***Intermediate Accounting,10e* (Spiceland)**

**Chapter 2 Review of the Accounting Process Answer Key**

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Accounting equation

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

2) Debits increase asset accounts and decrease liability accounts.

Answer: TRUE

Difficulty: 1 Easy

Topic: Account relationships and records

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

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

Answer: FALSE

Difficulty: 1 Easy

Topic: Account relationships and records

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

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

Answer: FALSE

Difficulty: 1 Easy

Topic: Accounting processing cycle steps

Learning Objective: 02-02 Describe the steps in the accounting processing cycle .

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

5) Adjusting journal entries are recorded at the end of any period when financial statements are prepared.

Answer: TRUE

Difficulty: 1 Easy

Topic: Accounting processing cycle steps

Learning Objective: 02-02 Describe the steps in the accounting processing cycle.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

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

Answer: FALSE

Difficulty: 1 Easy

Topic: Analyze updating-Identify type of adjustment

Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

7) The adjusted trial balance contains only permanent accounts.

Answer: FALSE

Difficulty: 1 Easy

Topic: Trial balance―Adjusted

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

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

Answer: FALSE

Difficulty: 1 Easy

Topic: Financial statement―Income Statement

Learning Objective: 02-07 Describe the four basic financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

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

Answer: FALSE

Difficulty: 1 Easy

Topic: Financial statement―Balance sheet

Learning Objective: 02-07 Describe the four basic financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial statement―Cash flow

Learning Objective: 02-07 Describe the four basic financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Financial statement―Shareholders equity

Learning Objective: 02-07 Describe the four basic financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

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

Answer: TRUE

Difficulty: 1 Easy

Topic: The closing process

Learning Objective: 02-08 Explain the closing process.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

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

Answer: TRUE

Difficulty: 1 Easy

Topic: The closing process

Learning Objective: 02-08 Explain the closing process.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Reversing entries

Learning Objective: Appendix 2B Reversing Entries.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Subsidiary ledgers and Special journals

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

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

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

Answer: FALSE

Difficulty: 1 Easy

Topic: Subsidiary ledgers and Special journals

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

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

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.

Answer: D

Difficulty: 2 Medium

Topic: Accounting equation

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

18) Examples of external transactions include all of the following **except**:

A) Paying employee salaries.

B) Purchasing equipment.

C) Depreciating equipment.

D) Collecting a receivable.

Answer: C

Difficulty: 2 Medium

Topic: Account relationships and records

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-03 Analyze and record transactions using journal entries

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

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 salaries.

D) Paying salaries to company employees.

Answer: D

Difficulty: 2 Medium

Topic: Account relationships and records; Analyze updating-Record adjusting entry

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

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 common stock.

D) Credit to revenue.

Answer: C

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

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.

Answer: C

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

22) A sale on account would be recorded by:

A) Debiting revenue.

B) Crediting assets.

C) Crediting liabilities.

D) Debiting assets.

Answer: D

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

23) The entry to record a sale on account would include:

 **Debit Credit**

A)

|  |  |  |
| --- | --- | --- |
| Sales revenue | No | Yes |
| Cash | Yes | No |

B)

|  |  |  |
| --- | --- | --- |
| Accounts receivable | Yes | No |
| Sales revenue | Yes | No |

C)

|  |  |  |
| --- | --- | --- |
| Cash | No | No |
| Accounts receivable | Yes | No |

D)

|  |  |  |
| --- | --- | --- |
| Cash | Yes | No |
| Sales revenue | No | Yes |

Answer: C

Explanation:

|  |  |  |
| --- | --- | --- |
| Accounts receivable | xxx |  |
|  Sales revenue |  | xxx |

Difficulty: 3 Hard

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

24) Super Corporation receives $4,000,000 from investors when issuing them shares of its stock. Super's entry to record this transaction would include which of the following?

 **Debit Credit**

A)

|  |  |  |
| --- | --- | --- |
| Sales revenue | No | Yes |
| Cash | Yes | No |

B)

|  |  |  |
| --- | --- | --- |
| Cash | Yes | No |
| Investments | No | Yes |

C)

|  |  |  |
| --- | --- | --- |
| Cash | Yes | No |
| Common stock | No | Yes |

D)

|  |  |  |
| --- | --- | --- |
| Cash | Yes | No |
| Retained earnings | No | Yes |

Answer: C

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

25) Mary Parker Co. invested $15,000 in ABC Corporation and received common 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 common stock.

D) Debit to expense.

Answer: A

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

26) Hughes Aircraft sold a four-passenger airplane for $980,000, receiving a a 12% note receivable. The journal entry to record this sale would include a:

A) Credit to cash.

B) Credit to interest revenue.

C) Debit to notes receivable.

D) Credit to notes receivable.

Answer: C

Difficulty: 3 Hard

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

27) Boing Aircraft sold a four-passenger airplane for $2,800,000, receiving a $500,000 down payment and a 7% note for the balance. The entry to record this sale would include which of the following?

 **Debit Credit**

A)

|  |  |  |
| --- | --- | --- |
| Cash | Yes | No |
| Cash discount | Yes | No |

B)

|  |  |  |
| --- | --- | --- |
| Notes receivable | No | Yes |
| Sales revenue | Yes | No |

C)

|  |  |  |
| --- | --- | --- |
| Cash | Yes | No |
| Notes receivable | Yes | No |

D)

|  |  |  |
| --- | --- | --- |
| Cash | Yes | No |
| Cash discount | No | Yes |

Answer: C

Explanation:

|  |  |  |
| --- | --- | --- |
| Cash | 500,000 |   |
| Notes receivable | 2,300,000 |   |
|  Sales revenue |   | 2,800,000 |

Difficulty: 3 Hard

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

28) Somerset Leasing received $12,000 for 12 months' rent in advance. How should Somerset record this transaction?

A)

|  |  |  |
| --- | --- | --- |
| Prepaid rent | 12,000 |   |
|  Rent expense |   | 12,000 |

B)

|  |  |  |
| --- | --- | --- |
| Cash | 12,000 |   |
|  Deferred rent revenue |   | 12,000 |

C)

|  |  |  |
| --- | --- | --- |
| Interest expense | 12,000 |   |
|  Interest payable |   | 12,000 |

D)

|  |  |  |
| --- | --- | --- |
| Salaries expense | 12,000 |   |
|  Salaries payable |   | 12,000 |

Answer: B

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

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

A)

|  |  |  |
| --- | --- | --- |
| Inventory | 620 |   |
|  Accounts receivable |   | 620 |
| Sales | 960 |   |
|  Sales revenue |   | 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 revenue |   | 620 |
|  Gain on sale |   | 340 |

Answer: B

Difficulty: 3 Hard

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

30) 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 sales 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 |

Answer: A

Difficulty: 3 Hard

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

31) Which of the following accounts has a balance whereby debits normally exceed credits?

A) Accounts payable.

B) Accrued salaries.

C) Accumulated depreciation.

D) Advertising expense.

Answer: D

Difficulty: 1 Easy

Topic: Account relationships and records; Determine account balance-Analyze entries

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-04 Post the effects of journal entries to general ledger accounts and prepare an unadjusted trial balance.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

32) An example of a contra account is:

A) Depreciation expense.

B) Accounts receivable.

C) Sales revenue.

D) Accumulated depreciation.

Answer: D

Difficulty: 1 Easy

Topic: Analyze updating-Identify type of adjustment

Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

33) Making insurance payments in advance is an example of:

A) An accrued receivable transaction.

B) An accrued liability transaction.

C) A deferred revenue transaction.

D) A prepaid expense transaction.

Answer: D

Difficulty: 1 Easy

Topic: Analyze updating-Identify type of adjustment; Analyze transaction-Record journal entry

Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries ; 02-03 Analyze and record transactions using journal entries.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

34) Recording revenue before it is collected is an example of:

A) A prepaid expense transaction.

B) A deferred revenue transaction.

C) An accrued liability transaction.

D) An accrued receivable transaction.

Answer: D

Difficulty: 1 Easy

Topic: Analyze updating-Identify type of adjustment

Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

35) 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) A deferred revenue transaction.

Answer: D

Difficulty: 1 Easy

Topic: Analyze updating-Identify type of adjustment; Analyze transaction-Record journal entry

Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.; 02-03 Analyze and record transactions using journal entries.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

36) On December 31, 2020, Coolwear, Inc. had a balance in its prepaid insurance account of $48,400. During 2021, $86,000 was paid for insurance. At the end of 2021, after adjusting entries were recorded, the balance in the prepaid insurance account was 42,000. Insurance expense for 2021 was:

A) $6,400.

B) $134,400.

C) $86,000.

D) $92,400.

Answer: D

Explanation: Insurance expense = $48,400 + $86,000 − $42,000 = $92,400

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry; Determine account balance-Analyze entries

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

37) Adjusting entries are needed primarily for:

A) Cash basis accounting.

B) Accrual accounting.

C) Current value accounting.

D) Manual accounting systems.

Answer: B

Difficulty: 1 Easy

Topic: Analyze updating-Identify type of adjustment

Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

38) 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.

Answer: A

Difficulty: 2 Medium

Topic: Analyze updating-Identify type of adjustment

Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

39) 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.

Answer: B

Difficulty: 2 Medium

Topic: Analyze updating-Identify type of adjustment

Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

40) On December 31, 2021, 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 2021 balance sheet will be valued at:

A) $53,600.

B) $54,800.

C) $52,400.

D) $1,200.

Answer: C

Explanation: Accounts receivable = $53,600 − $1,200 = $52,400

Difficulty: 2 Medium

Topic: Analyze updating-Identify type of adjustment

Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

41) 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.

Answer: B

Explanation:

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

Supplies purchases: $400,000 + $2,000,000 − $600,000 = $1,800,000

Difficulty: 2 Medium

Topic: Determine account balance-Analyze entries

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

42) Which of the following is not an adjusting entry?

A)

|  |
| --- |
| Prepaid rent |
|  Rent expense |

B)

|  |
| --- |
| Cash |
|  Deferred sales revenue |

C)

|  |
| --- |
| Interest expense |
|  Interest payable |

D)

|  |
| --- |
| Salaries expense |
|  Salaries payable |

Answer: B

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

43) The adjusting entry required when amounts previously recorded as deferred revenues are recognized 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.

Answer: A

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

44) Which of the following accounts has a balance whereby credits normally exceed debits?

A) Salaries expense.

B) Interest payable.

C) Land.

D) Prepaid rent.

Answer: B

Difficulty: 1 Easy

Topic: Account relationships and records; Determine account balance-Analyze entries

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-04 Post the effects of journal entries to general ledger accounts and prepare an unadjusted trial balance.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

45) 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 credits an owners' equity account.

Answer: B

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

46) 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.

Answer: B

Difficulty: 1 Easy

Topic: Analyze updating-Record adjusting entry

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

47) 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.

Answer: D

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

48) 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.

Answer: C

Explanation:

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

Supplies expense = $56,000 + $270,000 – $66,000 = $260,000

Difficulty: 2 Medium

Topic: Determine account balance-Analyze entries; Convert cash basis to accrual basis

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

49) Yummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2021, and charged the $4,200 premium to Insurance expense. At its December 31, 2021, 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 |

Answer: D

Explanation:

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

Unexpired at 12/31: $4,200 × 19/24 = $3,325

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry; Convert cash basis to accrual basis

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze; Apply

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

50) Tummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2021, and charged the $4,200 premium to Prepaid insurance. At its December 31, 2021, year-end, Tummy 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 |

Answer: A

Explanation:

|  |  |  |  |
| --- | --- | --- | --- |
| Entry on 8/1: | Prepaid insurance  | 4,200 |   |
|   |  Cash |   | 4,200 |

Expired at 12/31: $4,200 × 5/24 = $875

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry; Convert cash basis to accrual basis

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze; Apply

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

51) ILP Services purchased a three-year fire insurance policy on September 1, 2021, and charged the $72,000 premium to Prepaid insurance. At its December 31, 2021, year-end, ILP Services would record an adjusting entry that includes which of the following?

 **Debit Credit**

A)

|  |  |  |
| --- | --- | --- |
| Insurance expense | Yes | No |
| Prepaid insurance | No | Yes |

B)

|  |  |  |
| --- | --- | --- |
| Insurance expense | No | Yes |
| Prepaid insurance | Yes | No |

C)

|  |  |  |
| --- | --- | --- |
| Insurance expense | Yes | No |
| Prepaid insurance | Yes | No |

D)

|  |  |  |
| --- | --- | --- |
| Insurance expense | No | Yes |
| Prepaid insurance | No | Yes |

Answer: A

Explanation:

Expired at 12/31: $72,000 × 4/36 = $8,000

|  |  |  |  |
| --- | --- | --- | --- |
| Adjusting entry on 12/31: | Insurance expense | 8,000 |   |
|   |  Prepaid insurance |   | 8,000 |

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry; Convert cash basis to accrual basis

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

52) The employees of Persoff Publications work Monday through Friday. Every other Friday the company issues payroll checks totaling $640,000. The current pay period ends on Friday, July 3. Persoff Publications is now preparing financial statements for the fiscal year ended June 30. What is the adjusting entry to record accrued salaries at the end of June?

 **Debit Credit**

A)

|  |  |  |
| --- | --- | --- |
| Prepaid salaries | No | Yes |
| Salaries payable | Yes | No |

B)

|  |  |  |
| --- | --- | --- |
| Salaries expense | Yes | No |
| Prepaid salaries | Yes | No |
| Salaries payable | No | Yes |

C)

|  |  |  |
| --- | --- | --- |
| Prepaid salaries | Yes | No |
| Salaries payable | No | Yes |

D)

|  |  |  |
| --- | --- | --- |
| Salaries expense | Yes | No |
| Salaries payable | No | Yes |

Answer: D

Explanation: Amount accrued: $640,000 × 7/10 (7 days of 10 days to be paid) = $448,000

|  |  |  |  |
| --- | --- | --- | --- |
| Adjusting entry on 6/30: | Salaries expense | 448,000 |   |
|   |  Salaries payable |   | 448,000 |

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

53) 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 |

Answer: D

Explanation: Amount accrued: $32,000 × 7/10 (7 days of 10 days to be paid) = $22,400

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.

Blooms: Analyze; Apply

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

54) On September 1, 2021, Fortune Magazine sold 600 one-year subscriptions for $81 each. The total amount received was credited to Deferred subscription revenue. What is the required adjusting entry at December 31, 2021?

A)

|  |  |  |
| --- | --- | --- |
| Deferred subscription revenue | 48,600 |   |
|  Subscription revenue |   | 16,200 |
|  Prepaid subscriptions |   | 32,400 |

B)

|  |  |  |
| --- | --- | --- |
| Deferred subscription revenue | 16,200 |   |
|  Subscription revenue |   | 16,200 |

C)

|  |  |  |
| --- | --- | --- |
| Deferred subscription revenue | 16,200 |   |
|  Subscriptions payable |   | 16,200 |

D)

|  |  |  |
| --- | --- | --- |
| Deferred subscription revenue | 32,400 |   |
|  Subscription revenue |   | 32,400 |

Answer: B

Explanation:

|  |  |  |  |
| --- | --- | --- | --- |
| Entry on 9/1: | Cash | 48,600 |   |
|   |  Deferred subscription revenue |   | 48,600 |

Amount recorded as revenue: $48,600 × 4/12 (4 months expired) = $16,200

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.

Blooms: Analyze; Apply

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

55) Mama's Pizza Shoppe borrowed $8,000 at 9% interest on May 1, 2021, with principal and interest due on October 31, 2022. The company's fiscal year ends June 30, 2021. What adjusting entry is necessary on June 30, 2021?

A) No entry.

B)

|  |  |  |
| --- | --- | --- |
| Interest expense | 240 |   |
|  Interest payable |   | 240 |

C)

|  |  |  |
| --- | --- | --- |
| Interest expense | 120 |   |
|  Interest payable |   | 120 |

D)

|  |  |  |
| --- | --- | --- |
| Prepaid interest | 120 |   |
|  Interest payable |   | 120 |

Answer: C

Explanation: Accrued interest expense: $8,000 × 9% × 2/12 = $120

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.

Blooms: Analyze; Apply

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

56) On September 15, 2021, 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, 2021?

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 |

Answer: A

Explanation: Accrued interest revenue: $6,000 × 10% × 3.5/12 = $175

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.

Blooms: Analyze; Apply

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

57) The debits and credits from the journal entries are posted to the general ledger accounts only for:

A) transactions occurring during the reporting period.

B) closing entries.

C) adjusting entries and closing entries.

D) all journal entries.

Answer: D

Difficulty: 1 Easy

Topic: Post entries to ledger

Learning Objective: 02-04 Post the effects of journal entries to general ledger accounts and prepare an unadjusted trial balance.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

58) Eve's Apples opened its business on January 1, 2021, and paid for two insurance policies effective that date. The policy for equipment damage 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, 2021?

A) $9,000.

B) $18,000.

C) $30,000.

D) $48,000.

Answer: B

Explanation:

For remaining months on the policies:

Prepaid equipment insurance: $36,000 × 6/18 $ 12,000

Prepaid crop damage insurance: $12,000 × 12/24 6,000

Total prepaid insurance at 12/31/2021 $ 18,000

Difficulty: 3 Hard

Topic: Determine account balance-Analyze entries; Convert cash basis to accrual basis

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

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

A) $10,000,000.

B) $16,000,000.

C) $18,000,000.

D) $20,000,000.

Answer: B

Explanation:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Cash collections | $ | 18,000,000 |   |   |
| Deduct increase in deferred premiums revenue |  | (2,000,000) |  |  |
| Insurance premium revenue | $ | 16,000,000 |   |   |

Difficulty: 2 Medium

Topic: Determine account balance-Analyze entries; Convert cash basis to accrual basis

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

60) On November 1, 2021, 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, 2021?

A) $112,500.

B) $225,000.

C) $450,000.

D) $1,350,000.

Answer: C

Explanation: Interest payable = $30,000,000 × 9% × 2/12 = $450,000

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry; Determine account balance-Analyze entries

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

61) An economic resource of an entity is:

A) A revenue.

B) An asset.

C) A liability.

D) A contra asset until used.

Answer: B

Difficulty: 1 Easy

Topic: Account relationships and records

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

62) Cost of goods sold is:

A) An asset account.

B) A revenue account.

C) An expense account.

D) A permanent equity account.

Answer: C

Difficulty: 1 Easy

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

63) 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.

Answer: C

Difficulty: 1 Easy

Topic: Accounting equation; Financial statement--Shareholders equity

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

64) The purpose of “posting” journal entries is

A) provide a chronological record of all economic events affecting the firm.

B) ensure that all accounts are up to date prior to preparing financial statements.

C) ensure that debits equal credits in the trial balance.

D) reflect the information in journal entries in ledger accounts.

Answer: D

Difficulty: 1 Easy

Topic: Post entries to ledger

Learning Objective: 02-04 Post the effects of journal entries to general ledger accounts and prepare an unadjusted trial balance.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

65) 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.

Answer: C

Explanation:

|  |
| --- |
| Inventory  |
| Opening Bal. | 200,000 | 2,000,000 |  To cost of goods sold |
| Purchases | ? |   |   |
| Ending Bal. | 400,000 |   |   |

Purchases =  $2,000,000 – $200,000 + $400,000 = $2,200,000

Difficulty: 2 Medium

Topic: Determine account balance-Analyze entries

Learning Objective: 02-03 Analyze and record transactions using journal entries.; 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

66) Permanent accounts do not include:

A) Interest expense.

B) Salaries payable.

C) Prepaid rent.

D) Deferred sales revenue.

Answer: A

Difficulty: 2 Medium

Topic: Account relationships and records; The closing process

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-08 Explain the closing process.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

67) Permanent accounts do **not** include:

A) Cost of goods sold.

B) Inventory.

C) Current liabilities.

D) Accumulated depreciation.

Answer: A

Difficulty: 2 Medium

Topic: Account relationships and records; The closing process

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-08 Explain the closing process.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

68) 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.

Answer: B

Difficulty: 2 Medium

Topic: The closing process

Learning Objective: 02-08 Explain the closing process.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

69) Temporary accounts do not include:

A) Salaries payable.

B) Depreciation expense.

C) Supplies expense.

D) Cost of goods sold.

Answer: A

Difficulty: 2 Medium

Topic: Account relationships and records; The closing process

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-08 Explain the closing process.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

70) 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.

Answer: D

Difficulty: 2 Medium

Topic: Convert cash basis to accrual basis

Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

71) 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.

Answer: A

Difficulty: 3 Hard

Topic: Convert cash basis to accrual basis

Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

72) 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.

Answer: B

Difficulty: 2 Medium

Topic: Convert cash basis to accrual basis

Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

73) Molly's Auto Detailers maintains its records on the cash basis. During 2021, 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.

Answer: C

Explanation:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Collections | $ | 72,000 |   |   |
| Payments for expenses |   | (21,000 | ) |   |
| Add: Increase in assets (accounts receivable) |   | 4,000 |   |   |
| Deduct: | Decrease in assets (accumulated depreciation) |   | (5,000 | ) |   |
|   | Decrease in assets (prepaid expenses) |   | (2,000 | ) |   |
| Add: | Decrease in liabilities (accrued liabilities) |   | 1,000 |   |   |
| Accrual-basis net income | $ | 49,000 |   |   |

Difficulty: 3 Hard

Topic: Convert cash basis to accrual basis

Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze; Apply

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

74) 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.

Answer: D

Explanation:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Collections | $ | 42,000 |  |  |  |
| Payments for expenses |  | (14,000) |   |   |
| Payments for expenses |   | (14,000 | ) |   |
| Add: | Increase in assets (accounts receivable) |   | 1,500 |   |   |
|   | Increase in assets (supplies) |   | 4,000 |   |   |
| Deduct: Decrease in assets (accumulated depreciation) |   | (2,000 | ) |   |
| Deduct: Increase in liabilities (accrued liabilities) |   | (2,500 | ) |   |
| Accrual-basis net income | $ | 29,000 |   |   |

Difficulty: 3 Hard

Topic: Convert cash basis to accrual basis

Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze; Apply

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

75) The Hamada Company sales for 2021 totaled $150,000 and purchases totaled $95,000. Selected January 1, 2021, balances were: accounts receivable, $18,000; inventory, $14,000; and accounts payable, $12,000. December 31, 2021, 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.

Answer: C

Difficulty: 3 Hard

Topic: Convert cash basis to accrual basis

Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze; Apply

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

76) When the amount of interest receivable decreases during an accounting period:

A) Accrual-basis interest revenue exceeds cash collection from borrowers.

B) Accrual-basis net income exceeds cash-basis net income.

C) Accrual-basis interest revenue is less than cash collection from borrowers.

D) Accrual-basis net income is less than cash-basis net income.

Answer: C

Difficulty: 3 Hard

Topic: Convert cash basis to accrual basis

Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

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

A) Exceeds service revenue.

B) May exceed or be less than service revenue.

C) Is less than service revenue.

D) Equals service revenue.

Answer: B

Difficulty: 2 Medium

Topic: Convert cash basis to accrual basis

Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

78) 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:

|  |  |  |
| --- | --- | --- |
|   | Accounts Receivable | Accrued Liabilities |
| a. | Yes | No |
| b. | No | Yes |
| c. | Yes | Yes |
| d. | No | No |

A) Option a

B) Option b

C) Option c

D) Option d

Answer: A

Difficulty: 3 Hard

Topic: Convert cash basis to accrual basis

Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

79) 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?

|  |  |  |
| --- | --- | --- |
|   | Cash Basis | Accrual Basis |
| 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

Answer: C

Explanation:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Collections | $ | 6,400,000 |   | (Cash basis income) |
| Expenses incurred but not paid |   | (3,000,000 | ) |   |
| Accrual basis net income | $ | 3,400,000 |   |   |

Investment by shareholders and dividends to shareholders do not affect net income for either basis of accounting.

Difficulty: 3 Hard

Topic: Convert cash basis to accrual basis

Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Apply

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

80) 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 of cash paid by Castle for insurance premiums during the year?

A) $218,750

B) $166,250

C) $210,000

D) $227,500

Answer: D

Explanation:

|  |
| --- |
| Prepaid Insurance |
| Beg. Bal. | 52,500 | 218,750 | Insurance expense |
| Cash paid | ? |   |   |
| Bal. | 61,250 |   |   |

Cash paid for insurance = $218,750 – $52,500 + $61,250 = $227,500

Difficulty: 2 Medium

Topic: Determine account balance-Analyze entries

Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

81) The accounting processing cycle:

A) Is a three-wheeled vehicle used to deliver audit papers to clients.

B) Deals only with *internal transactions.*

C) Is the process of bringing the company's financial information up to date before preparing the financial statements.

D) Is the process used to identify, analyze, record, and summarize transactions and prepare financial statements.

Answer: D

Difficulty: 1 Easy

Topic: Accounting processing cycle steps

Learning Objective: 02-02 Describe the steps in the accounting processing cycle.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 82. | 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.

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

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| *AACSB: Reflective ThinkingAICPA: BB Critical ThinkingBlooms: UnderstandLearning Objective: 02-04 Post the effects of journal entries to general ledger accounts and prepare an unadjusted trial balance.Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.Learning Objective: 02-08 Explain the closing process.Level of Difficulty: 1 EasyTopic Area: Analyze updating-Identify type of adjustmentTopic Area: Trial balance―AdjustedTopic Area: Trial balance―UnadjustedTopic Area: The closing process* |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 83. | 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.

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

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| *AACSB: Reflective ThinkingAICPA: BB Critical ThinkingBlooms: UnderstandLearning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.Learning Objective: 02-02 Describe the steps in the accounting processing cycle.**Learning Objective: 02-05 Identify and describe the different types of adjusting journal entriesLearning Objective: 02-07 Describe the four basic financial statements.Learning Objective: 02-08 Explain the closing process.Level of Difficulty: 1 EasyTopic Area: Analyze updating-Identify type of adjustment**Topic Area: Accounting processing cycle stepsTopic Area: Financial statement―Cash flow**Topic Area: Financial statement―Balance sheetTopic Area: Accounting equationTopic Area: The closing process* |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 84. | 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.

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

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| *AACSB: Reflective ThinkingAICPA: BB Critical ThinkingBlooms: UnderstandLearning Objective: 02-03 Analyze and record transactions using journal entries.Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.Level of Difficulty: 2 MediumTopic Area: Accounting equationTopic Area: Analyze transaction-Record journal entry**Topic Area: Analyze updating-Identify type of adjustment* |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 85. | 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.

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

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| *AACSB: Reflective ThinkingAICPA: BB Critical ThinkingBlooms: UnderstandLearning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.**Learning Objective: 02-02 Describe the steps in the accounting processing cycle.Learning Objective: 02-08 Explain the closing process.Level of Difficulty: 1 EasyTopic Area: Account relationships and recordsTopic Area: Accounting processing cycle stepsTopic Area: The closing process* |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 86. | 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.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Number for****term that****matches the****phrase.** |
|  |  |  |
| 1. Liabilities  | Transfer balances from journals to ledgers.  | **4** |
| 2. Retained earnings  | Record chronologically the effects of transactions in debit/credit form.  | **3** |
| 3. Journalize  | Refers to nonowner claims against the assets of a firm.  | **1** |
| 4. Post  | Represents the cumulative amount of net income, less distributions to shareholders.  | **2** |
| 5. Special journals  | Used to record repetitive types of transactions.  | **5** |

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| *AACSB: Reflective ThinkingAICPA: BB Critical ThinkingBlooms: UnderstandLearning Objective: 02-02 Describe the steps in the accounting processing cycle.Learning Objective: 02-Appendix 2C Subsidiary Ledgers and Special Journals.Level of Difficulty: 1 EasyTopic Area: Accounting processing cycle stepsTopic Area: Subsidiary ledger-Special journal–App CTopic Area: Accounting equation* |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 87. | 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.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Number for****term that****matches the****phrase.** |
|  |  |  |
| 1. Source documents  | Refers to inflows of assets from the sale of goods and services.  | **2** |
| 2. Revenues  | Used to identify external transactions.  | **1** |
| 3. Transaction analysis  | Used to record repetitive types of transactions.  | **5** |
| 4. Deferred revenues  | Liabilities created by a customer's prepayment.  | **4** |
| 5. Special journals  | Determines the effects of an event in terms of the accounting equation.  | **3** |

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| *AACSB: Reflective ThinkingAICPA: BB Critical ThinkingBlooms: UnderstandLearning Objective: 02-02 Describe the steps in the accounting processing cycle.Learning Objective: 02-Appendix 2C Subsidiary Ledgers and Special Journals.Level of Difficulty: 1 EasyTopic Area: Accounting processing cycle stepsTopic Area: Subsidiary ledger-Special journal–App CTopic Area: Account relationships and records**Topic Area: Accounting equation* |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 88. | Listed below are 10 terms followed by a list of phrases that describe or characterize the terms. Match each phrase with the correct term.

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

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| *AACSB: Reflective ThinkingAICPA: BB Critical ThinkingBlooms: UnderstandLearning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.**Learning Objective: 02-02 Describe the steps in the accounting processing cycleLearning Objective: 02-04 Post the effects of journal entries to general ledger accounts and prepare an unadjusted trial balance.Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.Learning Objective: 02-08 Explain the closing process.Level of Difficulty: 2 MediumTopic Area: Analyze updating-Identify type of adjustmentTopic Area: Trial balance―Unadjusted**Topic Area: Accounting processing cycle stepsTopic Area: Accounting equation**Topic Area: Account relationships and recordsTopic Area: The closing process* |

**Use this information to answer the following questions:**

Reference: Ch02-Ref01

The account titles to be responded to are provided in no particular order. Assume that all accounts have normal balances according to whether the account is increased by a debit or increased by a credit.

**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 debiton account | Classification |
| EXAMPLE: Advertising expense | 1 | 7 |

89) Office equipment

Answer:

|  |  |  |
| --- | --- | --- |
|  | **Effect** | **Classification** |
| Office equipment  | 1 | 2 |

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

90) Notes payable (short-term)

Answer:

|  |  |  |
| --- | --- | --- |
|  | **Effect** | **Classification** |
| Notes payable (short-term) | 2 | 3 |

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

91) Cost of goods sold

Answer:

|  |  |  |
| --- | --- | --- |
|  | **Effect** | **Classification** |
| Cost of goods sold | 1 | 7 |

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

92) Accounts receivable

Answer:

|  |  |  |
| --- | --- | --- |
|  | **Effect** | **Classification** |
| Accounts receivable | 1 | 1 |

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

93) Inventory

Answer:

|  |  |  |
| --- | --- | --- |
|  | **Effect** | **Classification** |
| Inventory | 1 | 1 |

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

94) Deferred rent revenue

Answer:

|  |  |  |
| --- | --- | --- |
|  | **Effect** | **Classification** |
| Deferred rent revenue | 2 | 3 |

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

95) Salaries payable

Answer:

|  |  |  |
| --- | --- | --- |
|  | **Effect** | **Classification** |
| Salaries payable | 2 | 3 |

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

96) Retained earnings

Answer:

|  |  |  |
| --- | --- | --- |
|  | **Effect** | **Classification** |
| Retained earnings | 2 | 5 |

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

97) Interest revenue

Answer:

|  |  |  |
| --- | --- | --- |
|  | **Effect** | **Classification** |
| Interest revenue | 2 | 6 |

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

98) Supplies expense

Answer:

|  |  |  |
| --- | --- | --- |
|  | **Effect** | **Classification** |
| Supplies expense | 1 | 7 |

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

99) Prepaid rent

Answer:

|  |  |  |
| --- | --- | --- |
|  | **Effect** | **Classification** |
| Prepaid rent | 1 | 1 |

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

100) Common stock

Answer:

|  |  |  |
| --- | --- | --- |
|  | **Effect** | **Classification** |
| Common stock | 2 | 5 |

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

**Use this information to answer the following questions:**

**Reference: Ch02-Ref02**

|  |  |  |  |
| --- | --- | --- | --- |
| 1100 | Cash | 2170 | Property taxes payable |
| 1120 | Short-term investments | 2180 | Rent payable |
| 1130 | Notes receivable | 2200 | Notes payable (long-term) |
| 1140 | Accounts receivable | 3100 | Common 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 rent | 6210 | Miscellaneous expense |
| 1320 | Buildings and equipment (B&E) | 6220 | Depreciation expense |
| 1325 | Accumulated depreciation-B&E | 6230 | Insurance expense |
| 2110 | Notes payable (short-term) | 6240 | Property tax expense |
| 2120 | Interest payable | 6250 | Rent expense |
| 2130 | Accounts payable | 6260 | Supplies expense |
| 2140 | Deferred service revenue | 6270 | Salaries expense |
| 2150 | Salaries payable | 6400 | Interest expense |
| 2160 | Dividends payable | 6999 | Dividends |

**Required:**

Using the chart of accounts provided, indicate by account number the account or accounts that would be debited and credited in the following transactions. Also enter the number 1, 2, or 3 to 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 common stock for cash. | 1100 | 3100 | 1 |

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

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| **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 |

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

102) Invested idle cash in short-term money market funds.

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| **TRANSACTION** | **Account(s) debited** | **Account(s) credited** | **Transaction type** |
| Invested idle cash in short-term investments. | 1120 | 1100 | 1 |

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

103) Purchased inventory on account.

Answer:

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

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

104) Sold inventory on account.

Answer:

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

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

105) Sold merchandise to a customer in exchange for a promissory note.

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| **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 |

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

106) Accrued the interest recognized but not collected on notes receivable.

Answer:

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

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

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

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| **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 |

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

108) Collected cash on account from customers.

Answer:

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

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

109) Sold inventory for cash.

Answer:

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

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

110) Received payment for services to be performed next year.

Answer:

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

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

111) Salaries have been recognized but are unpaid at the end of an accounting period.

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| **TRANSACTION** | **Account(s) debited** | **Account(s) credited** | **Transaction type** |
| Accrued salaries remaining unpaid at the end of an accounting period. | 6270 | 2150 | 2 |

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

112) Closed the dividends account.

Answer:

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

Difficulty: 2 Medium

Topic: The closing process

Learning Objective: 02-08 Explain the closing process.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

113) Accrued property taxes were paid.

Answer:

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

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

114) Declared cash dividends on common stock that will be paid in the next month.

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| **TRANSACTION** | **Account(s) debited** | **Account(s) credited** | **Transaction type** |
| Declared cash dividends on common stock that will be paid in the next month. | 6999 | 2160 | 1 |

Difficulty: 3 Hard

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

115) Paid rent for the next three months.

Answer:

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

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

116) 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.

Answer:

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.

Difficulty: 1 Easy

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Apply

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

117) 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 common stock for $20,000.

2. Leased a building for three years at $500 per month and paid six months' rent in advance.

3. Purchased equipment for $5,400, signing a two-year, 10% note.

4. Purchased $1,800 of supplies on account.

5. Recorded cash sales of $800 for the first week.

6. Paid weekly salaries, $320.

7. Paid for supplies purchased in item (5).

8. Recorded depreciation on equipment, $50.

Answer:

1. Cash 20,000

 Common stock 20,000

2. Prepaid rent 3,000

 Cash 3,000

3. Equipment 5,400

 Notes payable 5,400

4. Supplies inventory 1,800

 Accounts payable 1,800

5. Cash 800

 Sales revenue 800

6. Salaries expense 320

 Cash 320

7. Accounts payable 1,800

 Cash 1,800

8. Depreciation expense 50

 Accumulated depreciation 50

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry

Learning Objective: 02-03 Analyze and record transactions using journal entries.

Blooms: Apply

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

118) Flint Hills, Inc. has prepared a year-end 2021 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, 2021, Flint Hills received a utility bill for December electricity usage of $190 that will be paid in early January of 2022.

Answer:

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

Topic: Analyze updating-Record adjusting entry

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.

Blooms: Analyze; Apply

AACSB: Analytical Thinking

Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

119) The following is selected financial information for D. Kay Dental Laboratories for 2020 and 2021:

 2020 2021

Retained earnings, January 1 $53,000 ?

Net income 37,000 42,000

Dividends declared and paid 15,000 18,000

Common stock 70,000 ?

Kay issued 2,000 shares of additional common stock in 2021 for $20,000. There were no other shareholder transactions.

**Required:**

Prepare a statement of shareholders' equity for D. Kay Dental Laboratories for the year ended December 31, 2021.

Answer:

D. Kay Dental Laboratories

Statement of Shareholders' Equity

For the Year Ended December 31, 2021

 Total

 Common Retained Shareholders'

 Stock Earnings Equity

Balance, January 1, 2021 $70,000 $75,000\* $145,000

Issue of common stock 20,000 20,000

Net income for 2021 42,000 42,000

Less: Dividends \_\_\_\_\_\_\_ – 18,000 – 18,000

Balance, December 31, 2021 $ 90,000 $ 99,000 $189,000

\* Beginning balance, Retained Earnings = Ending balance at December 31, 2020:

$53,000 + $37,000 − $15,000 = $75,000

Difficulty: 3 Hard

Topic: Financial statement―Shareholders equity

Learning Objective: 02-07 Describe the four basic financial statements.

Blooms: Apply

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

120) 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, 2021:

 **Debit** **Credit**

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, 2021. Principal and interest are due on June 30, 2022. 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, 2021, 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 2021 insurance payment was made at the beginning of which month?

3. How much did Yankel lend its customer on August 31?

Answer:

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

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

$3,600 ÷ $30,000 = **12%** **interest** **rate**

Or,

Principal × Rate × Time = Interest

$30,000 × Rate × 6/12 = $1,800

$1,800 ÷ $30,000 = .06 six-month rate

To annualize the nine month rate: .06 × 12/6 =.12 or 12%

2. $90,000 ÷ 12 months = $7,500 per month in insurance

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

3. Principal × Rate × Time = Interest

Principal × 9% × (4/12) = $3,000

Principal × 3% = $3,000

Principal = $100,000

Or

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

$750 × 12 months = $9,000 in annual interest

Principal × 9% = $9,000

Principal = $9,000 ÷ .09 = **$100,000** **note**

Difficulty: 3 Hard

Topic: Analyze updating-Record adjusting entry; Determine account balance-Analyze entries

Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.; 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.

Blooms: Analyze; Apply

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

**Use this information to answer the following questions:**

Reference: Ch02-Ref03

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 2021 Income Statement and 12/31/2021 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

121)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021****Liabilities** | **12/31/2021****Owners' Equity** | **2021****Net Income** |
| $2,000 interest on a loan was not yet paid or recorded |  |  |  |  |

Answer:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021****Liabilities** | **12/31/2021****Owners' Equity** | **2021****Net Income** |
| $2,000 interest on a loan was not yet paid or recorded | N | U2,000 | O2,000 | O2,000 |

Difficulty: 2 Medium

Topic: Determine account balance-Analyze entries; Distinguish among financial statements

Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

122)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021****Liabilities** | **12/31/2021****Owners' Equity** | **2021****Net Income** |
| The estimated uncollectible accounts receivable is now zero and should be $25,000. |  |  |  |  |

Answer:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021****Liabilities** | **12/31/2021****Owners' Equity** | **2021****Net Income** |
| The estimated uncollectible accounts receivable is now zero and should be $25,000. | O25,000 | N | O25,000 | O25,000 |

Difficulty: 2 Medium

Topic: Distinguish among financial statements; Determine account balance-Analyze entries

Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

123)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021****Liabilities** | **12/31/2021****Owners' Equity** | **2021****Net Income** |
| $10,000 of the paid and recorded rent expense pertains to the year 2022. |  |  |  |  |

Answer:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021****Liabilities** | **12/31/2021****Owners' Equity** | **2021****Net Income** |
| $10,000 of the paid and recorded rent expense pertains to the year 2022. | U10,000 | N | U10,000 | U10,000 |

Difficulty: 2 Medium

Topic: Determine account balance-Analyze entries; Distinguish among financial statements

Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

124)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021****Liabilities** | **12/31/2021****Owners' Equity** | **2021****Net Income** |
| $20,000 in depreciation on some equipment was still unrecorded. |  |  |  |  |

Answer:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021****Liabilities** | **12/31/2021****Owners' Equity** | **2021****Net Income** |
| $20,000 in depreciation on some equipment was still unrecorded. | O20,000 | N | O20,000 | O20,000 |

Difficulty: 2 Medium

Topic: Distinguish among financial statements; Determine account balance-Analyze entries

Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

125)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021****Liabilities** | **12/31/2021****Owners' Equity** | **2021****Net Income** |
| $4,000 in cash dividends declared and paid in December 2021 were unrecorded. |  |  |  |  |

Answer:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021****Liabilities** | **12/31/2021****Owners' Equity** | **2021****Net Income** |
| $4,000 in cash dividends declared and paid in December 2021 were unrecorded. | O4,000 | N | O4,000 | N |

Difficulty: 2 Medium

Topic: Determine account balance-Analyze entries; Distinguish among financial statements

Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

**Use this information to answer the following questions:**

Reference: Ch02-Ref04

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/2021. 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 2021 Income Statement and 12/31/2021 Balance Sheet if they are not corrected or updated. Assume no income taxes.

Use the following code for your answers. Don’t include dollar amounts.

N = No Effect

O = Overstated

U = Understated

126)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021** **Liabilities** | **12/31/2021****Owners' Equity** | **2021****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 recorded. |  |  |  |  |

Answer:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021** **Liabilities** | **12/31/2021****Owners' Equity** | **2021****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 recorded. | O | N | O | O |

Difficulty: 2 Medium

Topic: Determine account balance-Analyze entries; Distinguish among financial statements

Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

127)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021** **Liabilities** | **12/31/2021****Owners' Equity** | **2021****Net Income** |
| The journal entry for depreciation on equipment for 2021 was recorded for $48,000. The amount should have been $66,000. |  |  |  |  |

Answer:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021** **Liabilities** | **12/31/2021****Owners' Equity** | **2021****Net Income** |
| The journal entry for depreciation on equipment for 2021 was recorded for $48,000. The amount should have been $66,000. | O | N | O | O |

Difficulty: 2 Medium

Topic: Distinguish among financial statements; Determine account balance-Analyze entries

Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

128)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021** **Liabilities** | **12/31/2021****Owners' Equity** | **2021****Net Income** |
| Cash dividends declared and paid on December 15, 2021, were not recorded. |  |  |  |  |

Answer:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021** **Liabilities** | **12/31/2021****Owners' Equity** | **2021****Net Income** |
| Cash dividends declared and paid on December 15, 2021, were not recorded. | O | N | O | N |

Difficulty: 3 Hard

Topic: Determine account balance-Analyze entries; Distinguish among financial statements

Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

129)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021** **Liabilities** | **12/31/2021****Owners' Equity** | **2021****Net Income** |
| $10,000 of the rent revenue collected and recorded as revenue this year pertains to 2022. |  |  |  |  |

Answer:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021** **Liabilities** | **12/31/2021****Owners' Equity** | **2021****Net Income** |
| $10,000 of the rent revenue collected and recorded as revenue this year pertains to 2022. | N | U | O | O |

Difficulty: 2 Medium

Topic: Determine account balance-Analyze entries; Distinguish among financial statements

Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

130)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021** **Liabilities** | **12/31/2021****Owners' Equity** | **2021****Net Income** |
| Interest recognized during the year on a note receivable was not yet collected or recorded. |  |  |  |  |

Answer:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021** **Liabilities** | **12/31/2021****Owners' Equity** | **2021****Net Income** |
| Interest recognized during the year on a note receivable was not yet collected or recorded. | U | N | U | U |

Difficulty: 2 Medium

Topic: Determine account balance-Analyze entries; Distinguish among financial statements

Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

131)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021** **Liabilities** | **12/31/2021****Owners' Equity** | **2021****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 recorded. |  |  |  |  |

Answer:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Information** | **12/31/2021 Assets** | **12/31/2021** **Liabilities** | **12/31/2021****Owners' Equity** | **2021****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 recorded. | U | N | U | U |

Difficulty: 3 Hard

Topic: Determine account balance-Analyze entries; Distinguish among financial statements

Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

**Use this information to answer the following questions:**

Reference: Ch02-Ref05

The adjusted trial balance for China Tea Company at December 31, 2021, is presented below:

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| 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 |  | 9,000 |
| Common stock |  | 200,000 |
| Retained earnings |  | 50,000 |
| Dividends | 8,000 |  |
| 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 | 848,000 | 848,000 |

132) Prepare the closing entries for China Tea Company for the year ended December 31, 2021.

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| 1. | Sales revenue | 400,000 |  |
|  |  Retained earnings |  | 400,000 |
| 2. | Retained earnings | 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. | Retained earnings | 8,000 |  |
|  |  Dividends |  | 8,000 |

Difficulty: 2 Medium

Topic: The closing process

Learning Objective: 02-08 Explain the closing process.

Blooms: Apply

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

133) Prepare an income statement for China Tea Company for the year ended December 31, 2021.

Answer:

|  |
| --- |
| **China Tea Company****Income Statement****For the Year Ended December 31, 2021** |
| Sales revenue |  | $400,000 |
| Cost of goods sold |  | 180,000 |
| Gross profit |  | 220,000 |
| Other expenses: |  |  |
|  Salaries expense | $120,000 |  |
|  Rent expense | 15,000 |  |
|  Depreciation expense | 30,000 |  |
|  Interest expense | 2,000 |  |
|  Advertising expense | 2,500 |  |
|  Total other expenses |  | 169,500 |
|  Net income |  | $ 50,500 |

Difficulty: 2 Medium

Topic: Financial statement―Income Statement

Learning Objective: 02-07 Describe the four basic financial statements.

Blooms: Apply

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

134) Prepare a classified balance sheet for China Tea Company as of December 31, 2021.

Answer:

|  |
| --- |
| **China Tea Company****Balance Sheet****At December 31, 2021** |
| **Assets** |  |  |
| Current assets: |  |  |
|  Cash |  | $ 10,500 |
|  Accounts receivable |  | 150,000 |
|  Inventory |  | 25,000 |
|  Prepaid rent |  | 5,000 |
|  Total current assets |  | 190,500 |
| Property and equipment: |  |  |
|  Equipment | 300,000 |  |
|  Less: Accumulated depreciation | 125,000 | 175,000 |
|  Total assets |  | $365,500 |
|  |  |  |
| **Liabilities and Shareholders' Equity** |  |  |
| **Current liabilities:** |  |  |
|  Accounts payable |  | $ 30,000 |
|  Notes payable |  | 30,000 |
|  Salaries payable |  | 4,000 |
|  Interest payable |  | 9,000 |
|  Total current liabilities |  | 73,000 |
| Shareholders' equity: |  |  |
|  Common stock | $200,000 |  |
|  Retained earnings | 92,500 |  |
|  Total shareholders' equity |  | 292,500 |
| Total liabilities and shareholders' equity |  | $365,500 |

Difficulty: 2 Medium

Topic: Financial statement―Balance sheet

Learning Objective: 02-07 Describe the four basic financial statements.

Blooms: Apply

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

**Use this information to answer the following questions:**

Reference: Ch02-Ref06

The following information, based on the 12/31/2021 Annual Report to Shareholders of Krafty Foods ($ in millions):

|  |  |
| --- | --- |
| Accounts payable | 1,897 |
| Accounts receivable (net) | 3,131 |
| Accrued liabilities  | 4,105 |
| Cash and cash equivalents | 162 |
| Cost of goods sold | 17,531 |
| Otherurrent payables  | 1,652 |
| Current portion of long-term debt | 540 |
| Other long-term liabilities | 10,311 |
| Retained earnings as of 12/31/2021 | 2,391 |
| Goodwill and other intangible assets (net) | 35,957 |
| Salaries expense | 1,565 |
| Interest and other debt expense, net | 1,437 |
| Inventories | 3,026 |
| Long-term debt | 8,134 |
| Long-term notes payable  | 5,000 |
| Marketing, general and administration expenses | 11,460 |
| Operating revenues | 33,875 |
| Other current assets | 687 |
| Other noncurrent assets | 3,726 |
| Other shareholders' equity | (2,568) |
| Common stock | 23,655 |
| Property, plant and equipment (net) | 9,109 |
| Short-term borrowings | 681 |

135) Based on the information presented above, prepare the Income Statement for Krafty Foods for the year ended December 31, 2021.

Answer:

|  |
| --- |
| **Krafty Foods****Income Statement****For the Year Ended December 31, 2021** |
| ($ in millions) |  |
| Operating revenues | $33,875 |
| Cost of goods sold | 17,531 |
| Gross profit | 16,344 |
| Salaries expense | 1,565 |
| Marketing, general and administration expenses | 11,460 |
| Operating income | 3,319 |
| Interest and other debt expense, net | 1,437 |
| Net income | $ 1,882 |

Difficulty: 2 Medium

Topic: Financial statement―Income Statement

Learning Objective: 02-07 Describe the four basic financial statements.

Blooms: Apply

AACSB: Knowledge Application

AICPA: FN Measurement

136) Based on the information presented above, prepare the 12/31/2021 Balance Sheet for Krafty Foods.

Answer:

|  |
| --- |
| **Krafty Foods****Balance Sheet****At December 31, 2021** |
| ($ in millions) |  |  |
| **Assets** |  |  |
| Current assets: |  |  |
| Cash and cash equivalents |  | $162 |
| Accounts receivable (net) |  | 3,131 |
| Inventories |  | 3,026 |
| Other current assets |  | 687 |
|  Total current assets |  | 7,006 |
| Property, plant and equipment (net) |  | 9,109 |
| Goodwill and other intangible assets (net) |  | 35,957 |
| Other noncurrent assets |  | 3,726 |
|  Total assets |  | $55,798 |
|  |  |  |
| **Liabilities and Shareholders' Equity** |  |  |
| Accounts payable |  | $ 1,897 |
| Accrued liabilities  |  | 4,105 |
| Short-term borrowings |  | 681 |
| Other current payables |  | 1,652 |
| Current portion of long-term debt |  | 540 |
|  Total current liabilities |  | 8,875 |
| Long-term debt |  | 8,134 |
| Other long-term liabilities |  | 10,311 |
| Long-term notes payable  |  | 5,000 |
|  Total liabilities |  | 32,320 |
| Common stock | $23,655 |  |
| Retained earnings | 2,391 |  |
| Other shareholders’ equity | (2,568) |  |
|  Total shareholders’ equity |  | 23,478 |
|  Total liabilities and shareholders’ equity |  | $55,798 |

Difficulty: 3 Hard

Topic: Financial statement―Balance sheet

Learning Objective: 02-07 Describe the four basic financial statements.

Blooms: Apply

AACSB: Knowledge Application

AICPA: FN Measurement

**Use this information to answer the following questions:**

Reference: Ch02-Ref07

The December 31, 2021 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

|  |  |  |
| --- | --- | --- |
| **Account Title** | **Debits** | **Credits** |
| Accounts payable |  | 90,000 |
| Accounts receivable | 170,000 |  |
| Accumulated depreciation — equipment |  | 260,000 |
| Common 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 |  | 770,000 |
| Salaries expense | 120,000 |  |
| TOTALS | 1,740,000 | 1,740,000 |

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

Kline's 2021 net income (or loss).

Answer: Kline's 2021 net income (or loss) = $76,000

Computation: 770,000 − $480,000 − $60,000 − $4,000 − $30,000 − $120,000

Difficulty: 2 Medium

Topic: Financial statement―Income Statement

Learning Objective: 02-07 Describe the four basic financial statements.

Blooms: Apply

AACSB: Knowledge Application

AICPA: FN Measurement

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

Kline's 12/31/2021 total current assets.

Answer: Kline's 12/31/2021 total current assets = $346,000

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

Difficulty: 2 Medium

Topic: Financial statement―Balance sheet

Learning Objective: 02-07 Describe the four basic financial statements.

Blooms: Apply

AACSB: Knowledge Application

AICPA: FN Measurement

139) Assuming no income taxes, compute the following, and place your answer in the space provided.

Kline's 12/31/2021 total current liabilities:

Answer: Kline's 12/31/2021 total current liabilities = $158,000

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

Difficulty: 2 Medium

Topic: Financial statement―Balance sheet

Learning Objective: 02-07 Describe the four basic financial statements.

Blooms: Apply

AACSB: Knowledge Application

AICPA: FN Measurement

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

Kline's 12/31/2021 total shareholders' equity.

Answer: Kline's 12/31/2021 total owners' equity = $628,000

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

Difficulty: 2 Medium

Topic: Financial statement―Balance sheet

Learning Objective: 02-07 Describe the four basic financial statements.

Blooms: Apply

AACSB: Knowledge Application

AICPA: FN Measurement

141) Presented below is income statement and dividend information of the Nebraska Corporation for the year ended December 31, 2021.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 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 |  | Administrative expense | 35,000 |
| Loss on sale of investments | 8,000 |  | Rent expense | 10,000 |
|  Dividends | 5,000 |  |  |  |

**Required:**

Prepare the necessary closing entries at December 31, 2021.

Answer:

**December** **31,** **2021**

|  |  |  |
| --- | --- | --- |
| Sales revenue | 620,000 |  |
| Dividend revenue | 3,000 |  |
|  Retained earnings |  | 623,000 |
|  |  |  |
| Retained earnings | 548,000 |  |
|  Loss on sale of investments |  | 8,000 |
|  Salaries expense |  | 90,000 |
|  Miscellaneous expense |  | 12,000 |
|  Cost of goods sold |  | 355,000 |
|  Insurance expense |  | 20,000 |
|  Depreciation expense |  | 18,000 |
|  Administrative expense |  | 35,000 |
|  Rent expense |  | 10,000 |
|  |  |  |
| Retained earnings  | 5,000 |  |
|  Dividends |  | 5,000 |

Difficulty: 2 Medium

Topic: The closing process

Learning Objective: 02-08 Explain the closing process.

Blooms: Apply

AACSB: Knowledge Application

AICPA: FN Measurement

142) 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, 2021:

|  |  |
| --- | --- |
| **Cash receipts:** |  |
|  From customers | $450,000 |
|  Interest on note | 3,000 |
|  Issue of common stock | 50,000 |
|  Total cash receipts | $503,000 |
|  |  |
| **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 | 12,000 |
|  Total cash disbursements | $427,000 |

Selected balance sheet information:

|  |  |  |
| --- | --- | --- |
|  | **12/31/2020** | **12/31/2021** |
| 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 |
| Dividends | 0 | 6,000 |

Additional information:

1. On June 30, 2020, Raintree lent a customer $50,000. Interest at 6% is payable annually on each June 30. Principal is due in 2024.

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 2021 (ignore income taxes).

2. Determine the following balance sheet amounts on December 31, 2021:

a. Interest receivable

b. Prepaid insurance

c. Prepaid rent

Answer:

|  |  |  |
| --- | --- | --- |
| 1. Sales revenue: |  |  |
|  Cash collected from customers | $450,000 |  |
|  Add: Increase in accounts receivable | 28,000 |  |
|  Sales revenue | $478,000 |  |
| Interest revenue: |  |  |
|  Cash received | $3,000 |  |
|  Add: Amount accrued at the end of 2021 ($50,000 × .06 × 6/12) | 1,500 | (a) |
|  Deduct: Amount accrued at the end of 2020 | (1,500) |  |
|  Interest revenue | $3,000 |  |
| Cost of goods sold: |  |  |
|  Cash paid for merchandise | $220,000 |  |
|  Add: Increase in accounts payable | 12,000 |  |
|  Purchases during 2021 | 232,000 |  |
|  Deduct: Increase in inventory | (22,000) |  |
|  Cost of goods sold | $210,000 |  |
| Insurance expense: |  |  |
|  Cash paid | $9,000 |  |
|  Add: Prepaid insurance expired during 2021 | 2,000 |  |
|  Deduct: Prepaid insurance on 12/31/2021 ($9,000 × 3/12) | (2,250) | (b) |
|  Insurance expense | $8,750 |  |
| Salaries expense: |  |  |
|  Cash paid | $180,000 |  |
|  Add: Increase in salaries payable | 8,000 |  |
|  Salaries expense | $188,000 |  |
| Rent expense: |  |  |
|  Amount paid | $12,000 |  |
|  Add: Prepaid rent on 12/31/2020 expired during 2021 | 7,000 |  |
|  Deduct: Prepaid rent on 12/31/2021 ($12,000 × 9/12) | (9,000) | (c) |
|  Rent expense | $10,000 |  |
| Depreciation expense: Increase in accumulated depreciation | $15,000 |  |

 **Raintree Corporation**

 **Income statement**

 **For the Year Ended December 31, 2021**

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

2.

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

Difficulty: 3 Hard

Topic: Convert cash basis to accrual basis; Determine account balance―Analyze entries; Financial statement―Income Statement

Learning Objective: 02-07 Describe the four basic financial statements; 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze; Apply

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

143) Silicon Chip Company's fiscal year-end is December 31. At the end of 2021, it owed employees $22,000 in salaries that will be paid on January 7, 2022.

**Required:**

1. Prepare an adjusting entry to record accrued salaries, a reversing entry on January 1, 2022, and an entry to record the payment of salaries on January 7, 2022.

2. Prepare journal entries to record the accrued salaries on December 31, 2021 and the payment of salaries on January 7, 2022, assuming a reversing entry is not recorded.

Answer:

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 |

Difficulty: 3 Hard

Topic: Reversing entries―Appendix B

Learning Objective: Appendix 2B Reversing Entries.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: FN Measurement

144) Describe the difference between external events and internal events, and provide two examples of each.

Answer: 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.

Difficulty: 2 Medium

Topic: Account relationships and records

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.

Blooms: Understand

AACSB: Communication

AICPA: BB Critical thinking

145) Describe what is meant by deferred revenue and provide two examples.

Answer: Deferred revenue is 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 company or rent received in advance by a property leasing company. A liability exists because of the obligation to provide the service.

Difficulty: 2 Medium

Topic: Analyze updating-Identify type of adjustment; Analyze transaction-Record journal entry

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts; 02-05 Identify and describe the different types of adjusting journal entries.

Blooms: Understand

AACSB: Communication

AICPA: BB Critical thinking

146) Describe what is meant by prepaid expenses and provide two examples.

Answer: 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.

Difficulty: 2 Medium

Topic: Analyze transaction-Record journal entry; Analyze updating-Identify type of adjustment

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts; 02-05 Identify and describe the different types of adjusting journal entries.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

147) What is an accrued liability?

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

Difficulty: 2 Medium

Topic: Analyze updating-Identify type of adjustment

Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

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

Answer: 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.

Difficulty: 2 Medium

Topic: Account relationships and records

Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.

Blooms: Understand

AACSB: Communication

AICPA: BB Critical thinking

149) 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.

Answer: 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.

Difficulty: 3 Hard

Topic: Financial statement―Cash flow

Learning Objective: 02-07 Describe the four basic financial statements.

Blooms: Understand

AACSB: Communication

AICPA: BB Critical thinking

150) What is the purpose of the closing process?

Answer: 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.

Difficulty: 2 Medium

Topic: The closing process

Learning Objective: 02-08 Explain the closing process.

Blooms: Understand

AACSB: Communication

AICPA: BB Critical thinking

151) Claymore Corporation maintains its book on a cash basis. During 2021, 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:

|  |  |  |
| --- | --- | --- |
|  | **January 1, 2021** | **December 31, 2021** |
| 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, 2021 depreciation expense on office equipment is $55,000.

**Required:**

Determine accrual-basis net income for 2021.

Answer:

|  |  |
| --- | --- |
|  Cash basis net income ($825,000 – 512,000) | $313,000 |
|  Add: |  |
|  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 |
|  Deduct: |  |
|  Depreciation expense | (55,000) |
|  Decrease in prepaid rent ($12,000 – 11,000) | (1,000) |
|  Increase in interest payable ($5,500 – 4,000) | (1,500) |
| Accrual-basis net income | **$270,800**  |

Difficulty: 3 Hard

Topic: Convert cash basis to accrual basis

Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

152) 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.

|  |  |
| --- | --- |
| **Transaction**  | **Journal** |
| 1. Received interest on a loan. | \_\_\_\_\_\_\_\_ |
| 2. Received cash for services to be provided next month. | \_\_\_\_\_\_\_\_ |
| 3. Purchased equipment 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 bill for utilities usage. | \_\_\_\_\_\_\_\_ |
| 10. Recorded depreciation expense. | \_\_\_\_\_\_\_\_ |
| 11. Sold equipment for cash. | \_\_\_\_\_\_\_\_ |
| 12. Collected cash from customers on account. | \_\_\_\_\_\_\_\_ |
| 13. Paid employee salaries. | \_\_\_\_\_\_\_\_ |
| 14. Paid interest on a loan. | \_\_\_\_\_\_\_\_ |

Answer:

|  |  |
| --- | --- |
| **Transaction** | **Journal** |
| 1.Received interest on a loan. | CR |
| 2.Received cash for services to be provided next month. | CR |
| 3.Purchased equipment 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 bill for utilities usage. | CD |
| 10. Recorded depreciation expense. | GJ |
| 11. Sold equipment for cash. | CR |
| 12. Collected cash from customers on account. | CR |
| 13. Paid employee salaries. | CD |
| 14. Paid interest on a loan. | CD |

Difficulty: 2 Medium

Topic: Subsidiary ledgers―Special journals―Appendix C

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

Blooms: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement