

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

True / False Questions

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

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Accounting equation

2. Debits increase asset accounts and decrease liability accounts.

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Account relationships and records

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Account relationships and records

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Accounting processing cycle steps

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

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Analyze updating-Record adjusting entry

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Analyze updating-Identify type of adjustment

7. The adjusted trial balance contains only permanent accounts.

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Trial balance—Adjusted

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Financial statement—Income Statement

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Financial statement—Balance sheet

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

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

*Topic Area: **Financial statement—Cash flow***

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 2 Medium

*Topic Area: **Financial statement—Shareholders equity***

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

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 1 Easy

*Topic Area: **The closing process***

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

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 1 Easy

*Topic Area: **The closing process***

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-Appendix 2B Reversing Entries.

Level of Difficulty: 2 Medium

*Topic Area: **Reversing entries–Appendix B***

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

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

*Topic Area: **Subsidiary ledger-Special journal–App C***

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Subsidiary ledger-Special journal–App C

Multiple Choice Questions

17. The accounting equation can be stated as:

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

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

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 2 Medium

Topic Area: Accounting equation

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.

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

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.

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

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

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Analyze updating-Record adjusting entry

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.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

*Topic Area: **Analyze transaction-Record journal entry***

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

*Topic Area: **Analyze transaction-Record journal entry***

22. A sale on account would be recorded by:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

23. 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.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Analyze transaction-Record journal entry

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

26. 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 | |
| | Revenue from sales | | 960 |
| B. | Accounts receivable | 960 | |
| | Sales revenue | | 960 |
| | Cost of goods sold | 620 | |
| | Inventory | | 620 |
| C. | Inventory | 620 | |
| | Gain on sale | 340 | |
| | Sales revenue | | 960 |
| D. | Accounts receivable | 960 | |
| | Sales revenue | | 620 |
| | Gain on sale | | 340 |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Analyze transaction-Record journal entry

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Analyze transaction-Record journal entry

28. Which of the following accounts has a balance whereby debits normally exceed credits?

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

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

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

Level of Difficulty: 1 Easy

Topic Area: Account relationships and records

Topic Area: Determine account balance-Analyze entries

29. An example of a contra account is:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Analyze updating-Identify type of adjustment

30. 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.

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

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

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

Level of Difficulty: 1 Easy

Topic Area: Analyze transaction-Record journal entry

Topic Area: Analyze updating-Identify type of adjustment

31. 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.

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

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

Level of Difficulty: 1 Easy

Topic Area: Analyze updating-Identify type of adjustment

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

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

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

Level of Difficulty: 1 Easy

Topic Area: Analyze transaction-Record journal entry

Topic Area: Analyze updating-Identify type of adjustment

33. On December 31, 2017, Coolwear, Inc. had a balance in its prepaid insurance account of \$48,400. During 2018, \$86,000 was paid for insurance. At the end of 2018, after adjusting entries were recorded, the balance in the prepaid insurance account was 42,000. Insurance expense for 2018 would be:

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

Feedback: Insurance expense = \$48,400 + 86,000 – 42,000 = \$92,400

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

Topic Area: Determine account balance-Analyze entries

34. Adjusting entries are primarily needed for:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Analyze updating-Identify type of adjustment

35. Prepayments occur when:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Identify type of adjustment

36. Accruals occur when cash flows:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Identify type of adjustment

37. On December 31, 2018, 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 2018 balance sheet will be valued at:

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Identify type of adjustment

Topic Area: Trial balance—Adjusted

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

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

Feedback:

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Determine account balance-Analyze entries

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

40. 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.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

41. Which of the following accounts has a balance whereby credits normally exceed debits?
- A. Salary expense.
 - B. Accrued income taxes payable.**
 - C. Land.
 - D. Prepaid rent.

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

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

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

Level of Difficulty: 1 Easy

Topic Area: Account relationships and records

Topic Area: Determine account balance—Analyze entries

42. When a tenant makes an end-of-period adjusting entry credit to the "Prepaid rent" account:
- A. (S)he usually debits cash.
 - B. (S)he usually debits an expense account.**
 - C. (S)he debits a liability account.
 - D. (S)he credits an owners' equity account.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

43. When a business makes an end-of-period adjusting entry with a debit to supplies expense, the usual credit entry is made to:
- A. Accounts payable.
 - B.** Supplies.
 - C. Cash.
 - D. Retained earnings.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 1 Easy

Topic Area: Analyze updating-Record adjusting entry

44. The adjusting entry required to record accrued expenses includes:
- A. A credit to cash.
 - B. A debit to an asset.
 - C. A credit to an asset.
 - D.** A credit to liability.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

45. Carolina Mills purchased \$270,000 in supplies this year. The supplies account increased by \$10,000 during the year to an ending balance of \$66,000. What was supplies expense for Carolina Mills during the year?
- A. \$300,000.
 - B. \$280,000.
 - C. \$260,000.
 - D. \$240,000.

Feedback:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

*Topic Area: **Determine account balance-Analyze entries***

Topic Area: Convert cash basis to accrual basis

46. Yummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2018, and charged the \$4,200 premium to Insurance expense. At its December 31, 2018, 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 |
| <u>D.</u> | Prepaid insurance | 3,325 | |
| | Insurance expense | | 3,325 |

Feedback:

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

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

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

Topic Area: Convert cash basis to accrual basis

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

- | | | | |
|-----------|------------------|--------|--------|
| A. | Salaries expense | 22,400 | |
| | Prepaid salaries | 9,600 | |
| | Salaries payable | | 32,000 |
| B. | Salaries expense | 6,400 | |
| | Salaries payable | | 6,400 |
| C. | Prepaid salaries | 9,600 | |
| | Salaries payable | | 9,600 |
| <u>D.</u> | Salaries expense | 22,400 | |
| | Salaries payable | | 22,400 |

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

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

48. On September 1, 2018, Fortune Magazine sold 600 one-year subscriptions for \$81 each. The total amount received was credited to deferred subscriptions revenue. What is the required adjusting entry at December 31, 2018?

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

Feedback:

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

Amount recorded as revenue: $\$48,600 \times 4/12 = \$16,200$

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

49. Mama's Pizza Shoppe borrowed \$8,000 at 9% interest on May 1, 2018, with principal and interest due on October 31, 2019. The company's fiscal year ends June 30, 2018. What adjusting entry is necessary on June 30, 2018?

- A. No entry.
- B. Interest expense 240
Interest payable 240
- C. Interest expense 120
Interest payable 120
- D. Prepaid interest 120
Interest payable 120

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

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

50. On September 15, 2018, 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, 2018?

<u>A.</u>	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

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

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

51. In its first year of operations Acme Corp. had income before tax of \$400,000. Acme made income tax payments totaling \$150,000 during the year and has an income tax rate of 40%. What is the balance in income tax payable at the end of the year?
- A. \$160,000 credit.
 B. \$150,000 credit.
C. \$10,000 credit.
 D. \$10,000 debit.

Feedback: Income tax expense = \$400,000 × 40% = \$160,000

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

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

Level of Difficulty: 3 Hard

Topic Area: Analyze updating-Record adjusting entry

Topic Area: Convert cash basis to accrual basis

Topic Area: Determine account balance-Analyze entries

52. Eve's Apples opened its business on January 1, 2018, and paid for two insurance policies effective that date. The liability policy was \$36,000 for 18 months, and the crop damage policy was \$12,000 for a two-year term. What is the balance in Eve's prepaid insurance as of December 31, 2018?

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

Feedback:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

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

Level of Difficulty: 3 Hard

Topic Area: Determine account balance-Analyze entries

Topic Area: Convert cash basis to accrual basis

53. Fink Insurance collected premiums of \$18,000,000 from its customers during the current year. The adjusted balance in the Deferred premiums 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.

Feedback:

Cash collections	\$18,000,000
Deduct increase in deferred premiums	<u>(2,000,000)</u>
Insurance premium revenue	<u>\$16,000,000</u>

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Determine account balance-Analyze entries

Topic Area: Convert cash basis to accrual basis

54. On November 1, 2018, 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, 2018?
- A. \$112,500.
 - B. \$225,000.
 - C. \$450,000.**
 - D. \$1,350,000.

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

Topic Area: Determine account balance-Analyze entries

55. An economic resource of an entity is:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Account relationships and records

56. Cost of goods sold is:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Analyze transaction-Record journal entry

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

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

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

Level of Difficulty: 1 Easy

Topic Area: Accounting equation

Topic Area: Financial statement—Shareholders equity

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

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

Feedback: $\text{Income before tax } \$500,000 - (40\% \times \$500,000) = \$300,000$

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: **Financial statement—Income Statement**

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

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

Feedback:

Inventory

Ending Bal.	200,000	2,000,000	To cost of goods sold
Purchases	?		
Bal.	<u>400,000</u>		

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Determine account balance—Analyze entries

60. Permanent accounts would **not** include:

- A. Interest expense.
- B. Salaries and wages payable.
- C. Prepaid rent.
- D. Deferred revenues.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: Account relationships and records

Topic Area: The closing process

61. Permanent accounts would **not** include:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: Account relationships and records

Topic Area: The closing process

62. The purpose of closing entries is to transfer:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: The closing process

63. Temporary accounts would **not** include:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

*Topic Area: **Account relationships and records***

Topic Area: The closing process

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Convert cash basis to accrual basis

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Convert cash basis to accrual basis

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Convert cash basis to accrual basis

67. Molly's Auto Detailers maintains its records on the cash basis. During 2018, 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.

Feedback:

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)	<u>1,000</u>
Accrual basis net income	<u>\$49,000</u>

AACSB: Knowledge Application

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Convert cash basis to accrual basis

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

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

Feedback:

Collections	\$42,000
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)	<u>(2,500)</u>
Accrual basis net income	<u>\$29,000</u>

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Convert cash basis to accrual basis

69. The Hamada Company sales for 2018 totaled \$150,000 and purchases totaled \$95,000. Selected January 1, 2018, balances were: accounts receivable, \$18,000; inventory, \$14,000; and accounts payable, \$12,000. December 31, 2018, 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.

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Blooms: Apply

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

Level of Difficulty: 3 Hard

Topic Area: Convert cash basis to accrual basis

70. 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.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Convert cash basis to accrual basis

71. 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.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Convert cash basis to accrual basis

72.

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

	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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Convert cash basis to accrual basis

73.

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

	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

Feedback:

Collections	\$6,400,000 (Cash basis income)
Expenses incurred but not paid	<u>(3,000,000)</u>
Accrual basis net income	<u>\$3,400,000</u>

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

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Convert cash basis to accrual basis

74.

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

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

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

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

Prepaid Insurance

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Determine account balance-Analyze entries

Matching Questions

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 1 Easy

Topic Area: Analyze updating—Identify type of adjustment

Topic Area: Trial balance—Adjusted

Topic Area: Trial balance—Unadjusted

Topic Area: The closing process

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 1 Easy

Topic Area: Analyze updating-Identify type of adjustment

Topic Area: Financial statement—Cash flow

Topic Area: Financial statement—Balance sheet

Topic Area: Accounting equation

Topic Area: The closing process

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

Level of Difficulty: 2 Medium

Topic Area: Accounting equation

Topic Area: Analyze transaction-Record journal entry

Topic Area: Analyze updating-Identify type of adjustment

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 1 Easy

Topic Area: Account relationships and records

Topic Area: Accounting processing cycle steps

Topic Area: The closing process

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

Level of Difficulty: 1 Easy

Topic Area: Accounting processing cycle steps

Topic Area: Subsidiary ledger-Special journal-App C

Topic Area: Accounting equation

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

Level of Difficulty: 1 Easy

Topic Area: Accounting processing cycle steps

Topic Area: Subsidiary ledger-Special journal—App C

Topic Area: Account relationships and records

Topic Area: Accounting equation

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Identify type of adjustment

Topic Area: Trial balance—Unadjusted

Topic Area: Accounting equation

Topic Area: Account relationships and records

Topic Area: The closing process

Short Answer Questions

Use the following to answer questions 82 – 93:

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 debit on account	Classification
EXAMPLE: Advertising expense	1	7

82. Buildings and equipment (B&E)

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

83. Short-term notes payable

Answer:

	Effect	Classification
Short-term notes payable	2	3

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

84.

Cost of goods sold

Answer:

	Effect	Classification
Cost of goods sold	1	7

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

85.

Accounts receivable

Answer:

	Effect	Classification
Accounts receivable	1	1

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

86.

Inventory

Answer:

	Effect	Classification
Inventory	1	1

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

87.

Deferred revenue

Answer:

	Effect	Classification
Deferred revenue	2	3

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

88.

Property taxes payable

Answer:

	Effect	Classification
Property taxes payable	2	3

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

89.

Retained earnings

Answer:

	Effect	Classification
Retained earnings	2	5

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

90.

Interest revenue

Answer:

	Effect	Classification
Interest revenue	2	6

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

91.

Supplies expense

Answer:

	Effect	Classification
Supplies expense	1	7

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

92.

Prepaid rent

Answer:

	Effect	Classification
Prepaid rent	1	1

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

93.

Common stock

Answer:

	Effect	Classification
Common stock	2	5

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

Use the following to answer questions 94 – 108:

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

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.

94.

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

stock for cash.			
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94. 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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

95. 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 money market funds.	1120	1100	1

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Purchased inventory on account.

96.

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: **Analyze transaction-Record journal entry**

Sold inventory on account.

97.

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: **Analyze transaction-Record journal entry**

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

98. 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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Accrued the interest recognized but not collected on notes receivable.

99.

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

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

100.

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Collected cash on account from customers.

101. Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

102. Sold inventory for cash.

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Received payment for services to be performed next year.

103. Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Salaries and wages have been recognized but are unpaid at the end of an accounting period.

104.

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

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

105.

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: The closing process

Accrued property taxes were paid.

106.

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: **Analyze transaction-Record journal entry**

107. 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.	3200	2160	1

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: **Analyze transaction-Record journal entry**

Paid rent for the next three months.

108.

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

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

Required:

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

1. Purchased \$8,200 of inventory on account.
2. Paid weekly salaries and wages, \$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 and wages expense	920	
	Cash		920
3.	Cash	7,100	
	Accounts receivable	5,300	
	Sales revenue		12,400
4.	Accounts payable	8,200	
	Cash		8,200
5.	No Entry.		

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 1 Easy

Topic Area: Analyze transaction-Record journal entry

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

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

Answer:

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

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: **Analyze transaction-Record journal entry**

111. Flint Hills, Inc. has prepared a year-end 2018 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, 2018, Flint Hills received a utility bill for December electricity usage of \$190 that will be paid in early January of 2019.

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

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

Level of Difficulty: 2 Medium

*Topic Area: **Analyze updating-Record adjusting entry***

112.

The following is selected financial information for D. Kay Dental Laboratories for 2017 and 2018:

	<u>2017</u>	<u>2018</u>
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 2018 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, 2018.

Answer:

D. Kay Dental Laboratories
Statement of Shareholders' Equity
For the Year Ended December 31, 2018

	Common	Retained	Total
	<u>Stock</u>	<u>Earnings</u>	<u>Shareholders'</u> <u>Equity</u>
Balance, January 1, 2018	\$70,000	\$75,000*	\$145,000
Issue of common stock	20,000		20,000
Net income for 2018		42,000	42,000
Less: Dividends	_____	– 18,000	– 18,000
Balance, December 31, 2018	<u>\$ 90,000</u>	<u>\$ 99,000</u>	<u>\$189,000</u>

* Beginning balance, Retained Earnings = Ending balance at December 31, 2017:

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

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 3 Hard

*Topic Area: **Financial statement—Shareholders equity***

113.

The Yankel Corporation's controller prepares adjusting entries only at the end of the fiscal year. The following adjusting entries were prepared on December 31, 2018:

	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, 2018. Principal and interest are due on June 30, 2019. 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, 2018, 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 2018 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.

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

$\$3,600 \div \$30,000 = \mathbf{12\% \text{ interest rate}}$

Or,

Principal \times Rate \times Time = Interest

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

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

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

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

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

3. Principal \times Rate \times Time = Interest

Principal $\times 9\% \times (4/12) = \$3,000$

Principal $\times 3\% = \$3,000$

Principal = \$100,000

Or

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

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

Principal $\times 9\% = \$9,000$

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

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

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

Level of Difficulty: 3 Hard

*Topic Area: **Analyze updating-Record adjusting entry***

*Topic Area: **Determine account balance-Analyze entries***

Use the following to answer questions 114 – 118:

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 2018 Income Statement and 12/31/18 Balance Sheet. Assume no income taxes.

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

N = No Effect

O = Overstated

U = Understated

114.

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 Net Income
\$2,000 interest on a loan was not yet paid or recorded				

Answer:

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 Net Income
\$2,000 interest on a loan was not yet paid or recorded	N	U 2,000	O 2,000	O2,000

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: **Determine account balance-Analyze entries**

Topic Area: **Distinguish among financial statements**

115.

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 Net Income
The estimated uncollectible accounts receivable is now zero and should be \$25,000.				

Answer:

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 Net Income
The estimated uncollectible accounts receivable is now zero and should be \$25,000.	025,000	N	025,000	025,000

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

balance.

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

Level of Difficulty: 2 Medium

Topic Area: Distinguish among financial statements

Topic Area: Determine account balance-Analyze entries

116.

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 Net Income
\$10,000 of the paid and recorded rent expense pertains to the year 2019.				

Answer:

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 Net Income
\$10,000 of the paid and recorded rent expense pertains to the year 2019.	U10,000	N	U10,000	U10,000

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Determine account balance-Analyze entries

Topic Area: Distinguish among financial statements

117.

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 Net Income
\$20,000 in depreciation on some equipment was still unrecorded.				

Answer:

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 Net Income
\$20,000 in depreciation on some equipment was still unrecorded.	020,000	N	020,000	020,000

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Distinguish among financial statements

Topic Area: Determine account balance-Analyze entries

118.

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 Net Income
\$4,000 in cash dividends declared and paid in December 2018 were unrecorded.				

Answer:

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 Net Income
\$4,000 in cash dividends declared and paid in December 2018 were unrecorded.	04,000	N	04,000	N

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Determine account balance-Analyze entries

Topic Area: Distinguish among financial statements

Use the following to answer questions 119 – 124:

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/18. 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 2018 Income Statement and 12/31/18 Balance Sheet if they are not corrected or updated. Assume no income taxes.

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

N = No Effect

O = Overstated

U = Understated

119.

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 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	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

*Topic Area: **Determine account balance-Analyze entries***

*Topic Area: **Distinguish among financial statements***

120.

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 Net Income
The journal entry for depreciation on equipment for 2018 was recorded for \$48,000. The amount should have been \$66,000.				

Answer:

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 Net Income
The journal entry for depreciation on equipment for 2018 was recorded for \$48,000. The amount should have been \$66,000.	○	N	○	○

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Distinguish among financial statements

Topic Area: Determine account balance-Analyze entries

121.

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 Net Income
Cash dividends declared and paid on December 15, 2018, were not recorded.				

Answer:

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 Net Income
Cash dividends declared and paid on December 15, 2018, were not recorded.	O	N	O	N

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 3 Hard

Topic Area: Determine account balance-Analyze entries

Topic Area: Distinguish among financial statements

122.

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 Net Income
\$10,000 of the rent revenue collected and recorded as revenue this year pertains to 2019.				

Answer:

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 Net Income
\$10,000 of the rent revenue collected and recorded as revenue this year pertains to 2019.	N	U	O	O

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: **Determine account balance-Analyze entries**

Topic Area: **Distinguish among financial statements**

123.

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 Net Income
Interest recognized during the year on a note receivable was not yet collected or recorded				

Answer:

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 Net Income
Interest recognized during the year on a note receivable was not yet collected or recorded	U	N	U	U

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Determine account balance-Analyze entries

Topic Area: Distinguish among financial statements

124.

Additional Information	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 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	12/31/18 Assets	12/31/18 Liabilities	12/31/18 Owners' Equity	2018 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

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 3 Hard

Topic Area: **Determine account balance-Analyze entries**

Topic Area: **Distinguish among financial statements**

Use the following to answer questions 125 – 127:

The adjusted trial balance for China Tea Company at December 31, 2018, 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		1,000
Common stock		200,000
Retained earnings		50,000
Sales revenue		400,000
Costs of goods sold	180,000	
Salaries expense	120,000	
Rent expense	15,000	
Depreciation expense	30,000	
Interest expense	2,000	
Advertising expense	<u>2,500</u>	<u> </u>
Totals	<u>840,000</u>	<u>840,000</u>

125.

Prepare the closing entries for China Tea Company for the year ended December 31, 2018.

Answer:

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

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: The closing process

126.

Prepare an income statement for China Tea Company for the year ended December 31, 2018.

Answer:

China Tea Company Income Statement For the Year Ended December 31, 2018		
Sales revenue		\$400,000
Cost of goods sold		<u>180,000</u>
Gross profit		220,000
Other expenses:		
Salaries expense	\$120,000	
Rent expense	15,000	
Depreciation expense	30,000	
Interest expense	2,000	
Advertising expense	<u>2,500</u>	
Total other expenses		<u>169,500</u>
Net income		<u><u>\$ 50,500</u></u>

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Financial statement—Income Statement

127. Prepare a classified balance sheet for China Tea Company as of December 31, 2018.

Answer:

China Tea Company Balance Sheet At December 31, 2018		
Assets		
Current assets:		
Cash		\$ 10,500
Accounts receivable		150,000
Inventory		25,000
Prepaid rent		<u>5,000</u>
Total current assets		190,500
Property and equipment:		
Equipment	300,000	
Less: Accumulated depreciation	<u>125,000</u>	<u>175,000</u>
Total assets		<u>\$365,500</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable		\$ 30,000
Notes payable		30,000
Salaries payable		4,000
Interest payable		<u>1,000</u>
Total current liabilities		65,000
Shareholders' equity:		
Common stock	\$200,000	
Retained earnings	<u>100,500</u>	
Total shareholders' equity		<u>300,500</u>
Total liabilities and shareholders' equity		<u>\$365,500</u>

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

*Topic Area: **Financial statement—Balance sheet***

Use the following to answer questions 128 and 129:

The following information, based on the 12/31/18 Annual Report to Shareholders of Krafty Foods (\$ in millions):

Accounts payable	1,897
Accounts receivable (net)	3,131
Accrued liabilities and taxes	4,105
Cash and cash equivalents	162
Cost of sales	17,531
Current payables to parent and affiliates	1,652
Current portion of long-term debt	540
Deferred income taxes and other liabilities	10,311
Retained earnings as of 12/31/18	2,391
Goodwill and other intangible assets (net)	35,957
Income tax expense	1,565
Interest and other debt expense, net	1,437
Inventories	3,026
Long-term debt	8,134
Long-term notes payable to parent and affiliates	5,000
Marketing, general and administration expenses	11,460
Operating revenues	33,875
Other current assets	687
Other noncurrent assets	3,726
Other stockholders' equity	(2,568)
Paid-in capital for common and preferred stock	23,655
Property, plant and equipment (net)	9,109
Short-term borrowings	681

128. Based on the information presented above, prepare the Income Statement for Krafty Foods for the year ended December 31, 2018.

Answer:

Krafty Foods Income Statement For the Year Ended December 31, 2018	
(\$ in millions)	
Operating revenues	\$33,875
Cost of sales	<u>17,531</u>
Gross profit	16,344
Marketing, general and administration Expenses	<u>11,460</u>
Operating income	4,884
Interest and other debt expense, net	<u>1,437</u>
Income before taxes	3,447
Income tax expense	<u>1,565</u>
Net income	<u>\$ 1,882</u>

AACSB: Knowledge Application

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

*Topic Area: **Financial statement—Income Statement***

129.

Based on the information presented above, prepare the 12/31/18 Balance Sheet for Krafty Foods.

Answer:

Krafty Foods Balance Sheet At December 31, 2018		
(\$ in millions)		
Assets		
Current assets:		
Cash and cash equivalents		\$ 162
Accounts receivable (net)		3,131
Inventories		3,026
Other current assets		<u>687</u>
Total current assets		7,006
Property, plant and equipment (net)		9,109
Goodwill and other intangible assets (net)		35,957
Other noncurrent assets		<u>3,726</u>
Total assets		<u><u>\$55,798</u></u>
Liabilities and Shareholders' Equity		
Accounts payable		\$ 1,897
Accrued liabilities and taxes		4,105
Short-term borrowings		681
Current payables to parent and affiliates		1,652
Current portion of long-term debt		<u>540</u>
Total current liabilities		8,875
Long-term debt		8,134
Deferred income taxes and other liabilities		10,311
Long-term notes payable to parent and affiliates		<u>5,000</u>
Total liabilities		32,320
Paid-in capital for common and preferred stock	\$23,655	
Retained earnings	2,391	

Other stockholders' equity	(2,568)	
Total stockholders' equity		<u>23,478</u>
Total liabilities and stockholders' equity		<u>\$55,798</u>

AACSB: Knowledge Application

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 3 Hard

*Topic Area: **Financial statement—Balance sheet***

Use the following to answer questions 130 – 133:

The December 31, 2018 (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 and wages payable		8,000
Sales revenue		<u>770,000</u>
Salaries expense	<u>120,000</u>	
TOTALS	<u>1,740,000</u>	<u>1,740,000</u>

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

Kline's 2018 net income (or loss):

Answer: Kline's 2018 net income (or loss) = \$76,000

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

AACSB: Knowledge Application

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: **Financial statement—Income Statement**

131.

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

Kline's 12/31/18 total current assets:

Answer: Kline's 12/31/18 total current assets = \$346,000

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

AACSB: Knowledge Application

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: **Financial statement—Balance sheet**

132.

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

Kline's 12/31/18 total current liabilities:

Answer: Kline's 12/31/18 total current liabilities = \$158,000

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

AACSB: Knowledge Application

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: **Financial statement—Balance sheet**

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

Kline's 12/31/18 total shareholders' equity:

Answer: Kline's 12/31/18 total owners' equity = \$628,000

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

AACSB: Knowledge Application

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area **Financial statement—Shareholders equity**

Topic Area: **Financial statement—Balance sheet**

134.

Presented below is income statement information of the Nebraska Corporation for the year ended December 31, 2018.

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

Required:

Prepare the necessary closing entries at December 31, 2018.

Answer:

December 31, 2018

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

Retained earnings		75,000
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AACSB: Knowledge Application

AICPA: FN Measurement

Blooms: Apply

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: The closing process

135.

Raintree Corporation maintains its records on a cash basis. At the end of each year the company's accountant obtains the necessary information to prepare accrual basis financial statements. The following cash flows occurred during the year ended December 31, 2018:

Cash receipts:	
From customers	\$450,000
Interest on note	3,000
Issue of common stock	<u>50,000</u>
Total cash receipts	<u>\$503,000</u>
Cash disbursements:	
Purchase of merchandise	\$220,000
Annual insurance payment	9,000
Payment of salaries	180,000
Dividends paid to shareholders	6,000
Annual rent payment	<u>12,000</u>
Total cash disbursements	<u>\$427,000</u>

Selected balance sheet information:

	12/31/17	12/31/18
Cash	\$25,000	\$101,000
Accounts receivable	42,000	70,000
Inventory	60,000	82,000
Prepaid insurance	2,000	?
Prepaid rent	7,000	?
Interest receivable	1,500	?
Note receivable	50,000	50,000
Equipment	150,000	150,000
Accumulated depreciation— equipment	(40,000)	(55,000)

Accounts payable (for merchandise)	50,000	62,000
Salaries payable	20,000	28,000
Common stock	200,000	250,000

Additional information:

1. On June 30, 2017, Raintree lent a customer \$50,000. Interest at 6% is payable annually on each June 30. Principal is due in 2021.
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 2018 (ignore income taxes).
2. Determine the following balance sheet amounts on December 31, 2018:
 - a. Interest receivable
 - b. Prepaid insurance
 - c. Prepaid rent

Answer:

1. Sales revenue:		
Cash collected from customers	\$450,000	
Add: Increase in accounts receivable	<u>28,000</u>	
Sales revenue	<u>\$478,000</u>	
Interest revenue:		
Cash received	\$3,000	
Add: Amount accrued at the end of 2018 ($\$50,000 \times .06 \times 6/12$)	1,500	(a)
Deduct: Amount accrued at the end of 2017	<u>(1,500)</u>	
Interest revenue	<u>\$3,000</u>	
Cost of goods sold:		
Cash paid for merchandise	\$220,000	
Add: Increase in accounts payable	<u>12,000</u>	

Purchases during 2018	232,000	
Deduct: Increase in inventory	<u>(22,000)</u>	
Cost of goods sold	<u>\$210,000</u>	
Insurance expense:		
Cash paid	\$9,000	
Add: Prepaid insurance expired during 2018	2,000	
Deduct: Prepaid insurance on 12/31/18 (\$9,000 x 3/12)	<u>(2,250)</u>	(b)
Insurance expense	<u>\$8,750</u>	
Salaries expense:		
Cash paid	\$180,000	
Add: Increase in salaries payable	<u>8,000</u>	
Salaries expense	<u>\$188,000</u>	
Rent expense:		
Amount paid	\$12,000	
Add: Prepaid rent on 12/31/17 expired during 2018	7,000	
Deduct: Prepaid rent on 12/31/18 (\$12,000 x 9/12)	<u>(9,000)</u>	(c)
Rent expense	<u>\$10,000</u>	
Depreciation expense: Increase in accumulated depreciation	<u>\$15,000</u>	

Raintree Corporation Income statement For the Year Ended December 31, 2018		
Sales revenue		\$478,000
Cost of goods sold		<u>210,000</u>
Gross profit		268,000
Operating expenses:		
Insurance	\$ 8,750	
Salaries	188,000	
Rent	10,000	
Depreciation	<u>15,000</u>	
Total operating expenses		<u>221,750</u>

Operating income		46,250
Other income (expense):		
Interest revenue		<u>3,000</u>
Net income		<u>\$49,250</u>

2.

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

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

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

Level of Difficulty: 3 Hard

Topic Area: Convert cash basis to accrual basis

Topic Area: Determine account balance—Analyze entries

Topic Area: Financial statement—Income Statement

136. Silicon Chip Company's fiscal year-end is December 31. At the end of 2018, it owed employees \$22,000 in salaries and wages that will be paid on January 7, 2019.

Required:

1. Prepare an adjusting entry to record accrued salaries and wages, a reversing entry on January 1, 2019, and an entry to record the payment of salaries and wages on January 7, 2019.
2. Prepare journal entries to record the accrued salaries and wages on December 31, 2018 and the payment of salaries and wages on January 7, 2019, assuming a reversing entry is not recorded.

Answer:

1.

December 31—adjusting entry		
Salaries and wages expense	22,000	
Salaries and wages payable		22,000
January 1—reversing entry		
Salaries and wages payable	22,000	
Salaries and wages expense		22,000
January 7—payment of salaries and wages		
Salaries and wages expense	22,000	
Cash		22,000

2.

December 31—adjusting entry		
Salaries and wages expense	22,000	
Salaries and wages payable		22,000

January 7—payment of salaries and wages		
Salaries and wages payable	22,000	
Cash		22,000

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-Appendix 2B Reversing Entries.

Level of Difficulty: 3 Hard

Topic Area: Reversing entries—Appendix B

Essay Questions

137.

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.

AACSB: Communication

AICPA: BB Critical Thinking

Blooms: Understand

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

Level of Difficulty: 2 Medium

Topic Area: Account relationships and records

138. 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 firm or rent received in advance by a property leasing firm. A liability exists because of the obligation to provide the service.

AACSB: Communication

AICPA: BB Critical Thinking

Blooms: Understand

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

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Identify type of adjustment

Topic Area: Analyze transaction-Record journal entry

139. 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.

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Analyze updating-Identify type of adjustment

140. What is an accrued liability?

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Remember

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Identify type of adjustment

141. 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.

AACSB: Communication

AICPA: BB Critical Thinking

Blooms: Understand

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

Level of Difficulty: 2 Medium

Topic Area: Account relationships and records

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

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.

AACSB: Communication

AICPA: BB Critical Thinking

Blooms: Understand

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

Level of Difficulty: 3 Hard

Topic Area: Financial statement—Cash flow

143. 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. Revenue and expense accounts are first transferred to income summary. The net balance in income summary is then transferred to retained earnings.

AACSB: Communication

AICPA: BB Critical Thinking

Blooms: Understand

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: The closing process

144.

Claymore Corporation maintains its book on a cash basis. During 2018, 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, 2018	December 31, 2018
Accounts receivable	\$110,000	\$120,000
Supplies	15,000	18,000
Prepaid rent	12,000	11,000
Salaries and wages payable	16,500	14,200
Interest payable	4,000	5,500

In addition, 2018 depreciation expense on office equipment and furniture is \$55,000.

Required:

Determine accrual basis net income for 2018.

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 and wages 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)	<u>(1,500)</u>
Accrual basis net income	\$270,800

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Convert cash basis to accrual basis

145.

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

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 and wages payable.	_____
9. Paid utility bill.	_____
10. Recorded depreciation expense.	_____
11. Sold equipment for cash.	_____
12. Collected cash from customers on account.	_____
13. Paid employee salaries and wages.	_____
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 and wages payable.	GJ
9. Paid utility bill.	CD
10. Recorded depreciation expense.	GJ
11. Sold equipment for cash.	CR
12. Collected cash from customers on account.	CR
13. Paid employee salaries and wages.	CD
14. Paid interest on a loan.	CD

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

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

Level of Difficulty: 2 Medium

Topic Area: Subsidiary ledgers—Special journals—Appendix C

146. 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

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Remember

Learning Objective: 02-01

Level of Difficulty: 1 Easy

Topic Area: Accounting processing cycle steps