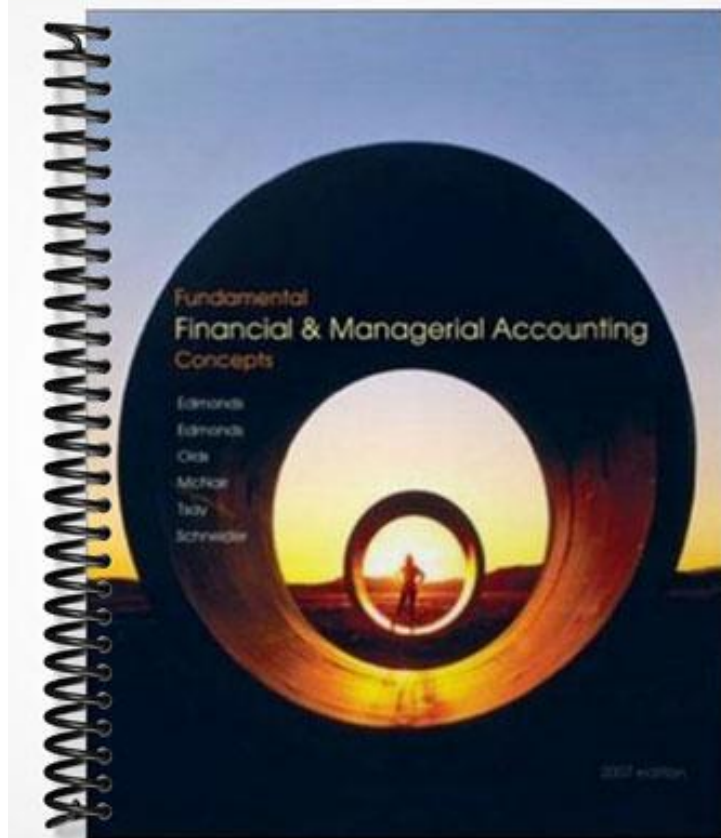


# TEST BANK



Student: \_\_\_\_\_

Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. You do not need to enter amounts.

Increase = I Decrease = D No Effect = N

1. Hartnett Co. performed services on account for customers.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

2. Ganz Co. incurred \$700 of expenses on account.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

3. Watkins Co. collected \$1,000 cash from accounts receivable.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

4. Ganz Co. paid \$200 cash on accounts payable.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

5. At the end of the accounting period, Snyder Co. recognized accrued salaries payable.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

6. Link Co. received a \$5,000 cash advance for services to be provided to a customer in the future.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

7. Link Co. performed services and earned \$2,000 of a \$5,000 cash advance it had previously received from a customer.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

8. Knoessel Co. prepaid its fire insurance for three years. The amount of cash paid for the insurance was \$21,000.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

9. Knoessel Co. made an adjusting entry to reflect one year's expiration of insurance. Three years of insurance had been prepaid at the beginning of the year, with the entire amount being recorded as prepaid insurance. Show the effects of the adjusting entry.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

10. Gillespie Co. purchased \$6,000 of office supplies on account.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

11. Boone Co., in its first year of operations, purchased \$6,000 of office supplies on account. A count of office supplies at the end of the year revealed that only \$1,000 were still on hand. Show the effects of the adjusting entry that Boone should make at the end of the year.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

12. On December 1, 2006, Beam Company prepaid rent for three months in the amount of \$1,500. On December 31, Beam prepared an adjusting entry to recognize \$500 of rent expense. Show the effect of the adjusting entry.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

13. Dent Company received \$1,200 cash in advance for magazine subscriptions that the company agreed to send to subscribers in the future.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

14. On October 1, 2006, Dent Company received \$1,200 cash in advance for 12 months of magazine subscriptions. On December 31, 2006, Dent made the adjustment showing that three months of magazines had been provided to subscribers. Show the effect of the adjustment on the financial statements.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

15. What is the purpose of an adjusting entry?

16. What does the account balance of Accounts Receivable represent?

17. When are expenses recognized under accrual accounting?

18. What is unearned revenue? Give an example.

19. What type of account is Unearned Revenue?

20. What type of account is Prepaid Rent?

21. Give an example of a transaction that will decrease a liability and increase equity.

22. Give an example of a transaction that will increase a liability and decrease equity.

23. Is a cost always an expense? Explain.







36. What type of account is Salaries Payable?
37. In the vertical statements model, why is it important to list the financial statements in the proper order?
38. Each year, a company's net income is carried forward from the income statement to what other financial statement?
39. What is the purpose of the statement of cash flows?
40. What effect does providing services on account have on the statement of cash flows? The balance sheet?
41. The balance in the Office Supplies account on May 1 was \$1,800, supplies purchased during May totaled \$6,000, and the amount of supplies on hand at May 31 was \$3,600.  
(a) What amount of supplies will be shown as expense on the income statement for May?  
(b) What amount of supplies will be shown on the balance sheet?

42. Joe's Shoes sold \$200 of merchandise on account. How does this transaction affect the statement of cash flows? The income statement?

43. What is "retained earnings?"

44. Describe the difference between an asset exchange transaction and a claims exchange transaction.

45. Give an example of a claims exchange transaction.

46. Osborn Company provided services to a customer on account. Which of the following represents the effect of this transaction on the financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+	=	+	+	NA	+	-	NA	=	+	+ OA
B)	NA	=	+	+	-	+	-	NA	=	+	NA
C)	+	=	NA	+	+	+	-	NA	=	+	+ OA
D)	+	=	NA	+	+	+	-	NA	=	+	NA

- A. A above
- B. B above
- C. C above
- D. D above

47. ABC Company experienced an accounting event that affected its financial statements as indicated below:

Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net. Inc.	Cash Flow
+		NA		+	+		NA		+	NA

Which of the following accounting events could have caused these effects on ABC's financial statements?

- A. earned revenue on account
- B. purchased equipment on account
- C. provided services to customers for cash
- D. recognized accrued salaries owed to employees

48. Which of the following transactions does not involve an accrual?
- recording interest earned but not yet received
  - recording interest expense incurred but not yet paid
  - recording salary expense incurred but not yet paid
  - recording the pre-payment of two year's worth of insurance
49. The KMR Company recorded salaries earned by employees but not yet paid. Which of the following represents the effect of this transaction on the financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+	=	+	+	NA	+	-	NA	=	+	- OA
B)	NA	=	+	+	-	NA	-	+	=	-	- OA
C)	-	=	NA	+	-	NA	-	+	=	-	NA
D)	NA	=	+	+	-	NA	-	+	=	-	NA

- A above
  - B above
  - C above
  - D above
50. The term "realization" refers to which of the following?
- the closing of an account
  - the collection of cash
  - the earning of revenue
  - the correction of an error
51. Which of the following events involves an accrual?
- interest earned but not received
  - supplies purchased with cash but not yet used
  - a cash payment received from a customer before services are provided
  - A and C
52. The entry to recognize salary expense incurred but not yet paid involves which of the following?
- an increase in assets
  - an increase in liabilities
  - a decrease in assets
  - an increase in equity
53. The Greenwood Company purchased equipment costing \$700. Greenwood paid \$400 in cash and agreed to pay the remaining amount in thirty days. As a result of this transaction:
- total assets increased by \$700.
  - liabilities increased by \$300.
  - total assets increased by \$300.
  - both B and C.
54. Nikonowicz Company purchased supplies on account. Which of the following choices accurately reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+	=	NA	+	-	NA	-	+	=	-	NA
B)	+ -	=	NA	+	NA	NA	-	NA	=	NA	- OA
C)	+	=	+	+	NA	NA	-	NA	=	NA	NA
D)	+ -	=	NA	+	NA	NA	-	NA	=	NA	NA

- A above
- B above
- C above
- D above

55. At the end of the accounting period, Nikonowicz Company made an adjusting entry for supplies consumed. Which of the following choices reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+ -	=	NA	+	NA	NA	-	+	=	-	NA
B)	-	=	NA	+	-	NA	-	+	=	-	NA
C)	-	=	-	+	NA	NA	-	NA	=	NA	NA
D)	+ -	=	NA	+	NA	NA	-	NA	=	NA	+ IA

- A. A above  
 B. B above  
 C. C above  
 D. D above

56. Stahl Company paid \$7,800 on May 1, 2008 for insurance coverage for a one year period beginning that date. The adjusting entry required to recognize insurance expense on December 31, 2008 would have what effect on the financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	(2,600)	=	NA	+	(2,600)	NA	-	2,600	=	(2,600)	NA
B)	(2,600)	=	NA	+	(2,600)	NA	-	2,600	=	(2,600)	(2,600) OA
C)	(5,200)	=	NA	+	(5,200)	NA	-	5,200	=	(5,200)	(5,200) OA
D)	(5,200)	=	NA	+	(5,200)	NA	-	5,200	=	(5,200)	NA

- A. A above  
 B. B above  
 C. C above  
 D. D above

57. Recording accrued salary expense at the end of an accounting period causes an increase in Salaries Expense and

- A. an increase in a liability.  
 B. a decrease in an asset.  
 C. an increase in an equity account.  
 D. none of the above.

58. Which of the following transactions involves a deferral?

- A. recording the prepayment of three months rent  
 B. recording the interest earned (but not received) on a certificate of deposit  
 C. recording interest accrued on a note payable  
 D. recording salaries of employees earned but not yet paid

59. Which of the following does not involve a deferral?

- A. receipt of advance fees from clients  
 B. recording salaries of employees earned but not yet paid  
 C. payment of six months' rent  
 D. purchase of supplies on account

60. Which of the following costs is considered an expense?

- A. payment of cash for current utility bill  
 B. payment of cash for equipment  
 C. purchase of supplies on account  
 D. purchase of supplies for cash

61. Which of the following costs is considered an asset?

- A. recording the consumption of supplies for the current period  
 B. recording payment of the current month's rent  
 C. purchase of equipment for cash  
 D. recording payment of cash for utility bill

62. The adjustment to record the completion of services for which clients had paid in advance would involve which of the following?
- a decrease in assets and an increase in equity
  - a decrease in liabilities and an increase in equity
  - an increase in assets and a decrease in liabilities
  - an increase in liabilities and a decrease in equity

63. The following selected account balances were drawn from the 2007 balance sheet and income statement of Persimmon Company:

Cash	2,800	Common Stock	?
Accounts Receivable	750	Retained Earnings	2,600
Accounts Payable	500	Revenues	5,400
Land	600	Expenses	4,000

Based on the above information, what is the balance of Common Stock for Persimmon Company?

- \$750
  - \$1,050
  - \$1,550
  - \$2,050
64. Dent Company purchased land costing \$2,400 by paying cash. The company earned \$2,000 revenue on account and incurred \$1,100 of operating expenses on account. As a result of these transactions:
- total assets increased by \$2,400.
  - liabilities increased by \$1,100.
  - total assets increased by \$5,400.
  - both a and b.
65. Blumer Company issued stock for \$30,000 cash on January 20, 2007. During 2007, the company recorded revenue on account of \$12,000 and expenses on account of \$5,500. Blumer received \$8,200 cash from accounts receivable and paid \$4,500 on the accounts payable. The company also purchased land for \$5,000 cash. The beginning cash balance was zero. Based on this information, the amount of cash at the end of the year is:
- \$31,500
  - \$22,974
  - \$28,700
  - \$29,100
66. Nikonowicz Enterprises had the following events during 2007:
- The business sold \$10,000 of common stock to its stockholders.
  - The business purchased land for \$6,000 cash.
  - Services were provided to customers for \$8,000 cash.
  - Services were provided to customers for \$3,000 on account.
  - Operating expenses of \$5,000 were incurred and paid in cash.
  - Operating expenses of \$2,000 were incurred on account.
  - A dividend of \$1,000 was paid to the owners of Nikonowicz Enterprises.
- Assuming the company began operations during 2007, the amount of retained earnings as of December 31, 2007, would be:
- \$1,000.
  - \$3,000.
  - \$5,000.
  - \$11,000.
67. Jaycox Company received \$1,000 cash from the issue of stock on January 1, 2005. During 2005 the Jaycox Company earned \$3,500 of revenue on account. The company collected \$2,400 cash from accounts receivable and paid \$3,000 cash for operating expenses. Based on this information alone:
- total assets increased by \$1,500.
  - total assets decreased by \$3,500.
  - total assets increased by \$2,400.
  - total assets did not change.

68. The following accounts and balances were drawn from the records of Schumacher Company:

Cash	\$ 8,000
Accounts Payable	\$ 5,500
Common Stock	\$ 4,000
Land	\$18,000
Accounts Receivable	\$ 2,000

Based on this information, the amount of retained earnings is:

- A. \$ 9,500
- B. \$18,500
- C. \$15,500
- D. \$22,500

Nez Company provided services for \$7,500 cash during the 2007 accounting period. Nez incurred \$6,000 expenses on account during 2007, and by the end of the year, \$3,000 of that amount had been paid with cash. Nez paid dividends of \$900 to stockholders during the year. Assume that these are the only accounting events that affected Nez during the 2007 accounting period.

69. What was the amount of Nez's net income for 2007?

- A. \$1,500
- B. \$600
- C. \$4,500
- D. \$3,600

70. What was Nez's cash flow from operating activities for 2007?

- A. \$3,600
- B. \$1,500
- C. \$4,500
- D. \$600

71. Which of the following choices accurately reflects how receiving a payment from a customer in advance of providing services would affect the financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	NA	=	+	+	-	NA	-	NS	=	NA	+OA
B)	NA	=	NA	+	+ -	NA	-	NA	=	NA	NA
C)	NA	=	+	+	-	NA	-	+	=	-	NA
D)	+	=	+	+	NA	NA	-	NA	=	NA	+OA

- A. A above
- B. B above
- C. C above
- D. D above

For Alpha Company, revenue on account amounted to \$5,000. Cash collections of accounts receivable amounted to \$2,300. Expenses incurred on account were \$2,100. Cash paid on accounts payable was \$1,950.

72. Alpha's net income was:

- A. \$ 200.
- B. \$ 350.
- C. \$3,050.
- D. \$2,900.

73. Alpha's cash flow from operating activities was:

- A. \$200.
- B. \$300.
- C. \$350.
- D. None of the above.

74. Recognition of revenue may result in which of the following?
- A. a decrease in assets.
  - B. an increase in assets.
  - C. an increase in liabilities.
  - D. a decrease in expenses.
75. If a company purchases supplies on account, this transaction would result in:
- A. total assets decreasing.
  - B. liabilities increasing.
  - C. equity decreasing.
  - D. contributed capital increasing.
76. On May 1, 2007, Peres Company paid \$12,000 rent for a one year lease on its office space. The adjusting entry at the end of the year
- A. decreases assets and stockholders' equity.
  - B. decreases assets and liabilities
  - C. increases an expense and decreases a liability
  - D. is not required
77. Which of the following financial statement elements is closed at the end of an accounting cycle?
- A. Liabilities
  - B. Equity
  - C. Assets
  - D. Expenses
78. Which of the following accounts would not be closed at the end of an accounting cycle?
- A. Common Stock
  - B. Revenue
  - C. Dividends
  - D. Salaries Expense
79. The matching concept refers to the "matching" of:
- A. expenses and liabilities
  - B. expenses and revenues
  - C. assets and equity
  - D. assets and liabilities
80. The result of the matching process is best reported on which statement?
- A. Balance Sheet
  - B. Income Statement
  - C. Statement of Changes in Stockholders' Equity
  - D. Statement of Cash Flows
81. Expenses that are matched with the period in which they are incurred are frequently called:
- A. market expenses.
  - B. matching expenses.
  - C. period costs.
  - D. working costs.
82. Which of the following lists represents the correct sequence of stages in an accounting cycle?
- A. record transactions, prepare statements, adjust accounts, close temporary accounts
  - B. prepare statements, close temporary accounts, record transactions, adjust accounts
  - C. close temporary accounts, record transactions, prepare statements, adjust accounts
  - D. record transactions, adjust accounts, prepare statements, close temporary accounts

83. The purpose of the accrual basis of accounting is to:
- A. report revenue when received.
  - B. improve the matching of revenue and expense in the proper period.
  - C. report expenses when cash disbursements are made.
  - D. improve the company's earnings per share.
84. Which of the following accounts is a permanent account?
- A. Salaries Expense
  - B. Service Revenue
  - C. Dividends
  - D. Unearned Subscription Revenue
85. Which of the following accounts is a temporary account?
- A. Prepaid Insurance
  - B. Unearned Subscriptions Revenue
  - C. Retained Earnings
  - D. Interest Expense
86. The conservatism principle
- A. is primarily concerned with correctly valuing a business's assets.
  - B. matches assets and liabilities.
  - C. requires accountants to choose the accounting treatment that minimizes net income.
  - D. is concerned with matching expenses with revenues.
87. Which of the following would cause net income on the accrual basis to be different than (either higher or lower than) "cash provided by operating activities" on the statement of cash flows?
- A. business acquired \$10,000 cash from the owners
  - B. incurred operating expenses on account
  - C. provided services to a customer for cash
  - D. purchased land for cash
88. Harrigan and Sons provide legal services. On September 1, 2008, Harrigan contracted to provide 12 months of legal services to a client. On that date, Harrigan collected a \$36,000 retainer and began services. How much revenue would Harrigan report from that client for the year ending December 31, 2008?
- A. \$36,000
  - B. \$12,000
  - C. \$9,000
  - D. \$0

The Blumer Company entered into the following transactions during 2007:

- (1.) The company was started with \$22,000 of common stock issued to investors for cash.
  - (2.) The company purchased land on July 1 that cost \$15,500 cash.
  - (3.) There were \$700 of supplies purchased on account.
  - (4.) Sales on account amounted to \$9,500.
  - (5.) Cash collections of receivables amounted to \$5,500.
  - (6.) On October 1, 2007, the company paid \$3,600 in advance for a 12-month insurance policy that became effective on October 1.
  - (7.) Supplies on hand as of December 31, 2007, amounted to \$225.
89. The adjusting entry necessary to record the supplies expense would result in a:
- A. \$700 increase in assets and liabilities.
  - B. \$700 decrease in assets and equity.
  - C. \$475 decrease in assets and equity.
  - D. \$475 increase in assets and liabilities.



90. The amount of insurance expense reported on the income statement for 2007 would be:
- \$900.
  - \$3,600.
  - \$300.
  - \$600.
91. The amount of cash flow from operating activities would be:
- \$1,900.
  - \$8,400.
  - \$2,100.
  - \$5,400.
92. The amount of total liabilities appearing on the December 31, 2007 balance sheet would be:
- \$3,600.
  - \$4,000.
  - \$475.
  - \$700.

The following accounts and balances were drawn from the records of Thatcher Company on December 31, 2006:

Cash	\$1,000	Accounts Receivable	\$850
Dividends	500	Common Stock	975
Land	800	Revenue	800
Accounts Payable	450	Expense	250

93. Total assets on the December 31, 2006 balance sheet would amount to:
- \$3,150.
  - \$3,450.
  - \$1,800.
  - \$2,650.
94. The amount of net income shown on the December 31, 2006 income statement would amount to:
- \$550.
  - \$800.
  - \$ 50.
  - \$250.
95. Which of the following accounts would not appear on a balance sheet?
- Equipment
  - Interest Payable
  - Interest Revenue
  - Retained Earnings
96. Which of the following would be included in the "cash flow from investing activities" section of the statement of cash flows?
- Borrowed \$10,000 from a local bank.
  - Paid \$1,000 of expenses with cash.
  - Purchased land with cash.
  - Provided services to customers on account.
97. Which of the following would be included in the "cash flow from financing activities" section of the statement of cash flows?
- Collected cash from accounts receivable.
  - Loaned cash to another company.
  - Issued common stock to stockholders for cash.
  - Both B and C.

Chain Company signed a three year contract to perform consulting services for a local manufacturer on September 1, 2007. Chain received \$48,000 cash as an advance payment for these services and agreed the work would begin immediately.

98. The amounts of revenue that would appear on the 2007 and 2008 income statements would be:
- A. \$16,000 / \$16,000.
  - B. \$48,000 / \$ -0-.
  - C. \$5,333 / \$16,000.
  - D. \$ 5,833/ \$29,187.
99. The amounts of cash flow that would be on the 2007 and 2008 statements of cash flows would be:
- A. \$16,000 / \$16,000.
  - B. \$ -0- / \$48,000.
  - C. \$11,667 / \$11,667.
  - D. \$48,000 / \$ -0-
100. The Powell Company started the accounting period with \$500 in supplies. During the period the company purchased \$1,100 of supplies on account. At the end of the accounting period there were \$700 of supplies on hand. Based on this information, the amount of supplies expense appearing on the end-of-period income statement would be:
- A. \$1,600.
  - B. \$1,100.
  - C. \$ 900.
  - D. \$ 400.
101. Rampart Company's common stock is currently selling at a market price of \$60 per share. The earnings per share for the current period were \$4.50, and the company paid dividends of \$2.05. What is Rampart's price/earnings ratio for the current period?
- A. 13.3
  - B. 29.3
  - C. 24.5
  - D. 2.2
102. Company A and Company B are similar companies in the same industry. Company A has been growing more rapidly than B, both in terms of total revenues and net income. Other things being equal, what would you expect for the price/earnings ratios of A and B?
- A. B's price/earnings ratio would be higher than that of A.
  - B. A would have a higher price/earnings ratio than B.
  - C. The two companies should have similar price/earnings ratios because the ratio is not affected by expected growth rates.
  - D. No relationship between the price/earnings ratios for the two companies can be predicted based on this information.
103. The most commonly-reported measure of a company's value is
- A. dividends per share.
  - B. the price/earnings ratio.
  - C. net income.
  - D. historical cost.

104. Companies A, B, C, and D reported the following market price and earnings per share information for the most recent year:

	Company A	Company B	Company C	Company D
Market price per share	\$80	\$75	\$65	\$60
Earnings per share	\$6	\$2	\$4	\$1.50

Which of these companies has the highest price/earnings ratio?

- A. A
- B. B
- C. C
- D. D

105. Companies A, B, C, and D reported the following market price and earnings per share information for the most recent year:

	Company A	Company B	Company C	Company D
Market price per share	\$80	\$75	\$65	\$60
Earnings per share	\$6	\$2	\$4	\$1.50

Assume that you own a portfolio of stocks of several different companies, and you wish to buy more stock. You have a personal rule that you will only buy stocks with price/earnings ratio below 20. For which of these companies would you be interested in purchasing stock?

- A. Company A only
- B. Company B only
- C. Companies A and C
- D. Companies B and D

106. Which of the following is an asset source transaction?

- A. Purchased machine by issuing a note payable
- B. Paid a cash dividend to stockholders
- C. Purchased equipment for cash
- D. Collected cash from an account receivable

107. Which of the following is an asset exchange transaction?

- A. Borrowed cash from a local bank.
- B. Incurred expenses on account.
- C. Recognized accrued salaries expense.
- D. Paid cash to purchase land.

108. A transaction that increases cash and increases notes payable is a/an

- A. claims exchange transaction.
- B. asset source transaction.
- C. asset use transaction.
- D. asset exchange transaction.

109. The recognition of an expense may be accompanied by which of the following?

- A. an increase in assets
- B. a decrease in liabilities
- C. a decrease in revenue
- D. an increase in liabilities

110. Which of the following could describe the effects of a claims exchange transaction on a company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	NA	=	NA	+	NA	NA	-	NA	=	NA	+ OA
B)	+	=	+	+	NA	NA	-	NA	=	NA	+ OA
C)	NA	=	+	+	-	NA	-	+	=	-	NA
D)	All of the above could represent the effects of claims exchange transactions.										

- A. A above
- B. B above
- C. C above
- D. D above

111. Recognition of revenue may result in which of the following?

- A. a decrease in a liability
- B. an increase in a liability
- C. an increase in assets
- D. A and C

112. Which of the following is an example of a claims exchange transaction?:

- A. an asset decreases and an equity account decreases.
- B. an asset increases and another asset decreases.
- C. a liability increases and an equity account decreases.
- D. a liability increases and an equity account also increases.

113. Which of the following transactions is a claims exchange transaction?

- A. Cash paid to retire notes payable.
- B. Issuance of common stock for cash.
- C. The purchase of office equipment for cash.
- D. The adjusting entry to recognize the portion of unearned revenue that is earned.

114. Harrigan and Sons completed work for clients who had paid for the services in advance. Which of the following correctly shows the effects of the appropriate adjusting entry?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	NA	=	-	=	+	+	-	NA	=	+	NA
B)	+	=	NA	+	+	+	-	NA	=	+	+ OA
C)	-	=	-	+	NA	NA	-	+	=	-	- FA
D)	NA	=	NA	+	+	+	-	NA	=	+	+OA

- A. A above
- B. B above
- C. C above
- D. D above

115. Kelly Company uses accrual accounting. Indicate whether each of the following statements regarding Kelly's accounting system is true or false.

- \_\_\_\_\_ a) The recognition of accounting events and the realization of cash consequences may occur in different accounting periods.
- \_\_\_\_\_ b) The cash consequence of a transaction always precedes its accounting recognition.
- \_\_\_\_\_ c) Recognition is an act of recording an event in the financial statements.
- \_\_\_\_\_ d) The term "accrual" refers to events that are recognized after the associated cash is paid or collected.
- \_\_\_\_\_ e) Cash basis accounting is required by generally accepted accounting principles.

- 116.Regarding the relationship of revenues and expenses to assets and liabilities, state whether each of the following statements is true or false.
- \_\_\_\_\_ a) An increase in assets may be associated with recording a revenue.
  - \_\_\_\_\_ b) An increase in liabilities may be associated with recording a revenue.
  - \_\_\_\_\_ c) Recording an expense may be associated with a decrease in liabilities.
  - \_\_\_\_\_ d) Recording an expense may be associated with a decrease in an asset.
  - \_\_\_\_\_ e) At the end of the accounting period, recording earned but unpaid salaries of employees involves an increase in liabilities and a decrease in equity.

- 117.Indicate whether each of the following statements about the closing process and the accounting cycle is true or false.
- \_\_\_\_\_ a) All accounts are closed at the end of each accounting cycle.
  - \_\_\_\_\_ b) Only the temporary accounts are closed at the end of the accounting cycle.
  - \_\_\_\_\_ c) Revenue and expense accounts are closed to Retained Earnings.
  - \_\_\_\_\_ d) Permanent accounts contain information that carries over from one year to the next.
  - \_\_\_\_\_ e) The Retained Earnings account is considered a temporary account.

- 118.Indicate whether each of the following statements is true or false:
- \_\_\_\_\_ a) Closing a revenue account increases the amount of Retained Earnings.
  - \_\_\_\_\_ b) Closing an expense causes a decrease in the amount of Retained Earnings.
  - \_\_\_\_\_ c) The only accounts that are closed at the end of each accounting period are revenues and expenses.
  - \_\_\_\_\_ d) Closing the accounts is the first step in the accounting cycle.
  - \_\_\_\_\_ e) Retained Earnings is a temporary account.

119. Indicate whether each of the following statements is true or false. On May 1, 2007, Walter Co. received an advance payment from a customer for services to be performed in the next 4 months. Recognizing the receipt of the payment would
- a) have no effect on revenues.
  - b) increase liabilities.
  - c) not affect the financial statements.
  - d) increase cash flow from operating activities.
  - e) increase equity.
120. Indicate whether each of the following statements is true or false. In December 2006, Chain Corporation received a payment from a customer for services to be provided January – March 2007. Upon completion of the services, Chain Corp. would:
- a) record nothing because the cash had been collected during the previous year.
  - b) recognize an increase in assets.
  - c) experience a positive cash flow from operating activities during the current year.
  - d) recognize an increase in revenues.
  - e) recognize a decrease in liabilities.
121. Indicate whether each of the following statements is true or false. On 12/31/2007 Loxley Co. paid \$6,000 cash for insurance coverage during 2008.
- a) The company's 2007 statement of cash flows would not be affected by this transaction.
  - b) Retained earnings on the 2007 balance sheet would not be affected by this transaction.
  - c) Net income in 2008 would decrease due to events related to this transaction.
  - d) The 2008 cash balance would decrease when insurance expense was recognized.
  - e) The total assets would not be affected in 2008 by events related to this transaction.

122. Indicate whether each of the following statements is true or false. Ganz Company's prepaid rent expired on 12/31/2007. On this day, Ganz would prepare an adjusting entry that would:

- a) recognize rent expense.
- b) decrease cash.
- c) recognize rent revenue.
- d) decrease prepaid rent.
- e) increase equity.

123. Regarding the accrual accounting system, indicate whether each of the following statements is true or false.

- a) If the benefit of a cost has expired, it should be recorded as an asset.
- b) Accrual refers to accounting events in which the cash payment or receipt occurs before a revenue or expense is recognized.
- c) Deferral refers to accounting events in which the cash payment or receipt occurs before revenue or expense is recognized.
- d) A deferral may involve an adjusting entry between a liability and a revenue account.
- e) If a cost produces a future benefit, it should be recorded as an asset.

124. In 2007, Dent Co. collected cash from a customer for services performed in 2006. Indicate whether each of the following statements is true or false.

- a) The 2007 income statement would not be affected by this transaction.
- b) The 2007 statement of cash flows would be affected by this transaction.
- c) This transaction (collection of cash) would qualify as an asset source transaction.
- d) The revenue related to this transaction had been recorded in the previous year.
- e) This transaction would cause the cash flow from investing activities to increase.

125. Williams Co. paid \$57,000 in January 2007 for employee salaries that were accrued in December 2006. Indicate whether each of the following statements about this transaction in January is true or false.
- a) The 2007 income statement would not be affected because salaries expense had been recognized at the end of December.
  - b) This transaction would cause cash flows from operating activities for 2007 to decrease.
  - c) On the balance sheet, cash decreased, and stockholders' equity increased.
  - d) The statement of changes in stockholders' equity would not be affected because the salaries expense had been recognized in the previous year.
  - e) Recording the salaries expense in 2006 was a deferral.

126. Indicate whether each of the following statements regarding the four types of transactions is true or false.
- a) Asset use transactions involve an increase in assets and an increase in a corresponding claims account.
  - b) Asset source transactions involve an increase in assets and an increase in a claims account.
  - c) Asset exchange transactions involve an increase in an asset and a decrease in a claims account.
  - d) Asset exchange transactions involve an increase in one asset and a decrease in another asset.
  - e) Claims exchange transactions involve an increase in one claims account and a decrease in another claims account.

127. Indicate whether each of the following statements is true or false.
- a) If a company pays in 2006 for office supplies that are used in 2007, the Supplies Expense should be recognized in 2006.
  - b) A deferral refers to an earnings event that is recognized after cash has been paid or received.
  - c) If a company provides services to a customer in 2006 and collects the cash in 2007, the revenue should be recognized on the income statement in 2006.
  - d) If Dee Company provides services to a customer in 2006 but the customer does not pay for the services until 2007, Dee Company in 2006 should record an increase to Accounts Receivable and an increase to Revenue.
  - e) Providing services to a customer on account is an asset exchange transaction.

128. The term "recognition" means to report an economic event in the financial statements.  
True False

129. Companies that use accrual accounting recognize revenues and expenses at the time that cash is paid or received.  
True False



130. The term "accrual" describes an earnings event that is recognized after cash is paid or received.  
True False
131. The collection of an account receivable is a claims exchange transaction.  
True False
132. An adjusting entry to accrue salary expense is a claims exchange transaction.  
True False
133. Assets are listed on the balance sheet in order of amount.  
True False
134. A company may recognize a revenue or expense without a corresponding cash collection or payment in the same accounting period.  
True False
135. Revenues and liabilities are temporary accounts.  
True False
136. In the closing process, the amounts in temporary accounts are moved to Retained Earnings, a permanent account.  
True False
137. Immediately after closing, every temporary account has a balance of \$0.  
True False
138. Accounts that are closed include expenses, dividends, and unearned revenues.  
True False
139. After closing, the only accounts with non-zero balances are assets, liabilities, and equity.  
True False
140. Two of the steps in the accounting cycle are adjusting the accounts and closing the accounts.  
True False
141. Cash-basis accounting often fails to match expenses with revenues.  
True False
142. The matching concept leads accountants to select the recognition alternative that produces the lowest amount of net income.  
True False
143. The cost of a resource that will produce revenue in the future is an asset.  
True False
144. Providing services to customers on account is an asset source transaction.  
True False
145. Adjusting entries never affect a business's Cash account.  
True False
146. An adjusting entry that decreases Unearned Service Revenue and increases Service Revenue is a claims exchange transaction.  
True False
147. A company's financial statements for a period reveal significant interrelationships among the four statements.  
True False
148. The most commonly reported measure of a company's value is the dividend yield.  
True False

149. At the end of 2007, Beta Company's market price per share was \$75. Earnings per share for the year was \$3, and dividends per share were \$1.50. Beta's price/earnings ratio for 2007 was 50.  
True False
150. Trevor Company reported net income for 2006 of \$58, and its net income in 2007 was \$71. Trevor's percentage growth in earnings was 18.3%  
True False
151. A low price/earnings ratio is likely to indicate that a company is growing rapidly.  
True False
152. Revenue is the economic benefit derived from operating a business.  
True False
153. Sometimes the recognition of a revenue is accompanied by an increase in liabilities.  
True False
154. Classify each of the following costs as either an asset or expense.  
(a) \_\_\_\_\_ Paid advertising for the current month.  
(b) \_\_\_\_\_ Used supplies to generate revenue.  
(c) \_\_\_\_\_ Purchased a building with cash.  
(d) \_\_\_\_\_ Paid two years rent in advance.
155. Treat each part of this problem as independent of the others.  
(a) At January 1, 2007, accounts receivable was \$20,000. Cash collected on accounts receivable during the year was \$15,000. At December 31, 2007, accounts receivable was \$30,000. What were the revenues earned on account during 2007?  
(b) At January 1, 2007, accounts payable was \$17,000. During 2007, expenses on account were \$28,000. At December 31, 2007, accounts payable was \$15,000. What was the amount of cash paid on accounts payable during 2007?  
(c) At January 1, 2007, the balance in the Retained Earnings account was \$7,200. During the year, revenue earned was \$19,800 and expenses incurred were \$7,400. At December 31, 2007, the balance in the retained earnings account was \$11,500. What was the amount of cash dividends paid to stockholders during 2007?



158. In a company's annual report, the reader will find a company's income statement, statement of changes in stockholders' equity, balance sheet, and statement of cash flows. These financial statements can help the reader to answer specific questions. Identify which financial statement would be most useful in answering the following questions. If more than one financial statement can answer the question, please identify all applicable statements.

- (1) What was the amount of cash dividends paid to the stockholders during the most recent year?
- (2) What was the total amount of land owned by the company?
- (3) What was the total amount of cash borrowed by the company during the most recent year?
- (4) What were the types of claims that the company had against its assets?
- (5) What was the total amount of cash received by the issuance of common stock in the current year?
- (6) Was the company profitable during the most recent year?
- (7) How much cash was collected from accounts receivable during the current year?
- (8) What was the total revenue earned by the company during the most recent year?
- (9) What was the ending balance of retained earnings?
- (10) What was the amount of change in the cash balance during the current year?

159. The following transactions apply to Ballooning, Incorporated.

- (1) Issued common stock for \$21,000 cash
- (2) Provided services to customers for \$28,000 on account
- (3) Purchased land for \$18,000 cash
- (4) Incurred \$9,000 of operating expenses on credit
- (5) Collected \$15,000 cash from customers
- (6) Paid \$7,000 on accounts payable
- (7) Paid \$2,500 dividends to stockholders

Required:

- (a) Identify the effect on the Statement of Cash Flows, if any, for each of the above transactions. Indicate whether each transaction involves operating, investing, or financing activities and the amount of increase or decrease.
- (b) Classify the above accounting events into one of four types of transactions (asset source, asset use, asset exchange, claims exchange).

Event	(a) Effect on Statement of Cash Flows	(b) Transaction Type
1		
2		
3		
4		
5		
6		
7		

160.(1)

(2)

(3)

(4)

(5)

(b) Prepare an income statement and statement of cash flows for 2007.

Dave Risch started a consulting business on January 1, 2007, and the business engaged in the following transactions during the year:

(1.) Issued \$7,000 of common stock for cash

(2.) Provided services on account, \$25,500

(3.) Incurred \$11,500 of operating expense, but only paid \$5,000 of this amount

(4.) Collected \$9,000 of the revenue that was previously recorded on account

(5.) Paid a cash dividend of \$4,000 to the stockholders

Required:

(a) Show the effects of the above transactions on the accounting equation.

Assets = Liabilities + Common Stock + Retained Earnings

161. Peres Company was founded in 2006 and engaged in the following transactions:

(1.) issued common stock for cash

(2.) purchased supplies on account

(3.) collected cash from a customer for services to be provided over a period of 1 year

(4.) paid a cash dividend to stockholders

(5.) purchased a 2-year fire insurance policy

(6.) provided services to customers on account

(7.) collected cash from accounts receivable

(8.) paid cash for various operating expenses

(9.) paid rent in advance for 3 months at a time

Required:

(a) For which of these transactions would adjusting entries be required at the end of the year?

(b) Explain the reason why adjusting entries are required before financial statements can be prepared.

162. Tom started his business by issuing \$2,000 of common stock on January 1, 2007. Tom performed \$8,000 of service on account in 2007, and he collected \$6,000 of this amount by year end. He paid operating expenses of \$4,500 and paid a \$500 dividend to the stockholders.

Required:

- What is the amount of total assets at the end of 2007?
- What is the amount of cash on hand at the end of 2007?
- What is the net income for 2007?
- Prepare a balance sheet for 2007.

163. The effects of transactions occurring during 2007 and their related end-of-year adjustments have been recorded below using the accounting equation.

						LIABILITIES			EQUITY						
	Cash	+	Accts Recv.	+	Prepaid Insurance	+	Land	=	Accts Payable	+	Unearned Revenue	+	Cont. Capital	+	Retained Earnings
1.	+20,000												+20,000		
2.	-5,000						+5,000								
3.			+12,000												+12,000
4.	+8,000										+8,000				
5.	+8,000		-8,000												
6.	-1,200				+1,200										
7.									+6,000						-6,000
8.	+5,000						-5,000								
9.					-1,000										-1,000
10.											-5,000				+5,000
Totals	34,800		4,000		200		0		6,000		3,000		20,000		10,000

Required: With your knowledge of transaction analysis using an accounting equation,

- Prepare an income statement for 2007, and
- Prepare a statement of cash flows for 2007.

164. Hyannis Corporation began business operations and experienced the following transactions during 2007:

- (1) Issued common stock for \$10,000 cash.
- (2) Provided services to customers for \$40,000 on account.
- (3) Incurred \$18,000 of operating expenses on credit.
- (4) Collected \$23,000 cash from customers.
- (5) Paid \$15,000 on accounts payable.

Required:

(a) Record the above transactions on a horizontal statements model to reflect their effect on Hyannis's

Event	Cash	+	Accounts Rec.	=	Accounts Pay	+	Common Stock	+	Retained Earnings	Cash Flows
1										
2										
3										
4										
5										
Totals										

financial statements.

(b) Prepare an income statement, balance sheet and statement of cash flows for 2007.

165. Indicate for each of the following items if the item would be reported on the income statement (IS), statement of changes in equity (CE), balance sheet (BS), or statement of cash flows (CF). Some items may appear on more than one statement, if so, identify all applicable statements.

- (1) Prepaid insurance
- (2) Dividends paid to stockholders
- (3) Interest expense
- (4) Notes payable
- (5) Salaries expense
- (6) Amount of retained earnings at the end of the accounting period
- (7) Unearned subscription revenue
- (8) Cash flows from operating activities
- (9) Beginning common stock
- (10) Issued stock to investors for cash
- (11) Salaries payable
- (12) Accounts receivable

166. Classify each of the following transactions for the purpose of the statement of cash flows as operating activities (OA), investing activities (IA), financing activities (FA), or not reported on the statement of cash flows (NA).

- (1) \_\_\_\_\_ Made adjusting entry to accrue salary expense at the end of the year
- (2) \_\_\_\_\_ Borrowed funds from the bank
- (3) \_\_\_\_\_ Paid rent for the month
- (4) \_\_\_\_\_ Paid cash to settle accounts payable
- (5) \_\_\_\_\_ Issued common stock for \$30,000 cash
- (6) \_\_\_\_\_ Collected accounts receivable
- (7) \_\_\_\_\_ Paid cash to acquire land

167. Alexander's Book Company shows the following transactions for the accounting period ending December 31, 2007:

- (1) Sold books to customers for \$34,000 on account
- (2) Collected \$28,000 from customers
- (3) Issued common stock for \$8,000 cash
- (4) Prepaid four months rent for \$4,400 on October 1, 2007
- (5) Purchase supplies for \$10,500 cash
- (6) Physical count shows \$3,250 of supplies left over on December 31, 2007
- (7) Recorded adjustment for prepaid rent used up

Show how the above transactions and year end adjustments affect the financial statements on the accounting equation:

		Accts.	Ppd.		=	Common	Retained
	Cash +	Rec. +	Rent +	Supplies		Stock +	Earnings
1)							
2)							
3)							
4)							
5)							
6)							
7)							



168. On October 1, 2006, Charles Blumer, CPA, accepted \$20,000 in advance for a consulting job that should take 12 months. At December 31, Charles had completed one fourth of the job.

Required:

(a) Record the effects of the above two transactions on the accounting equation.

Accounting Equation

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Event No.

(1) \_\_\_\_\_

(2) \_\_\_\_\_

(b) Answer the following questions pertaining to the above events.

(1) What amount of revenue will appear on the December 31, 2006 income statement related to these events?

(2) What amounts, if any, will appear on the balance sheet at December 31, 2006?

(3) What amount, if any, will appear on the December 31, 2006, statement of cash flows? In which section would the amount appear?

169. The balance in the Prepaid Rent account at the end of the year, before adjustments, was \$18,000. This amount represented six month's rent paid on November 1, 2007.

(a) What amount, if any, of Rent Expense will be shown on the 2007 income statement?

(b) What amount, if any, would be shown on the statement of cash flows for 2007? In which section would that amount appear?

170. On November 1, 2007, Kelly Zabel received \$2,100 in advance for services that she will perform over the next six months. List any amounts and the related accounts (where appropriate) that will be shown on the following 2007 financial statements after adjustments.

(a) Balance Sheet

(b) Income Statement

(c) Statement of Cash Flows

171. On January 1, 2006, the balance in the Supplies account was \$6,000. During the year, \$13,500 of supplies were purchased for cash. After the year-end adjustments were prepared, the balance in the supplies account was \$8,300 on December 31, 2006.

Required:

- (a) What amount of Supplies Expense will be reported on the 2006 income statement?
- (b) What amount, if any will be reported on the 2006 statement of cash flows for supplies, and in what section?

172. The following amounts for earnings per share and market price are for Lawton Company:

Year	Earnings per share	Market price per share
2006	\$2.60	\$46
2007	\$3.40	\$74

Required:

- (a) Calculate the price/earnings ratio for 2006 and 2007.
- (b) Compare the results for 2006 and 2007. What would cause the company's price/earnings ratio to be higher in one year than the other?

173. The earnings per share and market price per share are shown for two companies, Merritt Company and Ruiz Company, that operate in the same industry:

Company	2006 earnings per share	2006 market price per share
Merritt	\$3.05	\$61
Ruiz	\$1.80	\$32

Required:

- (a) Calculate the 2006 price/earnings ratio for each company.
- (b) After a careful study of the management of each company, you expect both companies' earnings per share to grow at about the same rate in future years. You plan to purchase stock in one of the companies as an investment. Both companies paid dividends of \$0.60 per share in 2006. Which company's stock would you prefer to purchase?

174. For each of the following transactions, indicate the type by entering "AS" for asset source transaction, "AU" for asset use transaction, "AE" for asset exchange transaction, and "CE" for claims exchange transaction.

- (1) \_\_\_ The company paid \$10,000 for a plot of land.
- (2) \_\_\_ Recorded the accrual of \$1,000 in salaries to be paid later.
- (3) \_\_\_ The company issued common stock for \$20,000 in cash.
- (4) \_\_\_ The business incurred operating expense on account.
- (5) \_\_\_ The business paid off its accounts payable.
- (6) \_\_\_ The business earned revenue to be collected next year.
- (7) \_\_\_ The company paid \$2,000 in dividends to its stockholders.
- (8) \_\_\_ The business received cash from customers in #6 above.
- (9) \_\_\_ Paid the salaries accrued in #2 above.
- (10) \_\_\_ Borrowed money from a local bank.

175. Tell whether each of the following events are asset source (AS), asset use (AU), asset exchange (AE), or claims exchange (CE) transactions.

Transactions for the year 2007

- \_\_\_ 1) Issued common stock to investors for \$8,000 cash
- \_\_\_ 2) Paid one year's rent in advance
- \_\_\_ 3) Provided services to customers and received \$35,000 cash
- \_\_\_ 4) Paid creditors \$10,000
- \_\_\_ 5) Received \$3,000 of revenue in advance
- \_\_\_ 6) Provided services to customers on account, \$12,000
- \_\_\_ 7) Collected \$2,000 from accounts receivable
- \_\_\_ 8) Recognized accrued salary expense of \$2,000
- \_\_\_ 9) Borrowed \$6,000 from creditors
- \_\_\_ 10) Adjusted the records for supplies used of \$800

## 02 Key

Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. You do not need to enter amounts.  
 Increase = I Decrease = D No Effect = N

*Edmonds - Chapter 02*

1. Hartnett Co. performed services on account for customers.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(I) (N) (I) (I) (N) (I) (N)

*Difficulty: Easy  
 Edmonds - Chapter 02 #1  
 Learning Objective: 1*

2. Ganz Co. incurred \$700 of expenses on account.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(N) (I) (D) (N) (I) (D) (N)

*Difficulty: Easy  
 Edmonds - Chapter 02 #2  
 Learning Objective: 1*

3. Watkins Co. collected \$1,000 cash from accounts receivable.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(N) (N) (N) (N) (N) (N) (I)

*Difficulty: Easy  
 Edmonds - Chapter 02 #3  
 Learning Objective: 1*

4. Ganz Co. paid \$200 cash on accounts payable.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(D) (D) (N) (N) (N) (N) (D)

*Difficulty: Easy  
 Edmonds - Chapter 02 #4  
 Learning Objective: 1*

5. At the end of the accounting period, Snyder Co. recognized accrued salaries payable.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(N) (I) (D) (N) (I) (D) (N)

*Difficulty: Medium*  
*Edmonds - Chapter 02 #5*  
*Learning Objective: 1*

6. Link Co. received a \$5,000 cash advance for services to be provided to a customer in the future.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(I) (I) (N) (N) (N) (N) (I)

*Difficulty: Easy*  
*Edmonds - Chapter 02 #6*  
*Learning Objective: 1*

7. Link Co. performed services and earned \$2,000 of a \$5,000 cash advance it had previously received from a customer.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(N) (D) (I) (I) (N) (I) (N)

*Difficulty: Medium*  
*Edmonds - Chapter 02 #7*  
*Learning Objective: 1*

8. Knoessel Co. prepaid its fire insurance for three years. The amount of cash paid for the insurance was \$21,000.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(N) (N) (N) (N) (N) (N) (D)

*Difficulty: Medium*  
*Edmonds - Chapter 02 #8*  
*Learning Objective: 1*

9. Knoessel Co. made an adjusting entry to reflect one year's expiration of insurance. Three years of insurance had been prepaid at the beginning of the year, with the entire amount being recorded as prepaid insurance. Show the effects of the adjusting entry.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(D) (N) (D) (N) (I) (D) (N)

*Difficulty: Medium*  
*Edmonds - Chapter 02 #9*  
*Learning Objective: 1*

10. Gillespie Co. purchased \$6,000 of office supplies on account.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(I) (I) (N) (N) (N) (N) (N)

*Difficulty: Easy*  
*Edmonds - Chapter 02 #10*  
*Learning Objective: 1*

11. Boone Co., in its first year of operations, purchased \$6,000 of office supplies on account. A count of office supplies at the end of the year revealed that only \$1,000 were still on hand. Show the effects of the adjusting entry that Boone should make at the end of the year.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(D) (N) (D) (N) (I) (D) (N)

*Difficulty: Medium*  
*Edmonds - Chapter 02 #11*  
*Learning Objective: 1*

12. On December 1, 2006, Beam Company prepaid rent for three months in the amount of \$1,500. On December 31, Beam prepared an adjusting entry to recognize \$500 of rent expense. Show the effect of the adjusting entry.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(D) (N) (D) (N) (I) (D) (N)

*Difficulty: Medium*  
*Edmonds - Chapter 02 #12*  
*Learning Objective: 1*

13. Dent Company received \$1,200 cash in advance for magazine subscriptions that the company agreed to send to subscribers in the future.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(I) (I) (N) (N) (N) (N) (I)

*Difficulty: Medium*  
*Edmonds - Chapter 02 #13*  
*Learning Objective: 1*

14. On October 1, 2006, Dent Company received \$1,200 cash in advance for 12 months of magazine subscriptions. On December 31, 2006, Dent made the adjustment showing that three months of magazines had been provided to subscribers. Show the effect of the adjustment on the financial statements.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(N) (D) (I) (I) (N) (I) (N)

*Difficulty: Medium  
Edmonds - Chapter 02 #14  
Learning Objective: 1*

15. What is the purpose of an adjusting entry?

An adjusting entry is an entry used to update the account balances prior to the preparation of financial statements.

*Difficulty: Medium  
Edmonds - Chapter 02 #15  
Learning Objective: 1*

16. What does the account balance of Accounts Receivable represent?

The amount of future cash receipts that are due from customers

*Difficulty: Easy  
Edmonds - Chapter 02 #16  
Learning Objective: 1*

17. When are expenses recognized under accrual accounting?

When incurred (when they occur)

*Difficulty: Easy  
Edmonds - Chapter 02 #17  
Learning Objective: 1*

18. What is unearned revenue? Give an example.

Cash has been received, but the services will be provided to customers at some future date.

Example: Received \$1,800 cash in advance for services to be performed over the next six months.

*Difficulty: Easy  
Edmonds - Chapter 02 #18  
Learning Objective: 1*

19. What type of account is Unearned Revenue?

Liability

*Difficulty: Easy  
Edmonds - Chapter 02 #19  
Learning Objective: 1*

20. What type of account is Prepaid Rent?

Asset

*Difficulty: Easy  
Edmonds - Chapter 02 #20  
Learning Objective: 1*

21. Give an example of a transaction that will decrease a liability and increase equity.

Performed services for customers that had paid in advance.

*Difficulty: Medium*  
*Edmonds - Chapter 02 #21*  
*Learning Objective: 1*

22. Give an example of a transaction that will increase a liability and decrease equity.

Recognized accrued salaries at the end of the year.

*Difficulty: Medium*  
*Edmonds - Chapter 02 #22*  
*Learning Objective: 1*

23. Is a cost always an expense? Explain.

No. A cost can either be an expense or an asset. Some costs are assets, and as they are used up, they become expenses. If an item has already been used to produce revenue, then it is an expense, for example, advertising expense.

*Difficulty: Medium*  
*Edmonds - Chapter 02 #23*  
*Learning Objective: 1*

24. When is revenue recognized under accrual accounting?

When the revenue occurs; i.e. when the services are performed

*Difficulty: Easy*  
*Edmonds - Chapter 02 #24*  
*Learning Objective: 1*

25. What is the effect on the accounting equation of a cash payment to creditors?

Assets decrease; liabilities decrease

*Difficulty: Medium*  
*Edmonds - Chapter 02 #25*  
*Learning Objective: 2*

26. What is the effect on the accounting equation of a cash payment for an operating expense?

Decrease assets and decrease equity (Retained Earnings)

*Difficulty: Medium*  
*Edmonds - Chapter 02 #26*  
*Learning Objective: 2*

27. What effect does the payment to a creditor have on total assets?

Decreases total assets

*Difficulty: Easy*  
*Edmonds - Chapter 02 #27*  
*Learning Objective: 2*



28. What effect does the collection of accounts receivable have on total assets?

No effect, it is an asset exchange

*Difficulty: Medium*  
*Edmonds - Chapter 02 #28*  
*Learning Objective: 2*

29. When cash is paid in advance for rent that will be used over the next year, how is the accounting equation affected by the cash payment for the rent?

Increase assets (prepaid rent) and decrease assets (cash). Total assets, liabilities, and equity are unchanged.

*Difficulty: Easy*  
*Edmonds - Chapter 02 #29*  
*Learning Objective: 2*

30. What is the purpose of the closing process?

To bring the balance of the temporary accounts to zero at the end of an accounting period and to update the Retained Earnings account.

*Difficulty: Medium*  
*Edmonds - Chapter 02 #30*  
*Learning Objective: 4*

31. What effect does the recording of revenue normally have on total assets?

The recording of revenue would normally have the effect of increasing total assets (usually cash or accounts receivable).

*Difficulty: Easy*  
*Edmonds - Chapter 02 #31*  
*Learning Objective: 2*

32. Describe the difference between temporary and permanent accounts and indicate which accounts are closed.

Temporary accounts collect information about a single period only. They include revenues, expenses, and dividends, and they are closed at the end of each accounting period. Permanent accounts include the balance sheet accounts (assets, liabilities, Common Stock and Retained Earnings) and their balances roll forward each year rather than being closed out.

*Difficulty: Medium*  
*Edmonds - Chapter 02 #32*  
*Learning Objective: 4*

33. Define the "accounting cycle" and list the stages of the cycle.

The accounting cycle is a series of steps or procedures that occur repeatedly throughout the life of a business. The stages of the accounting cycle are (1) recording transactions, (2) adjusting the accounts, (3) preparing statements and (4) closing temporary accounts.

*Difficulty: Medium*  
*Edmonds - Chapter 02 #33*  
*Learning Objective: 4*

34. Temporary accounts are closed prior to the start of the next accounting cycle. In this closing process, the amount in each of these accounts is transferred to what account(s)?

Retained Earnings

*Difficulty: Easy*  
*Edmonds - Chapter 02 #34*  
*Learning Objective: 4*

35. Explain the meaning of the term "matching concept."

The "matching concept" refers to the process of "matching" the expenses with the revenues that they produce in the appropriate time period. This matching is largely done through the adjusting process.

*Difficulty: Medium*  
*Edmonds - Chapter 02 #35*  
*Learning Objective: 4*

36. What type of account is Salaries Payable?

Liability

*Difficulty: Easy*  
*Edmonds - Chapter 02 #36*  
*Learning Objective: 1*

37. In the vertical statements model, why is it important to list the financial statements in the proper order?

Because information from each statement is used in the next statement. For example, net income from the income statement is used in the statement of changes in equity.

*Difficulty: Medium*  
*Edmonds - Chapter 02 #37*  
*Learning Objective: 6*

38. Each year, a company's net income is carried forward from the income statement to what other financial statement?

Statement of Changes in Stockholders' Equity

*Difficulty: Easy*  
*Edmonds - Chapter 02 #38*  
*Learning Objective: 4*  
*Learning Objective: 6*

39. What is the purpose of the statement of cash flows?

To explain the change in a business's cash from the beginning to the end of an accounting period by showing how the business obtained its cash and how the business spent its cash.

*Difficulty: Medium*  
*Edmonds - Chapter 02 #39*  
*Learning Objective: 3*  
*Learning Objective: 6*

40. What effect does providing services on account have on the statement of cash flows? The balance sheet?

No effect on the statement of cash flows when services are performed on account. Assets and equity will increase on the balance sheet.

*Difficulty: Medium*  
*Edmonds - Chapter 02 #40*  
*Learning Objective: 3*  
*Learning Objective: 6*

41. The balance in the Office Supplies account on May 1 was \$1,800, supplies purchased during May totaled \$6,000, and the amount of supplies on hand at May 31 was \$3,600.  
(a) What amount of supplies will be shown as expense on the income statement for May?  
(b) What amount of supplies will be shown on the balance sheet?

(a) \$4,200 (b) \$3,600

*Difficulty: Medium*  
*Edmonds - Chapter 02 #41*  
*Learning Objective: 1*  
*Learning Objective: 6*

42. Joe's Shoes sold \$200 of merchandise on account. How does this transaction affect the statement of cash flows? The income statement?

No effect on the statement of cash flows. Revenue will be recognized, so net income will increase by \$200.

*Difficulty: Medium*  
*Edmonds - Chapter 02 #42*  
*Learning Objective: 3*  
*Learning Objective: 6*

43. What is "retained earnings?"

Net increase in assets from business operations that have been retained in the business and not distributed to owners

*Difficulty: Medium*  
*Edmonds - Chapter 02 #43*  
*Learning Objective: 3*  
*Learning Objective: 6*

44. Describe the difference between an asset exchange transaction and a claims exchange transaction.

An asset exchange transaction involves one asset increasing and another asset decreasing with total assets remaining the same. A claims exchange transaction involves one claim (items on the right side of the accounting equation) increasing and another claim decreasing.

*Difficulty: Medium*  
*Edmonds - Chapter 02 #44*  
*Learning Objective: 8*

45. Give an example of a claims exchange transaction.

Recognized the performance of services to customers who had paid in advance.

*Difficulty: Medium*  
*Edmonds - Chapter 02 #45*  
*Learning Objective: 8*

46. Osborn Company provided services to a customer on account. Which of the following represents the effect of this transaction on the financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+	=	+	+	NA	+	-	NA	=	+	+ OA
B)	NA	=	+	+	-	+	-	NA	=	+	NA
C)	+	=	NA	+	+	+	-	NA	=	+	+ OA
D)	+	=	NA	+	+	+	-	NA	=	+	NA

- A. A above  
 B. B above  
 C. C above  
**D. D above**

*Difficulty: Easy  
 Edmonds - Chapter 02 #46  
 Learning Objective: 1*

47. ABC Company experienced an accounting event that affected its financial statements as indicated below:

Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
+		NA		+	+		NA		+	NA

Which of the following accounting events could have caused these effects on ABC's financial statements?

- A.** earned revenue on account  
 B. purchased equipment on account  
 C. provided services to customers for cash  
 D. recognized accrued salaries owed to employees

*Difficulty: Medium  
 Edmonds - Chapter 02 #47  
 Learning Objective: 1*

48. Which of the following transactions does not involve an accrual?

- A. recording interest earned but not yet received  
 B. recording interest expense incurred but not yet paid  
 C. recording salary expense incurred but not yet paid  
**D.** recording the pre-payment of two year's worth of insurance

*Difficulty: Medium  
 Edmonds - Chapter 02 #48  
 Learning Objective: 1*

49. The KMR Company recorded salaries earned by employees but not yet paid. Which of the following represents the effect of this transaction on the financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+	=	+	+	NA	+	-	NA	=	+	- OA
B)	NA	=	+	+	-	NA	-	+	=	-	- OA
C)	-	=	NA	+	-	NA	-	+	=	-	NA
D)	NA	=	+	+	-	NA	-	+	=	-	NA

- A. A above  
 B. B above  
 C. C above  
**D. D above**

*Difficulty: Medium  
 Edmonds - Chapter 02 #49  
 Learning Objective: 1*

50. The term "realization" refers to which of the following?

- A. the closing of an account  
**B.** the collection of cash  
 C. the earning of revenue  
 D. the correction of an error

*Difficulty: Medium  
 Edmonds - Chapter 02 #50  
 Learning Objective: 1*

51. Which of the following events involves an accrual?  
**A.** interest earned but not received  
 B. supplies purchased with cash but not yet used  
 C. a cash payment received from a customer before services are provided  
 D. A and C

*Difficulty: Medium  
 Edmonds - Chapter 02 #51  
 Learning Objective: 1*

52. The entry to recognize salary expense incurred but not yet paid involves which of the following?  
 A. an increase in assets  
**B.** an increase in liabilities  
 C. a decrease in assets  
 D. an increase in equity

*Difficulty: Medium  
 Edmonds - Chapter 02 #52  
 Learning Objective: 1*

53. The Greenwood Company purchased equipment costing \$700. Greenwood paid \$400 in cash and agreed to pay the remaining amount in thirty days. As a result of this transaction:  
 A. total assets increased by \$700.  
 B. liabilities increased by \$300.  
 C. total assets increased by \$300.  
**D.** both B and C.

*Difficulty: Medium  
 Edmonds - Chapter 02 #53  
 Learning Objective: 1*

54. Nikonowicz Company purchased supplies on account. Which of the following choices accurately reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+	=	NA	+	-	NA	-	+	=	-	NA
B)	+ -	=	NA	+	NA	NA	-	NA	=	NA	- OA
C)	+	=	+	+	NA	NA	-	NA	=	NA	NA
D)	+ -	=	NA	+	NA	NA	-	NA	=	NA	NA

- A. A above  
 B. B above  
**C.** C above  
 D. D above

*Difficulty: Medium  
 Edmonds - Chapter 02 #54  
 Learning Objective: 1*

55. At the end of the accounting period, Nikonowicz Company made an adjusting entry for supplies consumed. Which of the following choices reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+ -	=	NA	+	NA	NA	-	+	=	-	NA
B)	-	=	NA	+	-	NA	-	+	=	-	NA
C)	-	=	-	+	NA	NA	-	NA	=	NA	NA
D)	+ -	=	NA	+	NA	NA	-	NA	=	NA	+ IA

- A. A above  
**B.** B above  
 C. C above  
 D. D above

*Difficulty: Medium  
 Edmonds - Chapter 02 #55  
 Learning Objective: 1*

56. Stahl Company paid \$7,800 on May 1, 2008 for insurance coverage for a one year period beginning that date. The adjusting entry required to recognize insurance expense on December 31, 2008 would have what effect on the financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	(2,600)	=	NA	+	(2,600)	NA	-	2,600	=	(2,600)	NA
B)	(2,600)	=	NA	+	(2,600)	NA	-	2,600	=	(2,600)	(2,600) OA
C)	(5,200)	=	NA	+	(5,200)	NA	-	5,200	=	(5,200)	(5,200) OA
D)	(5,200)	=	NA	+	(5,200)	NA	-	5,200	=	(5,200)	NA

- A. A above  
 B. B above  
 C. C above  
**D. D above**

*Difficulty: Hard  
 Edmonds - Chapter 02 #56  
 Learning Objective: 1*

57. Recording accrued salary expense at the end of an accounting period causes an increase in Salaries Expense and  
**A.** an increase in a liability.  
 B. a decrease in an asset.  
 C. an increase in an equity account.  
 D. none of the above.

*Difficulty: Medium  
 Edmonds - Chapter 02 #57  
 Learning Objective: 1*

58. Which of the following transactions involves a deferral?  
**A.** recording the prepayment of three months rent  
 B. recording the interest earned (but not received) on a certificate of deposit  
 C. recording interest accrued on a note payable  
 D. recording salaries of employees earned but not yet paid

*Difficulty: Medium  
 Edmonds - Chapter 02 #58  
 Learning Objective: 1*

59. Which of the following does not involve a deferral?  
 A. receipt of advance fees from clients  
**B.** recording salaries of employees earned but not yet paid  
 C. payment of six months' rent  
 D. purchase of supplies on account

*Difficulty: Medium  
 Edmonds - Chapter 02 #59  
 Learning Objective: 1*

60. Which of the following costs is considered an expense?  
**A.** payment of cash for current utility bill  
 B. payment of cash for equipment  
 C. purchase of supplies on account  
 D. purchase of supplies for cash

*Difficulty: Medium  
 Edmonds - Chapter 02 #60  
 Learning Objective: 1*

61. Which of the following costs is considered an asset?  
 A. recording the consumption of supplies for the current period  
 B. recording payment of the current month's rent  
**C.** purchase of equipment for cash  
 D. recording payment of cash for utility bill

*Difficulty: Medium  
 Edmonds - Chapter 02 #61  
 Learning Objective: 1*

62. The adjustment to record the completion of services for which clients had paid in advance would involve which of the following?
- A. a decrease in assets and an increase in equity
  - B.** a decrease in liabilities and an increase in equity
  - C. an increase in assets and a decrease in liabilities
  - D. an increase in liabilities and a decrease in equity

*Difficulty: Medium*  
*Edmonds - Chapter 02 #62*  
*Learning Objective: 1*

63. The following selected account balances were drawn from the 2007 balance sheet and income statement of Persimmon Company:

Cash	2,800	Common Stock	?
Accounts Receivable	750	Retained Earnings	2,600
Accounts Payable	500	Revenues	5,400
Land	600	Expenses	4,000

Based on the above information, what is the balance of Common Stock for Persimmon Company?

- A. \$750
- B.** \$1,050
- C. \$1,550
- D. \$2,050

*Difficulty: Medium*  
*Edmonds - Chapter 02 #63*  
*Learning Objective: 2*

64. Dent Company purchased land costing \$2,400 by paying cash. The company earned \$2,000 revenue on account and incurred \$1,100 of operating expenses on account. As a result of these transactions:
- A. total assets increased by \$2,400.
  - B.** liabilities increased by \$1,100.
  - C. total assets increased by \$5,400.
  - D. both a and b.

*Difficulty: Medium*  
*Edmonds - Chapter 02 #64*  
*Learning Objective: 2*

65. Blumer Company issued stock for \$30,000 cash on January 20, 2007. During 2007, the company recorded revenue on account of \$12,000 and expenses on account of \$5,500. Blumer received \$8,200 cash from accounts receivable and paid \$4,500 on the accounts payable. The company also purchased land for \$5,000 cash. The beginning cash balance was zero. Based on this information, the amount of cash at the end of the year is:
- A. \$31,500
  - B. \$22,974
  - C.** \$28,700
  - D. \$29,100

*Difficulty: Medium*  
*Edmonds - Chapter 02 #65*  
*Learning Objective: 2*

66. Nikonowicz Enterprises had the following events during 2007:  
 The business sold \$10,000 of common stock to its stockholders.  
 The business purchased land for \$6,000 cash.  
 Services were provided to customers for \$8,000 cash.  
 Services were provided to customers for \$3,000 on account.  
 Operating expenses of \$5,000 were incurred and paid in cash.  
 Operating expenses of \$2,000 were incurred on account.  
 A dividend of \$1,000 was paid to the owners of Nikonowicz Enterprises.  
 Assuming the company began operations during 2007, the amount of retained earnings as of December 31, 2007, would be:
- A. \$1,000.  
**B. \$3,000.**  
 C. \$5,000.  
 D. \$11,000.

*Difficulty: Medium  
 Edmonds - Chapter 02 #66  
 Learning Objective: 2*

67. Jaycox Company received \$1,000 cash from the issue of stock on January 1, 2005. During 2005 the Jaycox Company earned \$3,500 of revenue on account. The company collected \$2,400 cash from accounts receivable and paid \$3,000 cash for operating expenses. Based on this information alone:
- A. total assets increased by \$1,500.**  
 B. total assets decreased by \$3,500.  
 C. total assets increased by \$2,400.  
 D. total assets did not change.

*Difficulty: Medium  
 Edmonds - Chapter 02 #67  
 Learning Objective: 2  
 Learning Objective: 3*

68. The following accounts and balances were drawn from the records of Schumacher Company:

Cash	\$ 8,000
Accounts Payable	\$ 5,500
Common Stock	\$ 4,000
Land	\$18,000
Accounts Receivable	\$ 2,000

Based on this information, the amount of retained earnings is:

- A. \$ 9,500  
**B. \$18,500**  
 C. \$15,500  
 D. \$22,500

*Difficulty: Medium  
 Edmonds - Chapter 02 #68  
 Learning Objective: 2  
 Learning Objective: 3*

Nez Company provided services for \$7,500 cash during the 2007 accounting period. Nez incurred \$6,000 expenses on account during 2007, and by the end of the year, \$3,000 of that amount had been paid with cash. Nez paid dividends of \$900 to stockholders during the year. Assume that these are the only accounting events that affected Nez during the 2007 accounting period.

*Edmonds - Chapter 02*

69. What was the amount of Nez's net income for 2007?
- A. \$1,500**  
 B. \$600  
 C. \$4,500  
 D. \$3,600

*Difficulty: Medium  
 Edmonds - Chapter 02 #69  
 Learning Objective: 3*



70. What was Nez's cash flow from operating activities for 2007?
- A. \$3,600
  - B. \$1,500
  - C. \$4,500**
  - D. \$600

*Difficulty: Medium  
Edmonds - Chapter 02 #70  
Learning Objective: 3*

71. Which of the following choices accurately reflects how receiving a payment from a customer in advance of providing services would affect the financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	NA	=	+	+	-	NA	-	NS	=	NA	+OA
B)	NA	=	NA	+	+ -	NA	-	NA	=	NA	NA
C)	NA	=	+	+	-	NA	-	+	=	-	NA
D)	+	=	+	+	NA	NA	-	NA	=	NA	+OA

- A. A above
- B. B above
- C. C above
- D. D above**

*Difficulty: Medium  
Edmonds - Chapter 02 #71  
Learning Objective: 1  
Learning Objective: 3*

For Alpha Company, revenue on account amounted to \$5,000. Cash collections of accounts receivable amounted to \$2,300. Expenses incurred on account were \$2,100. Cash paid on accounts payable was \$1,950.

*Edmonds - Chapter 02*

72. Alpha's net income was:
- A. \$ 200.
  - B. \$ 350.
  - C. \$3,050.
  - D. \$2,900.**

*Difficulty: Medium  
Edmonds - Chapter 02 #72  
Learning Objective: 3*

73. Alpha's cash flow from operating activities was:
- A. \$200.
  - B. \$300.
  - C. \$350.**
  - D. None of the above.

*Difficulty: Medium  
Edmonds - Chapter 02 #73  
Learning Objective: 3*

74. Recognition of revenue may result in which of the following?
- A. a decrease in assets.
  - B. an increase in assets.**
  - C. an increase in liabilities.
  - D. a decrease in expenses.

*Difficulty: Medium  
Edmonds - Chapter 02 #74  
Learning Objective: 3*

75. If a company purchases supplies on account, this transaction would result in:
- A. total assets decreasing.
  - B. liabilities increasing.**
  - C. equity decreasing.
  - D. contributed capital increasing.

*Difficulty: Easy  
Edmonds - Chapter 02 #75  
Learning Objective: 3*

76. On May 1, 2007, Peres Company paid \$12,000 rent for a one year lease on its office space. The adjusting entry at the end of the year
- A.** decreases assets and stockholders' equity.
  - B. decreases assets and liabilities
  - C. increases an expense and decreases a liability
  - D. is not required

*Difficulty: Medium*  
*Edmonds - Chapter 02 #76*  
*Learning Objective: 1*  
*Learning Objective: 3*

77. Which of the following financial statement elements is closed at the end of an accounting cycle?
- A. Liabilities
  - B. Equity
  - C. Assets
  - D.** Expenses

*Difficulty: Easy*  
*Edmonds - Chapter 02 #77*  
*Learning Objective: 4*

78. Which of the following accounts would not be closed at the end of an accounting cycle?
- A.** Common Stock
  - B. Revenue
  - C. Dividends
  - D. Salaries Expense

*Difficulty: Medium*  
*Edmonds - Chapter 02 #78*  
*Learning Objective: 4*

79. The matching concept refers to the "matching" of:
- A. expenses and liabilities
  - B.** expenses and revenues
  - C. assets and equity
  - D. assets and liabilities

*Difficulty: Easy*  
*Edmonds - Chapter 02 #79*  
*Learning Objective: 4*

80. The result of the matching process is best reported on which statement?
- A. Balance Sheet
  - B.** Income Statement
  - C. Statement of Changes in Stockholders' Equity
  - D. Statement of Cash Flows

*Difficulty: Easy*  
*Edmonds - Chapter 02 #80*  
*Learning Objective: 4*

81. Expenses that are matched with the period in which they are incurred are frequently called:
- A. market expenses.
  - B. matching expenses.
  - C.** period costs.
  - D. working costs.

*Difficulty: Medium*  
*Edmonds - Chapter 02 #81*  
*Learning Objective: 4*

82. Which of the following lists represents the correct sequence of stages in an accounting cycle?
- A. record transactions, prepare statements, adjust accounts, close temporary accounts
  - B. prepare statements, close temporary accounts, record transactions, adjust accounts
  - C. close temporary accounts, record transactions, prepare statements, adjust accounts
  - D.** record transactions, adjust accounts, prepare statements, close temporary accounts

*Difficulty: Medium*  
*Edmonds - Chapter 02 #82*  
*Learning Objective: 4*

83. The purpose of the accrual basis of accounting is to:
- A. report revenue when received.
  - B.** improve the matching of revenue and expense in the proper period.
  - C. report expenses when cash disbursements are made.
  - D. improve the company's earnings per share.

*Difficulty: Medium*  
*Edmonds - Chapter 02 #83*  
*Learning Objective: 4*

84. Which of the following accounts is a permanent account?
- A. Salaries Expense
  - B. Service Revenue
  - C. Dividends
  - D.** Unearned Subscription Revenue

*Difficulty: Medium*  
*Edmonds - Chapter 02 #84*  
*Learning Objective: 4*

85. Which of the following accounts is a temporary account?
- A. Prepaid Insurance
  - B. Unearned Subscriptions Revenue
  - C. Retained Earnings
  - D.** Interest Expense

*Difficulty: Medium*  
*Edmonds - Chapter 02 #85*  
*Learning Objective: 4*

86. The conservatism principle
- A. is primarily concerned with correctly valuing a business's assets.
  - B. matches assets and liabilities.
  - C.** requires accountants to choose the accounting treatment that minimizes net income.
  - D. is concerned with matching expenses with revenues.

*Difficulty: Easy*  
*Edmonds - Chapter 02 #86*  
*Learning Objective: 4*

87. Which of the following would cause net income on the accrual basis to be different than (either higher or lower than) "cash provided by operating activities" on the statement of cash flows?
- A. business acquired \$10,000 cash from the owners
  - B.** incurred operating expenses on account
  - C. provided services to a customer for cash
  - D. purchased land for cash

*Difficulty: Medium*  
*Edmonds - Chapter 02 #87*  
*Learning Objective: 5*

88. Harrigan and Sons provide legal services. On September 1, 2008, Harrigan contracted to provide 12 months of legal services to a client. On that date, Harrigan collected a \$36,000 retainer and began services. How much revenue would Harrigan report from that client for the year ending December 31, 2008?
- A. \$36,000
  - B.** \$12,000
  - C. \$9,000
  - D. \$0

*Difficulty: Medium*  
*Edmonds - Chapter 02 #88*  
*Learning Objective: 5*  
*Learning Objective: 6*

The Blumer Company entered into the following transactions during 2007:

- (1.) The company was started with \$22,000 of common stock issued to investors for cash.
- (2.) The company purchased land on July 1 that cost \$15,500 cash.
- (3.) There were \$700 of supplies purchased on account.
- (4.) Sales on account amounted to \$9,500.
- (5.) Cash collections of receivables amounted to \$5,500.
- (6.) On October 1, 2007, the company paid \$3,600 in advance for a 12-month insurance policy that became effective on October 1.
- (7.) Supplies on hand as of December 31, 2007, amounted to \$225.

*Edmonds - Chapter 02*

89. The adjusting entry necessary to record the supplies expense would result in a:
- A. \$700 increase in assets and liabilities.
  - B. \$700 decrease in assets and equity.
  - C.** \$475 decrease in assets and equity.
  - D. \$475 increase in assets and liabilities.

*Difficulty: Medium  
Edmonds - Chapter 02 #89  
Learning Objective: 2  
Learning Objective: 3*

90. The amount of insurance expense reported on the income statement for 2007 would be:
- A.** \$900.
  - B. \$3,600.
  - C. \$300.
  - D. \$600.

*Difficulty: Medium  
Edmonds - Chapter 02 #90  
Learning Objective: 2  
Learning Objective: 5*

91. The amount of cash flow from operating activities would be:
- A.** \$1,900.
  - B. \$8,400.
  - C. \$2,100.
  - D. \$5,400.

*Difficulty: Hard  
Edmonds - Chapter 02 #91  
Learning Objective: 1  
Learning Objective: 3*

92. The amount of total liabilities appearing on the December 31, 2007 balance sheet would be:
- A. \$3,600.
  - B. \$4,000.
  - C. \$475.
  - D.** \$700.

*Difficulty: Medium  
Edmonds - Chapter 02 #92  
Learning Objective: 2  
Learning Objective: 3*

The following accounts and balances were drawn from the records of Thatcher Company on December 31, 2006:

Cash	\$1,000	Accounts Receivable	\$850
Dividends	500	Common Stock	975
Land	800	Revenue	800
Accounts Payable	450	Expense	250

*Edmonds - Chapter 02*

93. Total assets on the December 31, 2006 balance sheet would amount to:  
A. \$3,150.  
B. \$3,450.  
C. \$1,800.  
**D. \$2,650.**

*Difficulty: Easy  
Edmonds - Chapter 02 #93  
Learning Objective: 3*

94. The amount of net income shown on the December 31, 2006 income statement would amount to:  
**A. \$550.**  
B. \$800.  
C. \$ 50.  
D. \$250.

*Difficulty: Easy  
Edmonds - Chapter 02 #94  
Learning Objective: 3*

95. Which of the following accounts would not appear on a balance sheet?  
A. Equipment  
B. Interest Payable  
**C. Interest Revenue**  
D. Retained Earnings

*Difficulty: Easy  
Edmonds - Chapter 02 #95  
Learning Objective: 3  
Learning Objective: 6*

96. Which of the following would be included in the "cash flow from investing activities" section of the statement of cash flows?  
A. Borrowed \$10,000 from a local bank.  
B. Paid \$1,000 of expenses with cash.  
**C. Purchased land with cash.**  
D. Provided services to customers on account.

*Difficulty: Easy  
Edmonds - Chapter 02 #96  
Learning Objective: 3  
Learning Objective: 6*

97. Which of the following would be included in the "cash flow from financing activities" section of the statement of cash flows?  
A. Collected cash from accounts receivable.  
B. Loaned cash to another company.  
**C. Issued common stock to stockholders for cash.**  
D. Both B and C.

*Difficulty: Medium  
Edmonds - Chapter 02 #97  
Learning Objective: 3  
Learning Objective: 6*

Chain Company signed a three year contract to perform consulting services for a local manufacturer on September 1, 2007. Chain received \$48,000 cash as an advance payment for these services and agreed the work would begin immediately.

98. The amounts of revenue that would appear on the 2007 and 2008 income statements would be:  
A. \$16,000 / \$16,000.  
B. \$48,000 / \$ -0-.  
**C. \$5,333 / \$16,000.**  
D. \$ 5,833/ \$29,187.

*Edmonds - Chapter 02*

*Difficulty: Hard  
Edmonds - Chapter 02 #98  
Learning Objective: 3  
Learning Objective: 6*

99. The amounts of cash flow that would be on the 2007 and 2008 statements of cash flows would be:
- A. \$16,000 / \$16,000.
  - B. \$ -0- / \$48,000.
  - C. \$11,667 / \$11,667.
  - D.** \$48,000 / \$ -0-

*Difficulty: Medium  
Edmonds - Chapter 02 #99  
Learning Objective: 3  
Learning Objective: 6*

100. The Powell Company started the accounting period with \$500 in supplies. During the period the company purchased \$1,100 of supplies on account. At the end of the accounting period there were \$700 of supplies on hand. Based on this information, the amount of supplies expense appearing on the end-of-period income statement would be:
- A. \$1,600.
  - B. \$1,100.
  - C.** \$ 900.
  - D. \$ 400.

*Difficulty: Medium  
Edmonds - Chapter 02 #100  
Learning Objective: 5  
Learning Objective: 6*

101. Rampart Company's common stock is currently selling at a market price of \$60 per share. The earnings per share for the current period were \$4.50, and the company paid dividends of \$2.05. What is Rampart's price/earnings ratio for the current period?
- A.** 13.3
  - B. 29.3
  - C. 24.5
  - D. 2.2

*Difficulty: Medium  
Edmonds - Chapter 02 #101  
Learning Objective: 7*

102. Company A and Company B are similar companies in the same industry. Company A has been growing more rapidly than B, both in terms of total revenues and net income. Other things being equal, what would you expect for the price/earnings ratios of A and B?
- A. B's price/earnings ratio would be higher than that of A.
  - B.** A would have a higher price/earnings ratio than B.
  - C. The two companies should have similar price/earnings ratios because the ratio is not affected by expected growth rates.
  - D. No relationship between the price/earnings ratios for the two companies can be predicted based on this information.

*Difficulty: Medium  
Edmonds - Chapter 02 #102  
Learning Objective: 7*

103. The most commonly-reported measure of a company's value is
- A. dividends per share.
  - B.** the price/earnings ratio.
  - C. net income.
  - D. historical cost.

*Difficulty: Medium  
Edmonds - Chapter 02 #103  
Learning Objective: 7*

104. Companies A, B, C, and D reported the following market price and earnings per share information for the most recent year:

	Company A	Company B	Company C	Company D
Market price per share	\$80	\$75	\$65	\$60
Earnings per share	\$6	\$2	\$4	\$1.50

Which of these companies has the highest price/earnings ratio?

- A. A
- B. B
- C. C
- D. D**

*Difficulty: Easy*  
*Edmonds - Chapter 02 #104*  
*Learning Objective: 7*

105. Companies A, B, C, and D reported the following market price and earnings per share information for the most recent year:

	Company A	Company B	Company C	Company D
Market price per share	\$80	\$75	\$65	\$60
Earnings per share	\$6	\$2	\$4	\$1.50

Assume that you own a portfolio of stocks of several different companies, and you wish to buy more stock. You have a personal rule that you will only buy stocks with price/earnings ratio below 20. For which of these companies would you be interested in purchasing stock?

- A. Company A only
- B. Company B only
- C. Companies A and C**
- D. Companies B and D

*Difficulty: Medium*  
*Edmonds - Chapter 02 #105*  
*Learning Objective: 7*

106. Which of the following is an asset source transaction?

- A. Purchased machine by issuing a note payable**
- B. Paid a cash dividend to stockholders
- C. Purchased equipment for cash
- D. Collected cash from an account receivable

*Difficulty: Medium*  
*Edmonds - Chapter 02 #106*  
*Learning Objective: 8*

107. Which of the following is an asset exchange transaction?

- A. Borrowed cash from a local bank.
- B. Incurred expenses on account.
- C. Recognized accrued salaries expense.
- D. Paid cash to purchase land.**

*Difficulty: Medium*  
*Edmonds - Chapter 02 #107*  
*Learning Objective: 8*

108. A transaction that increases cash and increases notes payable is a/an

- A. claims exchange transaction.
- B. asset source transaction.**
- C. asset use transaction.
- D. asset exchange transaction.

*Difficulty: Medium*  
*Edmonds - Chapter 02 #108*  
*Learning Objective: 8*

109. The recognition of an expense may be accompanied by which of the following?
- A. an increase in assets
  - B. a decrease in liabilities
  - C. a decrease in revenue
  - D.** an increase in liabilities

*Difficulty: Medium*  
Edmonds - Chapter 02 #109  
*Learning Objective: 8*

110. Which of the following could describe the effects of a claims exchange transaction on a company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	NA	=	NA	+	NA	NA	-	NA	=	NA	+ OA
B)	+	=	+	+	NA	NA	-	NA	=	NA	+ OA
C)	NA	=	+	+	-	NA	-	+	=	-	NA
D)	All of the above could represent the effects of claims exchange transactions.										

- A. A above
- B. B above
- C.** C above
- D. D above

*Difficulty: Medium*  
Edmonds - Chapter 02 #110  
*Learning Objective: 8*

111. Recognition of revenue may result in which of the following?
- A. a decrease in a liability
  - B. an increase in a liability
  - C. an increase in assets
  - D.** A and C

*Difficulty: Medium*  
Edmonds - Chapter 02 #111  
*Learning Objective: 4*  
*Learning Objective: 8*

112. Which of the following is an example of a claims exchange transaction?:
- A. an asset decreases and an equity account decreases.
  - B. an asset increases and another asset decreases.
  - C.** a liability increases and an equity account decreases.
  - D. a liability increases and an equity account also increases.

*Difficulty: Medium*  
Edmonds - Chapter 02 #112  
*Learning Objective: 8*

113. Which of the following transactions is a claims exchange transaction?
- A. Cash paid to retire notes payable.
  - B. Issuance of common stock for cash.
  - C. The purchase of office equipment for cash.
  - D.** The adjusting entry to recognize the portion of unearned revenue that is earned.

*Difficulty: Hard*  
Edmonds - Chapter 02 #113  
*Learning Objective: 8*



114. Harrigan and Sons completed work for clients who had paid for the services in advance. Which of the following correctly shows the effects of the appropriate adjusting entry?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	NA	=	-	=	+	+	-	NA	=	+	NA
B)	+	=	NA	+	+	+	-	NA	=	+	+ OA
C)	-	=	-	+	NA	NA	-	+	=	-	- FA
D)	NA	=	NA	+	+	+	-	NA	=	+	+OA

- A.** A above  
 B. B above  
 C. C above  
 D. D above

*Difficulty: Medium*  
*Edmonds - Chapter 02 #114*  
*Learning Objective: 10*  
*Learning Objective: 2*

115. Kelly Company uses accrual accounting. Indicate whether each of the following statements regarding Kelly's accounting system is true or false.

- \_\_\_\_\_ a) The recognition of accounting events and the realization of cash consequences may occur in different accounting periods.  
 \_\_\_\_\_ b) The cash consequence of a transaction always precedes its accounting recognition.  
 \_\_\_\_\_ c) Recognition is an act of recording an event in the financial statements.  
 \_\_\_\_\_ d) The term "accrual" refers to events that are recognized after the associated cash is paid or collected.  
 \_\_\_\_\_ e) Cash basis accounting is required by generally accepted accounting principles.

- a) T b) F c) T d) F e) F

*Difficulty: Medium*  
*Edmonds - Chapter 02 #115*  
*Learning Objective: 1*

116. Regarding the relationship of revenues and expenses to assets and liabilities, state whether each of the following statements is true or false.

- \_\_\_\_\_ a) An increase in assets may be associated with recording a revenue.  
 \_\_\_\_\_ b) An increase in liabilities may be associated with recording a revenue.  
 \_\_\_\_\_ c) Recording an expense may be associated with a decrease in liabilities.  
 \_\_\_\_\_ d) Recording an expense may be associated with a decrease in an asset.  
 \_\_\_\_\_ e) At the end of the accounting period, recording earned but unpaid salaries of employees involves an increase in liabilities and a decrease in equity.

- a) T b) F c) F d) T e) T

*Difficulty: Medium*  
*Edmonds - Chapter 02 #116*  
*Learning Objective: 1*  
*Learning Objective: 3*

117. Indicate whether each of the following statements about the closing process and the accounting cycle is true or false.

- \_\_\_\_\_ a) All accounts are closed at the end of each accounting cycle.  
 \_\_\_\_\_ b) Only the temporary accounts are closed at the end of the accounting cycle.  
 \_\_\_\_\_ c) Revenue and expense accounts are closed to Retained Earnings.  
 \_\_\_\_\_ d) Permanent accounts contain information that carries over from one year to the next.  
 \_\_\_\_\_ e) The Retained Earnings account is considered a temporary account.

- a) F b) T c) T d) T e) F

*Difficulty: Medium*  
*Edmonds - Chapter 02 #117*  
*Learning Objective: 4*

118. Indicate whether each of the following statements is true or false:
- a) Closing a revenue account increases the amount of Retained Earnings.
  - b) Closing an expense causes a decrease in the amount of Retained Earnings.
  - c) The only accounts that are closed at the end of each accounting period are revenues and expenses.
  - d) Closing the accounts is the first step in the accounting cycle.
  - e) Retained Earnings is a temporary account.

a) T b) T c) F d) F e) F

*Difficulty: Medium*  
*Edmonds - Chapter 02 #118*  
*Learning Objective: 4*

119. Indicate whether each of the following statements is true or false. On May 1, 2007, Walter Co. received an advance payment from a customer for services to be performed in the next 4 months. Recognizing the receipt of the payment would
- a) have no effect on revenues.
  - b) increase liabilities.
  - c) not affect the financial statements.
  - d) increase cash flow from operating activities.
  - e) increase equity.

a) T b) T c) F d) T e) F

*Difficulty: Hard*  
*Edmonds - Chapter 02 #119*  
*Learning Objective: 5*

120. Indicate whether each of the following statements is true or false. In December 2006, Chain Corporation received a payment from a customer for services to be provided January – March 2007. Upon completion of the services, Chain Corp. would:
- a) record nothing because the cash had been collected during the previous year.
  - b) recognize an increase in assets.
  - c) experience a positive cash flow from operating activities during the current year.
  - d) recognize an increase in revenues.
  - e) recognize a decrease in liabilities.

a) F b) F c) F d) T e) T

*Difficulty: Hard*  
*Edmonds - Chapter 02 #120*  
*Learning Objective: 1*  
*Learning Objective: 6*

121. Indicate whether each of the following statements is true or false. On 12/31/2007 Loxley Co. paid \$6,000 cash for insurance coverage during 2008.
- a) The company's 2007 statement of cash flows would not be affected by this transaction.
  - b) Retained earnings on the 2007 balance sheet would not be affected by this transaction.
  - c) Net income in 2008 would decrease due to events related to this transaction.
  - d) The 2008 cash balance would decrease when insurance expense was recognized.
  - e) The total assets would not be affected in 2008 by events related to this transaction.

a) F b) T c) T d) F e) F

*Difficulty: Hard*  
*Edmonds - Chapter 02 #121*  
*Learning Objective: 1*  
*Learning Objective: 6*

122. Indicate whether each of the following statements is true or false. Ganz Company's prepaid rent expired on 12/31/2007. On this day, Ganz would prepare an adjusting entry that would:
- a) recognize rent expense.
  - b) decrease cash.
  - c) recognize rent revenue.
  - d) decrease prepaid rent.
  - e) increase equity.

a) T b) F c) F d) T e) F

*Difficulty: Hard*  
*Edmonds - Chapter 02 #122*  
*Learning Objective: 1*  
*Learning Objective: 6*

123. Regarding the accrual accounting system, indicate whether each of the following statements is true or false.
- a) If the benefit of a cost has expired, it should be recorded as an asset.
  - b) Accrual refers to accounting events in which the cash payment or receipt occurs before a revenue or expense is recognized.
  - c) Deferral refers to accounting events in which the cash payment or receipt occurs before revenue or expense is recognized.
  - d) A deferral may involve an adjusting entry between a liability and a revenue account.
  - e) If a cost produces a future benefit, it should be recorded as an asset.

a) F b) F c) T d) T e) T

*Difficulty: Medium*  
*Edmonds - Chapter 02 #123*  
*Learning Objective: 1*  
*Learning Objective: 2*  
*Learning Objective: 6*

124. In 2007, Dent Co. collected cash from a customer for services performed in 2006. Indicate whether each of the following statements is true or false.
- a) The 2007 income statement would not be affected by this transaction.
  - b) The 2007 statement of cash flows would be affected by this transaction.
  - c) This transaction (collection of cash) would qualify as an asset source transaction.
  - d) The revenue related to this transaction had been recorded in the previous year.
  - e) This transaction would cause the cash flow from investing activities to increase.

a) T b) T c) F d) T e) F

*Difficulty: Medium*  
*Edmonds - Chapter 02 #124*  
*Learning Objective: 3*  
*Learning Objective: 6*

125. Williams Co. paid \$57,000 in January 2007 for employee salaries that were accrued in December 2006. Indicate whether each of the following statements about this transaction in January is true or false.
- \_\_\_\_\_ a) The 2007 income statement would not be affected because salaries expense had been recognized at the end of December.
  - \_\_\_\_\_ b) This transaction would cause cash flows from operating activities for 2007 to decrease.
  - \_\_\_\_\_ c) On the balance sheet, cash decreased, and stockholders' equity increased.
  - \_\_\_\_\_ d) The statement of changes in stockholders' equity would not be affected because the salaries expense had been recognized in the previous year.
  - \_\_\_\_\_ e) Recording the salaries expense in 2006 was a deferral.
- a) T b) T c) F d) T e) F

*Difficulty: Medium*  
*Edmonds - Chapter 02 #125*  
*Learning Objective: 3*  
*Learning Objective: 6*

126. Indicate whether each of the following statements regarding the four types of transactions is true or false.
- \_\_\_\_\_ a) Asset use transactions involve an increase in assets and an increase in a corresponding claims account.
  - \_\_\_\_\_ b) Asset source transactions involve an increase in assets and an increase in a claims account.
  - \_\_\_\_\_ c) Asset exchange transactions involve an increase in an asset and a decrease in a claims account.
  - \_\_\_\_\_ d) Asset exchange transactions involve an increase in one asset and a decrease in another asset.
  - \_\_\_\_\_ e) Claims exchange transactions involve an increase in one claims account and a decrease in another claims account.
- a) F b) T c) F d) T e) T

*Difficulty: Easy*  
*Edmonds - Chapter 02 #126*  
*Learning Objective: 8*

127. Indicate whether each of the following statements is true or false.
- \_\_\_\_\_ a) If a company pays in 2006 for office supplies that are used in 2007, the Supplies Expense should be recognized in 2006.
  - \_\_\_\_\_ b) A deferral refers to an earnings event that is recognized after cash has been paid or received.
  - \_\_\_\_\_ c) If a company provides services to a customer in 2006 and collects the cash in 2007, the revenue should be recognized on the income statement in 2006.
  - \_\_\_\_\_ d) If Dee Company provides services to a customer in 2006 but the customer does not pay for the services until 2007, Dee Company in 2006 should record an increase to Accounts Receivable and an increase to Revenue.
  - \_\_\_\_\_ e) Providing services to a customer on account is an asset exchange transaction.
- a) F b) T c) T d) T e) F

*Difficulty: Medium*  
*Edmonds - Chapter 02 #127*  
*Learning Objective: 1*  
*Learning Objective: 8*

128. The term "recognition" means to report an economic event in the financial statements.  
**TRUE**

*Difficulty: Easy*  
*Edmonds - Chapter 02 #128*  
*Learning Objective: 1*

129. Companies that use accrual accounting recognize revenues and expenses at the time that cash is paid or received.  
**FALSE**  
*Difficulty: Easy*  
*Edmonds - Chapter 02 #129*  
*Learning Objective: 1*
130. The term "accrual" describes an earnings event that is recognized after cash is paid or received.  
**FALSE**  
*Difficulty: Easy*  
*Edmonds - Chapter 02 #130*  
*Learning Objective: 1*
131. The collection of an account receivable is a claims exchange transaction.  
**FALSE**  
*Difficulty: Medium*  
*Edmonds - Chapter 02 #131*  
*Learning Objective: 1*
132. An adjusting entry to accrue salary expense is a claims exchange transaction.  
**TRUE**  
*Difficulty: Medium*  
*Edmonds - Chapter 02 #132*  
*Learning Objective: 1*
133. Assets are listed on the balance sheet in order of amount.  
**FALSE**  
*Difficulty: Medium*  
*Edmonds - Chapter 02 #133*  
*Learning Objective: 3*
134. A company may recognize a revenue or expense without a corresponding cash collection or payment in the same accounting period.  
**TRUE**  
*Difficulty: Easy*  
*Edmonds - Chapter 02 #134*  
*Learning Objective: 1*
135. Revenues and liabilities are temporary accounts.  
**FALSE**  
*Difficulty: Easy*  
*Edmonds - Chapter 02 #135*  
*Learning Objective: 4*
136. In the closing process, the amounts in temporary accounts are moved to Retained Earnings, a permanent account.  
**TRUE**  
*Difficulty: Easy*  
*Edmonds - Chapter 02 #136*  
*Learning Objective: 4*
137. Immediately after closing, every temporary account has a balance of \$0.  
**TRUE**  
*Difficulty: Easy*  
*Edmonds - Chapter 02 #137*  
*Learning Objective: 4*
138. Accounts that are closed include expenses, dividends, and unearned revenues.  
**FALSE**  
*Difficulty: Medium*  
*Edmonds - Chapter 02 #138*  
*Learning Objective: 4*
139. After closing, the only accounts with non-zero balances are assets, liabilities, and equity.  
**TRUE**  
*Difficulty: Hard*  
*Edmonds - Chapter 02 #139*  
*Learning Objective: 4*

140. Two of the steps in the accounting cycle are adjusting the accounts and closing the accounts.  
**TRUE**  
*Difficulty: Easy  
Edmonds - Chapter 02 #140  
Learning Objective: 4*
141. Cash-basis accounting often fails to match expenses with revenues.  
**TRUE**  
*Difficulty: Easy  
Edmonds - Chapter 02 #141  
Learning Objective: 4*
142. The matching concept leads accountants to select the recognition alternative that produces the lowest amount of net income.  
**FALSE**  
*Difficulty: Medium  
Edmonds - Chapter 02 #142  
Learning Objective: 4*
143. The cost of a resource that will produce revenue in the future is an asset.  
**TRUE**  
*Difficulty: Medium  
Edmonds - Chapter 02 #143  
Learning Objective: 1*
144. Providing services to customers on account is an asset source transaction.  
**TRUE**  
*Difficulty: Easy  
Edmonds - Chapter 02 #144  
Learning Objective: 1*
145. Adjusting entries never affect a business's Cash account.  
**TRUE**  
*Difficulty: Medium  
Edmonds - Chapter 02 #145  
Learning Objective: 1*
146. An adjusting entry that decreases Unearned Service Revenue and increases Service Revenue is a claims exchange transaction.  
**TRUE**  
*Difficulty: Medium  
Edmonds - Chapter 02 #146  
Learning Objective: 1*
147. A company's financial statements for a period reveal significant interrelationships among the four statements.  
**TRUE**  
*Difficulty: Easy  
Edmonds - Chapter 02 #147  
Learning Objective: 6*
148. The most commonly reported measure of a company's value is the dividend yield.  
**FALSE**  
*Difficulty: Medium  
Edmonds - Chapter 02 #148  
Learning Objective: 7*
149. At the end of 2007, Beta Company's market price per share was \$75. Earnings per share for the year was \$3, and dividends per share were \$1.50. Beta's price/earnings ratio for 2007 was 50.  
**FALSE**  
*Difficulty: Medium  
Edmonds - Chapter 02 #149  
Learning Objective: 7*

150. Trevor Company reported net income for 2006 of \$58, and its net income in 2007 was \$71. Trevor's percentage growth in earnings was 18.3%

**FALSE**

*Difficulty: Medium  
Edmonds - Chapter 02 #150  
Learning Objective: 7*

151. A low price/earnings ratio is likely to indicate that a company is growing rapidly.

**FALSE**

*Difficulty: Hard  
Edmonds - Chapter 02 #151  
Learning Objective: 7*

152. Revenue is the economic benefit derived from operating a business.

**TRUE**

*Difficulty: Easy  
Edmonds - Chapter 02 #152  
Learning Objective: 8*

153. Sometimes the recognition of a revenue is accompanied by an increase in liabilities.

**FALSE**

*Difficulty: Medium  
Edmonds - Chapter 02 #153  
Learning Objective: 8*

154. Classify each of the following costs as either an asset or expense.

- (a) \_\_\_\_\_ Paid advertising for the current month.  
(b) \_\_\_\_\_ Used supplies to generate revenue.  
(c) \_\_\_\_\_ Purchased a building with cash.  
(d) \_\_\_\_\_ Paid two years rent in advance.

(a) Expense (b) Expense (c) Asset (d) Asset

*Difficulty: Easy  
Edmonds - Chapter 02 #154  
Learning Objective: 1*

155. Treat each part of this problem as independent of the others.

- (a) At January 1, 2007, accounts receivable was \$20,000. Cash collected on accounts receivable during the year was \$15,000. At December 31, 2007, accounts receivable was \$30,000. What were the revenues earned on account during 2007?  
(b) At January 1, 2007, accounts payable was \$17,000. During 2007, expenses on account were \$28,000. At December 31, 2007, accounts payable was \$15,000. What was the amount of cash paid on accounts payable during 2007?  
(c) At January 1, 2007, the balance in the Retained Earnings account was \$7,200. During the year, revenue earned was \$19,800 and expenses incurred were \$7,400. At December 31, 2007, the balance in the retained earnings account was \$11,500. What was the amount of cash dividends paid to stockholders during 2007?

- (a) \$25,000 ( $\$20,000 + X - 15,000 = 30,000$ )  
(b) \$30,000 ( $\$17,000 + 28,000 - X = 15,000$ )  
(c) \$8,100 ( $\$7,200 + 12,400 - X = 11,500$ )

*Difficulty: Medium  
Edmonds - Chapter 02 #155  
Learning Objective: 2*