepare the appropriate journal entry for each transaction. If an entry is not required, state "No Entry."

1. Purchased \$8,200 of inventory on account.
2. Paid weekly salaries, \$920.
3. Recorded sales for the first week: Cash: \$7,100; On account: \$5,300.
4. Paid for inventory purchased in event (1).
5. Placed an order for \$6,200 of inventory.

1.	Inventory	8,200	
	Accounts payable		8,200
2.	Salaries expense	920	
	Cash		920
3.	Cash	7,100	
	Accounts receivable	5,300	
	Sales revenue		12,400
4.	Accounts payable	8,200	
	Cash		8,200
5.	No Entry.		

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Record transactions using the general journal format.*

*Topic: Record Transactions Using the General Journal*

110. Prepare journal entries to record the following transactions of Daisy King Ice Cream Company. If an entry is not required, state "No Entry."

1. Started business by issuing 10,000 shares of capital stock for \$20,000.
2. Signed a franchise agreement to pay royalties of 5% of sales.
3. Leased a building for three years at \$500 per month and paid six months' rent in advance.
4. Purchased equipment for \$5,400, paying \$1,000 down and signing a two-year, 10% note for the balance.
5. Purchased \$1,800 of supplies on account.
6. Recorded cash sales of \$800 for the first week.
7. Paid weekly wages, \$320.
8. Paid for supplies purchased in item (5).
9. Paid royalties due on first week's sales.
10. Recorded depreciation on equipment, \$50.

1.	Cash	20,000	
	Capital stock		20,000
2.	No Entry.		
3.	Prepaid rent	3,000	
	Cash		3,000
4.	Equipment	5,400	
	Cash		1,000
	Notes payable		4,400
5.	Supplies inventory	1,800	
	Accounts payable		1,800
6.	Cash	800	
	Sales revenue		800
7.	Wages expense	320	
	Cash		320
8.	Accounts payable	1,800	
	Cash		1,800
9.	Royalty expense	40	
	Cash		40
10.	Depreciation expense	50	
	Accumulated depreciation		50



111. Flint Hills, Inc. has prepared a year-end 2013 trial balance. Certain accounts in the trial balance do not reflect all activities that have occurred.

**Required:**

Prepare adjusting journal entries, as needed, for the following items.

1. The Supplies account shows a balance of \$540, but a count of supplies reveals only \$210 on hand.
2. Flint Hills initially records the payments of all insurance premiums as expenses. The trial balance shows a balance of \$420 in Insurance expense. A review of insurance policies reveals that \$125 of insurance is unexpired.
3. Flint Hills employees work Monday through Friday, and salaries of \$2,400 per week are paid each Friday. Flint Hills' year-end falls on Tuesday.
4. On December 31, 2013, Flint Hills received a utility bill for December electricity usage of \$190 that will be paid in early January.

1.	Supplies expense	330	
	Supplies		330
2.	Prepaid insurance	125	
	Insurance expense		125
3.	Salaries expense	960	
	Salaries payable		960
4.	Utilities expense	190	
	Utilities payable		190

Difficulty: 2 Medium

Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.

Topic: Record, Post, and Prepare an Adjusted Trial Balance

112. The following is selected financial information for Osmond Dental Laboratories for 2012 and 2013:

	<u>2012</u>	<u>2013</u>
Retained earnings, January 1	\$53,000	?
Net income	37,000	42,000
Dividends declared and paid	15,000	18,000
Capital stock	70,000	?

Osmond issued 2,000 shares of additional capital stock in 2013 for \$20,000. There were no other capital transactions.

**Required:**

Prepare a statement of shareholders' equity for Osmond Dental Laboratories for the year ended December 31, 2013.

Osmond Dental Laboratories  
Statement of Shareholders' Equity  
For the Year Ended December 31, 2013

	<u>Capital Stock</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
Balance, January 1, 2013	\$70,000	\$75,000*	\$145,000
Issue of capital stock	20,000		20,000
Net income for 2013		42,000	42,000
Less: Dividends		- 18,000	- 18,000
Balance, December 31, 2013	<u>\$90,000</u>	<u>\$99,000</u>	<u>\$189,000</u>

\*\$53,000 + 37,000 - 15,000 = \$75,000

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Topic: Describe the Four Basic Financial Statements*

113. The Yankel Corporation's controller prepares adjusting entries only at the end of the fiscal year. The following adjusting entries were prepared on December 31, 2013:

	<u>Debit</u>	<u>Credit</u>
Interest expense	1,800	
Interest payable		1,800
Insurance expense	60,000	
Prepaid insurance		60,000
Interest receivable	3,000	
Interest revenue		3,000

Additional information:

1. The company borrowed \$30,000 on June 30, 2013. Principal and interest are due on June 30, 2014. This note is the company's only interest-bearing debt.
2. Insurance for the year on the company's office buildings is \$90,000. The insurance is paid in advance.
3. On August 31, 2013, Yankel lent money to a customer. The customer signed a note with principal and interest at 9% due in one year.

**Required:**

Determine the following:

1. What is the interest rate on the company's note payable?
2. The 2013 insurance payment was made at the beginning of which month?
3. How much did Yankel lend its customer on August 31?

1. \$1,800 represents six months of interest on a \$30,000 note, or 50% of annual interest.

$\$1,800 \div .50 = \$3,600$  in annual interest

$\$3,600 \div \$30,000 = 12\%$  interest rate

Or,

Principle x Rate x Time = Interest

$$\$30,000 \times \text{Rate} \times 6/12 = \$1,800$$

$$\$1,800 \div \$30,000 = .06 \text{ six-month rate}$$

To annualize the nine month rate:  $.06 \times 12/6 = .12$  or 12%

2.  $\$90,000 \div 12 \text{ months} = \$7,500$  per month in insurance

$\$60,000 \div \$7,500 = 8$  months expired. The insurance was paid on **May 1**, eight months ago.

3. Principle  $\times$  Rate  $\times$  Time = Interest

$$\text{Principle} \times 9\% \times (4/12) = \$3,000$$

$$\text{Principle} \times 3\% = \$3,000$$

$$\text{Principle} = \$100,000$$

Or

\$3,000 represents four months (September through December) in accrued interest, or \$750 per month.

$$\$750 \times 12 \text{ months} = \$9,000 \text{ in annual interest}$$

$$\text{Principal} \times 9\% = \$9,000$$

$$\text{Principal} = \$9,000 \div .09 = \mathbf{\$100,000 \text{ note}}$$

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-04 Identify and describe the different types of adjusting journal entries.*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Identify and Describe Adjusting Entries*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item of information, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2013 Income Statement and 12/31/13 Balance Sheet. Assume no income taxes.

Use the following code for your answers and be sure to include the dollar amounts of the effects next to the letter O or U:

N = No Effect

O = Overstated

U = Understated

114.

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
\$2,000 interest on a loan was not yet paid or recorded				

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
\$2,000 interest on a loan was not yet paid or recorded	N	U 2,000	O 2,000	O 2,000

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

115.

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
The estimated uncollectible accounts receivable is now zero and should be \$25,000.				

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
The estimated uncollectible accounts receivable is now zero and should be \$25,000.	O25,000	N	O25,000	O25,000

AACSB: Analytic

AICPA BB: Critical Thinking

Blooms: Analyze

Difficulty: 2 Medium

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

116.

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
\$10,000 of the paid and recorded rent expense pertains to the year 2014.				

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
\$10,000 of the paid and recorded rent expense pertains to the year 2014.	U10,000	N	U10,000	U10,000

AACSB: Analytic

AICPA BB: Critical Thinking

Blooms: Analyze

Difficulty: 2 Medium

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

117.

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
\$20,000 in depreciation on some equipment was still unrecorded.				

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
\$20,000 in depreciation on some equipment was still unrecorded.	020,000	N	020,000	020,000

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

118.

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
\$4,000 in cash dividends declared and paid in December 2013 were unrecorded.				

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
\$4,000 in cash dividends declared and paid in December 2013 were unrecorded.	04,000	N	04,000	N

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*



You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/13. You notice several omissions and incorrect items during your review, some of which are noted below. For each one, you are to determine what effect, if any, these items would have on the stated components of O'Brian Co.'s 2013 Income Statement and 12/31/13 Balance Sheet if they are not corrected or updated. Assume no income taxes.

Use the following code for your answers. You need not include any dollar amounts.

N = No Effect

O = Overstated

U = Understated

119.

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
Uncollectible accounts of \$7,000, as a percentage of sales, are estimated at the end of the year. The entry has not been made.				

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
Uncollectible accounts of \$7,000, as a percentage of sales, are estimated at the end of the year. The entry has not been made.	O	N	O	O

AACSB: Analytic

AICPA BB: Critical Thinking

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.

Topic: Record, Post, and Prepare an Adjusted Trial Balance

120.

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
The journal entry for depreciation on equipment for 2013 was recorded for \$48,000. It should have been \$66,000.				

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
The journal entry for depreciation on equipment for 2013 was recorded for \$48,000. It should have been \$66,000.	O	N	O	O

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

121.

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
Cash dividends declared and paid on December 15, 2013, were not recorded.				

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
Cash dividends declared and paid on December 15, 2013, were not recorded.	O	N	O	N

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

122.

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
\$10,000 of the rent revenue collected and recorded as earned this year pertains to 2014.				

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
\$10,000 of the rent revenue collected and recorded as earned this year pertains to 2014.	N	U	O	O

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

123.

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
Interest earned during the year on a note receivable was not yet collected or recorded				

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
Interest earned during the year on a note receivable was not yet collected or recorded	U	N	U	U

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Blooms: Analyze*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

124.

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
Supplies purchased during the year for \$1,000 cash were recorded by a debit to Supplies Expense and a credit to Cash. Only \$200 of supplies remain at the end of the year, but no further entries have been made.				

Additional Information	12/31/13 Assets	12/31/13 Liabilities	12/31/13 Owners' Equity	2013 Net Income
Supplies purchased during the year for \$1,000 cash were recorded by a debit to Supplies Expense and a credit to Cash. Only \$200 of supplies remain at the end of the year, but no further entries have been made.	U	N	U	U

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.*

*Topic: Record, Post, and Prepare an Adjusted Trial Balance*

The adjusted trial balance for China Tea Company at December 31, 2013, is presented below:

	<u>Debit</u>	<u>Credit</u>
Cash	10,500	
Accounts receivable	150,000	
Prepaid rent	5,000	
Inventory	25,000	
Equipment	300,000	
Accumulated depreciation - equipment		125,000
Accounts payable		30,000
Notes payable - due in three months		30,000
Salaries payable		4,000
Interest payable		1,000
Capital stock		200,000
Retained earnings		50,000
Sales revenue		400,000
Costs of goods sold	180,000	
Salaries expense	120,000	
Rent expense	15,000	
Depreciation expense	30,000	
Interest expense	2,000	
Advertising expense	<u>2,500</u>	
Totals	<u>840,000</u>	<u>840,000</u>

125. Prepare the closing entries for China Tea Company for the year ended December 31, 2013.

1.	Sales revenue	400,000	
	Income summary		400,000
2.	Income summary	349,500	
	Cost of goods sold		180,000
	Salaries expense		120,000
	Rent expense		15,000
	Depreciation expense		30,000
	Interest expense		2,000
	Advertising expense		2,500
3.	Income summary	50,500	
	Retained earnings		50,500

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-07 Explain the closing process.*

*Topic: Explain the Closing Process*

126. Prepare an income statement for China Tea Company for the year ended December 31, 2013.

<b>China Tea Company</b>		
<b>Income Statement</b>		
<b>For the Year Ended December 31, 2013</b>		
Sales revenue		\$400,000
Cost of goods sold		<u>180,000</u>
Gross profit		220,000
Other expenses:		
Salaries expense	\$120,000	
Rent expense	15,000	
Depreciation expense	30,000	
Interest expense	2,000	
Advertising expense	<u>2,500</u>	
Total other expenses		<u>169,500</u>
Net income		<u>\$ 50,500</u>

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Topic: Describe the Four Basic Financial Statements*

127. Prepare a classified balance sheet for China Tea Company as of December 31, 2013.

**China Tea Company**  
**Balance Sheet**  
**At December 31, 2013**

<b>Assets</b>		
Current assets:		
Cash		\$ 10,500
Accounts receivable		150,000
Inventory		25,000
Prepaid rent		<u>5,000</u>
Total current assets		190,500
Property and equipment:		
Equipment	300,000	
Less: Accumulated depreciation	<u>125,000</u>	<u>175,000</u>
Total assets		<u>\$365,500</u>
 <b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable		\$ 30,000
Notes payable		30,000
Salaries payable		4,000
Interest payable		<u>1,000</u>
Total current liabilities		65,000
Shareholders' equity:		
Capital stock	\$200,000	
Retained earnings	<u>100,500</u>	
Total shareholders' equity		<u>300,500</u>
Total liabilities and shareholders' equity		<u>\$365,500</u>

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Topic: Describe the Four Basic Financial Statements*



The following information, based on the 12/31/13 Annual Report to Shareholders of Krafty

Foods (\$ in millions):

Accounts payable	1,897
Accounts receivable (net)	3,131
Accrued liabilities and taxes	4,105
Cash and cash equivalents	162
Cost of sales	17,531
Current payables to parent and affiliates	1,652
Current portion of long-term debt	540
Deferred income taxes and other liabilities	10,311
Earnings retained in the business as of 12/31/13	2,391
Goodwill and other intangible assets (net)	35,957
Income tax expense	1,565
Interest and other debt expense, net	1,437
Inventories	3,026
Long-term debt	8,134
Long-term notes payable to parent and affiliates	5,000
Marketing, general and administration expenses	11,460
Operating revenues	33,875
Other current assets	687
Other noncurrent assets	3,726
Other stockholders' equity	(2,568)
Paid-in capital for common and preferred stock	23,655
Property, plant and equipment (net)	9,109
Short-term borrowings	681

128. Based on the information presented above, prepare the 2013 Income Statement for Krafty Foods.

<b>Krafty Foods</b>	
<b>Income Statement</b>	
<b>For the Year Ended December 31, 2013</b>	
(\$ in millions)	
Operating revenues	\$33,875
Cost of sales	<u>17,531</u>
Gross profit	16,344
Marketing, general and administration Expenses	<u>11,460</u>
Operating income	4,884
Interest and other debt expense, net	<u>1,437</u>
Income before taxes	3,447
Income tax expense	<u>1,565</u>
Net income	<u><u>\$ 1,882</u></u>

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Topic: Describe the Four Basic Financial Statements*

129. Based on the information presented above, prepare the 12/31/13 Balance Sheet for Krafty Foods.

**Krafty Foods  
Balance Sheet  
At December 31, 2013**

(\$ in millions)

**Assets**

Cash and cash equivalents	\$ 162
Accounts receivable (net)	3,131
Inventories	3,026
Other current assets	<u>687</u>
Total current assets	7,006
Property, plant and equipment (net)	9,109
Goodwill and other intangible assets (net)	35,957
Other noncurrent assets	<u>3,726</u>
Total assets	<u>\$55,798</u>

**Liabilities and Shareholders' Equity**

Accounts payable	\$ 1,897
Accrued liabilities and taxes	4,105
Short-term borrowings	681
Current payables to parent and affiliates	1,652
Current portion of long-term debt	<u>540</u>
Total current liabilities	8,875
Long-term debt	8,134
Deferred income taxes and other liabilities	10,311
Long-term notes payable to parent and affiliates	<u>5,000</u>
Total liabilities	32,320
Paid-in capital for common and preferred stock	\$23,655
Earnings retained in the business	2,391
Other stockholders' equity	<u>(2,568)</u>
Total stockholders' equity	<u>23,478</u>
Total liabilities and stockholders' equity	<u>\$55,798</u>

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

Learning Objective: 02-06 Describe the four basic financial statements.

Topic: Describe the Four Basic Financial Statements

The December 31, 2013 (preclosing) adjusted trial balance for Kline Enterprises was as follows:

<u>Account Title</u>	<u>Debits</u>	<u>Credits</u>
Accounts payable .....		90,000
Accounts receivable.....	170,000	
Accumulated depreciation – equipment.....		260,000
Capital stock.....		490,000
Cash.....	26,000	
Cost of goods sold .....	480,000	
Depreciation expense .....	60,000	
Equipment .....	700,000	
Interest expense .....	4,000	
Inventory .....	150,000	
Note payable (due in six months) .....		60,000
Rent expense .....	30,000	
Retained earnings .....		62,000
Salaries payable .....		8,000
Sales revenue .....		<u>770,000</u>
Salaries expense .....	<u>120,000</u>	
TOTALS.....	<u>1,740,000</u>	<u>1,740,000</u>

**Required:**

Assuming no income taxes, compute the following, and place your answer in the space provided:

130. Kline's 2013 net income (or loss):

Kline's 2013 net income (or loss) = \$76,000

Computation: 770,000 - 480,000 - 60,000 - 4,000 - 30,000 - 120,000

AACSB: Analytic

AICPA BB: Critical Thinking

Blooms: Apply

Difficulty: 2 Medium

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Topic: Describe the Four Basic Financial Statements*

131. Kline's 12/31/13 total current assets:

Kline's 12/31/13 total current assets = \$346,000

Computation: 26,000 + 170,000 + 150,000

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Topic: Describe the Four Basic Financial Statements*

132. Kline's 12/31/13 total current liabilities:

Kline's 12/31/13 total current liabilities = \$158,000

Computation: 90,000 + 60,000 + 8,000

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Topic: Describe the Four Basic Financial Statements*

133. Kline's 12/31/13 total shareholders' equity:

Kline's 12/31/13 total owners' equity = \$628,000

Computation:  $490,000 + 62,000 + \$76,000$  (Net Income), (or Total Assets - Total Liabilities)

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Topic: Describe the Four Basic Financial Statements*

134. Presented below is income statement information of the Nebraska Corporation for the year ended December 31, 2013.

Sales revenue	\$620,000	Cost of goods sold	\$355,000
Salaries expense	90,000	Insurance expense	20,000
Dividend revenue	3,000	Depreciation expense	18,000
Miscellaneous expense	12,000	Income tax expense	35,000
Loss on sale of investments	8,000	Rent expense	10,000

**Required:**

Prepare the necessary closing entries at December 31, 2013.

**December 31, 2013**

Sales revenue.....	620,000	
Dividend revenue.....	3,000	
Loss on sale of investments .....		8,000
Income summary .....		615,000
Income summary.....	540,000	
Salaries expense .....		90,000
Miscellaneous expense.....		12,000
Cost of goods sold.....		355,000
Insurance expense .....		20,000
Depreciation expense .....		18,000
Income tax expense .....		35,000
Rent expense .....		10,000
Income summary (\$615,000 – 540,000) .....	75,000	
Retained earnings .....		75,000

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 02-07 Explain the closing process.*

*Topic: Explain the Closing Process*

135. Raintree Corporation maintains its records on a cash basis. At the end of each year the company's accountant obtains the necessary information to prepare accrual basis financial statements. The following cash flows occurred during the year ended December 31, 2013:

Cash receipts:

From customers	\$450,000
Interest on note	3,000
Issue of common stock	<u>50,000</u>
Total cash receipts	<u>\$503,000</u>

Cash disbursements:

Purchase of merchandise	\$220,000
Annual insurance payment	9,000
Payment of salaries	180,000
Dividends paid to shareholders	6,000
Annual rent payment	<u>12,000</u>
Total cash disbursements	<u>\$427,000</u>

Selected balance sheet information:

	<u>12/31/12</u>	<u>12/31/13</u>
Cash	\$25,000	\$101,000
Accounts receivable	42,000	70,000
Inventory	60,000	82,000
Prepaid insurance	2,000	?
Prepaid rent	7,000	?
Interest receivable	1,500	?
Note receivable	50,000	50,000
Equipment	150,000	150,000
Accumulated depreciation—equipment	(40,000)	(55,000)
Accounts payable (for merchandise)	50,000	62,000
Salaries payable	20,000	28,000
Common stock	200,000	250,000

Additional information:

1. On June 30, 2012, Raintree lent a customer \$50,000. Interest at 6% is payable annually on each June 30. Principal is due in 2016.
2. The annual insurance payment is made in advance on March 31.
3. Annual rent on the company's facilities is paid in advance on September 30.

**Required:**



1. Prepare an accrual basis income statement for 2013 (ignore income taxes).
2. Determine the following balance sheet amounts on December 31, 2013:

- a. Interest receivable
- b. Prepaid insurance
- c. Prepaid rent

1. Sales revenue:	
Cash collected from customers	\$450,000
Add: Increase in accounts receivable	<u>28,000</u>
Sales revenue	<u>\$478,000</u>
Interest revenue:	
Cash received	\$3,000
Add: Amount accrued at the end of 2013 ( $\$50,000 \times .06 \times 6/12$ )	1,500 (a)
Deduct: Amount accrued at the end of 2012	<u>(1,500)</u>
Interest revenue	<u>\$3,000</u>
Cost of goods sold:	
Cash paid for merchandise	\$220,000
Add: Increase in accounts payable	<u>12,000</u>
Purchases during 2013	232,000
Deduct: Increase in inventory	<u>(22,000)</u>
Cost of goods sold	<u>\$210,000</u>
Insurance expense:	
Cash paid	\$9,000
Add: Prepaid insurance expired during 2012	2,000
Deduct: Prepaid insurance on 12/31/13 ( $\$9,000 \times 3/12$ )	<u>(2,250) (b)</u>
Insurance expense	<u>\$8,750</u>
Salaries expense:	
Cash paid	\$180,000
Add: Increase in salaries payable	<u>8,000</u>
Salaries expense	<u>\$188,000</u>
Rent expense:	
Amount paid	\$12,000
Add: Prepaid rent on 12/31/12 expired during 2013	7,000
Deduct: Prepaid rent on 12/31/13 ( $\$12,000 \times 9/12$ )	<u>(9,000) (c)</u>
Rent expense	<u>\$10,000</u>
Depreciation expense: Increase in accumulated depreciation	
	<u>\$15,000</u>

**Raintree Corporation**  
**Income statement**  
**For the Year Ended December 31, 2013**

Sales revenue		\$478,000
Cost of goods sold		<u>210,000</u>
Gross profit		268,000
Operating expenses:		
Insurance	\$ 8,750	
Salaries	188,000	
Rent	10,000	
Depreciation	<u>15,000</u>	
Total operating expenses		<u>221,750</u>
Operating income		46,250
Other income (expense):		
Interest revenue		<u>3,000</u>
Net income		<u>\$49,250</u>

2.

a. Interest receivable (1/2 year x 3,000)		\$ 1,500
b. Prepaid insurance (1/4 year x 9,000)		2,250
c. Prepaid rent (3/4 year x 12,000)		9,000

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-08 Convert from cash basis net income to accrual basis net income.*

*Topic: Cash vs. Accrual Net Income*

136. Silicon Chip Company's fiscal year-end is December 31. At the end of 2013, it owed employees \$22,000 in wages that will be paid on January 7, 2014.

**Required:**

1. Prepare an adjusting entry to record accrued salaries, a reversing entry on January 1, 2014, and an entry to record the payment of wages on January 7, 2014.
2. Prepare journal entries to record the accrued salaries on December 31 and the payment of salaries on January 7, assuming a reversing entry is not made.

1.

December 31 - adjusting entry		
Salaries expense .....	22,000	
Salaries payable.....		22,000
January 1 - reversing entry		
Salaries payable .....	22,000	
Salaries expense .....		22,000
January 7 - payment of salaries		
Salaries expense.....	22,000	
Cash.....		22,000

2.

December 31 - adjusting entry		
Salaries expense.....	22,000	
Salaries payable.....		22,000
January 7 - payment of salaries		
Salaries payable .....	22,000	
Cash.....		22,000

*AACSB: Analytic*

*AICPA FN: Reporting*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-Appendix 2B Reversing Entries.*

*Topic: Reversing Entries*

## Essay Questions

137. Describe the difference between external events and internal events, and give two examples of each.

External events involve an **exchange** between the **company** and a **separate economic entity**. Examples include purchasing inventory on account or borrowing money from a bank. Internal events directly affect the financial position of the company but **do not involve exchange transactions with another entity**. Examples include depreciation of equipment or use of supplies.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Analyze routine economic events-transactions-and record their effects on a company's financial position using the accounting equation format.*

*Topic: Analyze Routine Economic Events Using the Accounting Equation*

138. Describe what is meant by unearned revenues and give two examples.

Unearned revenues are created when a company **receives cash** from a customer for **goods or services** that will be **provided in a future period**. Examples include magazine subscriptions received in advance by a publishing firm or rent received in advance by a property leasing firm. A liability exists because of the obligation to provide the service.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Identify and describe the different types of adjusting journal entries.*

*Topic: Identify and Describe Adjusting Entries*

139. Describe what is meant by prepaid expenses and give two examples.

Prepaid expenses represent **assets** recorded when a **cash disbursement** creates **benefits beyond the current period**. Examples include insurance or rent paid in advance of use.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Identify and describe the different types of adjusting journal entries.*

*Topic: Identify and Describe Adjusting Entries*

140. What is an accrued liability?

An accrued liability results from an **expense** being **incurred prior to cash payment**. Examples include interest and wages payable.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Identify and describe the different types of adjusting journal entries.*

*Topic: Identify and Describe Adjusting Entries*

141. What is the difference between permanent accounts and temporary accounts, and why does an accounting system have both types of accounts?

Permanent accounts represent assets, liabilities, and shareholders' equity **at a point in time**. Temporary accounts represent **changes in retained earnings** caused by dividend, revenue, expense, and gain and loss accounts. The temporary accounts are closed out annually to facilitate measuring income on an annual basis. Temporary accounts are a convenience to aid the preparation of financial statements by recording revenues and expenses in these accounts rather than directly into retained earnings.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Analyze routine economic events-transactions-and record their effects on a company's financial position using the accounting equation format.*

*Topic: Analyze Routine Economic Events Using the Accounting Equation*

142. What is the purpose of the statement of cash flows? List the three major categories of cash flows and give an example of a cash transaction for each category.

The purpose of the statement of cash flows is to **summarize** the **transactions** that caused **cash to change** during the reporting period. The statement of cash flows summarizes cash flows in three categories: **operating, investing, and financing**. Operating activities include cash flows related to transactions entering into the determination of net income, such as cash collections from customers, payments for purchases, and other receipts, such as interest and dividends. Investing activities include purchasing and selling equipment or certain investment securities. Financing activities include borrowing or repaying loans, issuing stock, and payment of dividends.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*Blooms: Understand*

*Difficulty: 3 Hard*

*Learning Objective: 02-06 Describe the four basic financial statements.*

*Topic: Describe the Four Basic Financial Statements*

143. What is the purpose of the closing process?

The closing process serves a dual purpose: (1) the **temporary accounts are reduced to a zero** balance, ready to measure activity in the next accounting period, and (2) the **balances** of these temporary accounts are **transferred to retained earnings** to reflect the changes that have occurred in that account during the period. Revenue and expense accounts are first transferred to income summary. The net balance in income summary is then transferred to retained earnings.

*AACSB: Reflective Thinking*

AICPA BB: Critical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-07 Explain the closing process.

Topic: Explain the Closing Process

144. Claymore Corporation maintains its book on a cash basis. During 2013, the company collected \$825,000 in fees from its clients and paid \$512,000 in expenses. You are able to determine the following information about accounts receivable, supplies, prepaid rent, salaries payable, and interest payable:

	<u>January 1, 2013</u>	<u>December 31, 2013</u>
Accounts receivable	\$110,000	\$120,000
Supplies	15,000	18,000
Prepaid rent	12,000	11,000
Salaries payable	16,500	14,200
Interest payable	4,000	5,500

In addition, 2013 depreciation expense on office equipment and furniture is \$55,000.

**Required:**

Determine accrual basis income for 2013.

Cash basis net income (\$825,000 – 512,000)	\$313,000
<i>Add:</i>	
Increase in accounts receivable (\$120,000 – 110,000)	10,000
Increase in supplies (\$18,000 – 15,000)	3,000
Decrease in salaries payable (\$16,500 – 14,200)	2,300
<i>Deduct:</i>	
Depreciation expense	(55,000)
Decrease in prepaid rent (\$12,000 – 11,000)	(1,000)
Increase in interest payable (\$5,500 – 4,000)	<u>(1,500)</u>
Accrual basis income	<b>\$270,800</b>

AACSB: Analytic

AICPA BB: Critical Thinking



*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 02-08 Convert from cash basis net income to accrual basis net income.*

*Topic: Cash vs. Accrual Net Income*

145. The accounting system of Carlton and Sons consists of a general journal (GJ), a cash receipts journal (CR), a cash disbursements journal (CD), a sales journal (SJ), and a purchases journal (PJ). For each of the following, indicate which journal should be used to record the transaction.

<b>Transaction</b>	<b>Journal</b>
1. Received interest on a loan.	_____
2. Recorded amortization expense.	_____
3. Purchased machinery for cash.	_____
4. Purchased merchandise on account.	_____
5. Sold merchandise on credit (the sale only, not the cost of the merchandise).	_____
6. Sold merchandise for cash (the sale only, not the cost of the merchandise).	_____
7. Paid advertising bill.	_____
8. Recorded accrued salaries payable.	_____
9. Paid utility bill.	_____
10. Recorded depreciation expense.	_____
11. Sold machinery for cash.	_____
12. Collected cash from customers on account.	_____
13. Paid employees wages.	_____
14. Paid interest on a loan.	_____

<b>Transaction</b>	<b>Journal</b>
1. Received interest on a loan.	CR
2. Recorded amortization expense.	GJ
3. Purchased machinery for cash.	CD
4. Purchased merchandise on account.	PJ
5. Sold merchandise on credit (the sale only, not the cost of the merchandise).	SJ
6. Sold merchandise for cash (the sale only, not the cost of the merchandise).	CR
7. Paid advertising bill.	CD
8. Recorded accrued salaries payable.	GJ
9. Paid utility bill.	CD
10. Recorded depreciation expense.	GJ
11. Sold machinery for cash.	CR
12. Collected cash from customers on account.	CR
13. Paid employees wages.	CD
14. Paid interest on a loan.	CD

*AACSB: Reflective Thinking*

*AICPA FN: Reporting*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-Appendix 2C Subsidiary Ledgers and Special Journals.*

*Topic: Subsidiary Ledgers and Special Journals*