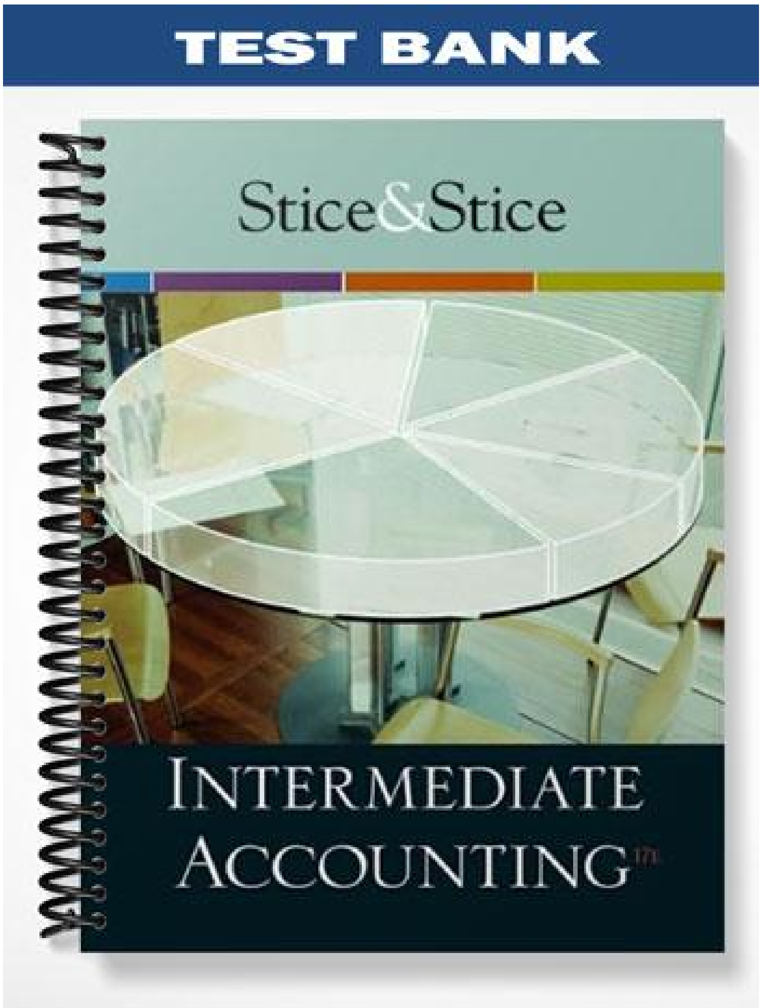
TEST BANK
Stice&Stice
INTERMEDIATE
ACCOUNTING

Chapter 2—A Review of the Accounting Cycle

MULTIPLE CHOICE

1. In an accrual accounting system,
   a. all accounts have normal debit balances.
   b. a debit entry is recorded on the left-hand side of an account.
   c. liabilities, owner's capital, and dividends all have normal credit balances.
   d. revenues are recorded only when cash is received.

   ANS: B PTS: 1 DIF: Easy OBJ: LO 2
   TOP: AICPA FN-Measurement MSC: AACSB Analytic

2. A common business transaction that would *not* affect the amount of owners' equity is
   a. signing a note payable to purchase equipment.
   b. payment of property taxes.
   c. billing of customers for services rendered.
   d. payment of dividends.

   ANS: A PTS: 1 DIF: Medium OBJ: LO 2
   TOP: AICPA FN-Measurement MSC: AACSB Analytic

3. Failure to record the expired amount of prepaid rent expense would *not*
   a. understate expense.
   b. overstate net income.
   c. overstate owners' equity.
   d. understate liabilities.

   ANS: D PTS: 1 DIF: Medium OBJ: LO 3
   TOP: AICPA FN-Measurement MSC: AACSB Analytic

4. On June 30, a company paid $3,600 for insurance premiums for the current year and debited the amount to Prepaid Insurance. At December 31, the bookkeeper forgot to record the amount expired. The omission has the following effect on the financial statements prepared December 31:
   a. overstates owners' equity.
   b. overstates assets.
   c. understates net income.
   d. overstates both owners’ equity and assets.

   ANS: D PTS: 1 DIF: Medium OBJ: LO 3
   TOP: AICPA FN-Measurement MSC: AACSB Analytic

5. A chart of accounts is a
   a. subsidiary ledger.
   b. listing of all account titles.
   c. general ledger.
   d. general journal.

   ANS: B PTS: 1 DIF: Easy OBJ: LO 2
   TOP: AICPA FN-Measurement MSC: AACSB Analytic

6. Which of the following criteria must be met before an event should be recorded for accounting purposes?
   a. The event must be an arm's-length transaction.
   b. The event must be repeatable in a future period.
   c. The event must be measurable in financial terms.
   d. The event must be disclosed in the reported footnotes.

   ANS: C PTS: 1 DIF: Medium OBJ: LO 2
   TOP: AICPA FN-Measurement MSC: AACSB Reflective Thinking

7. Adjusting entries normally involve
   a. real accounts only.
   b. nominal accounts only.
   c. real and nominal accounts.
   d. liability accounts only.

   ANS: C PTS: 1 DIF: Easy OBJ: LO 3
   TOP: AICPA FN-Measurement MSC: AACSB Analytic

8. Which of the following is an item that is reportable in the financial records of an enterprise?
   a. The value of goodwill earned through business operations
   b. The value of human resources
   c. Changes in personnel
   d. Changes in inventory costing methods

   ANS: D PTS: 1 DIF: Medium OBJ: LO 1
   TOP: AICPA FN-Reporting MSC: AACSB Reflective Thinking

9. The balance in a deferred revenue account represents an amount that is

	Earned	Collected
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

   ANS: C PTS: 1 DIF: Easy OBJ: LO 3
   TOP: AICPA FN-Measurement MSC: AACSB Analytic

10. The debit and credit analysis of a transaction normally takes place when the
   a. entry is posted to a subsidiary ledger.
   b. entry is recorded in a journal.
   c. trial balance is prepared.
   d. financial statements are prepared.

   ANS: B PTS: 1 DIF: Easy OBJ: LO 2
   TOP: AICPA FN-Measurement MSC: AACSB Reflective Thinking

11. A trial balance is useful because it indicates that
    a. owners' equity is correct.
    b. net income is correct.
    c. all entries were made correctly.
    d. total debits equal total credits.

    ANS: D PTS: 1 DIF: Medium OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

12. Which of the following would typically be considered a source document?
    a. Chart of accounts
    b. General ledger
    c. General journal
    d. Invoice received from seller

    ANS: D PTS: 1 DIF: Easy OBJ: LO 2
    TOP: AICPA FN-Measurement MSC: AACSB Reflective Thinking

13. Which of the following is *not* among the first five steps in the accounting cycle?
    a. Record transactions in journals.
    b. Record closing entries.
    c. Adjust the general ledger accounts.
    d. Post entries to general ledger accounts.

    ANS: B PTS: 1 DIF: Easy OBJ: LO 1
    TOP: AICPA FN-Measurement MSC: AACSB Reflective Thinking

14. A routine collection on a customer's account was recorded and posted as a debit to Cash and a credit to Sales Revenue. The journal entry to correct this error would be
    a. a debit to Sales Revenue and a credit to Accounts Receivable.
    b. a debit to Sales Revenue and a credit to Unearned Revenue.
    c. a debit to Cash and a credit to Accounts Receivable.
    d. a debit to Accounts Receivable and a credit to Sales Revenue.

    ANS: A PTS: 1 DIF: Medium OBJ: LO 2
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

15. An accrued expense can be described as an amount
    a. paid and matched with earnings for the current period.
    b. paid and not matched with earnings for the current period.
    c. not paid and not matched with earnings for the current period.
    d. not paid and matched with earnings for the current period.

    ANS: D PTS: 1 DIF: Medium OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

16. Which of the following errors will be detected when a trial balance is properly prepared?
    a. An amount that was entered in the wrong account
    b. A transaction that was entered twice
    c. A transaction that had been omitted
    d. None of these

    ANS: D PTS: 1 DIF: Medium OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

17. The premium on a two-year insurance policy expiring on June 30, 2013, was paid in total on July 1, 2011. The original payment was debited to the insurance expense account. The appropriate journal entry has been recorded on December 31, 2011. The balance in the prepaid asset account on December 31, 2011, should be
    a. the same as the original payment.
    b. higher than if the original payment had been initially debited to an asset account.
    c. lower than if the original payment had been initially debited to an asset account.
    d. the same as it would have been if the original payment had been initially debited to an asset account.

    ANS: D PTS: 1 DIF: Medium OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

18. If an inventory account is understated at year end, the effect will be to overstate the
    a. net purchases.
    b. gross margin.
    c. cost of goods available for sale.
    d. cost of goods sold.

    ANS: D PTS: 1 DIF: Medium OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

19. An adjusting entry will *not* take the format of which one of the following entries?
    a. A debit to an expense account and a credit to an asset account
    b. A debit to an expense account and a credit to a revenue account
    c. A debit to an asset account and a credit to a revenue account
    d. A debit to a liability account and a credit to a revenue account

    ANS: B PTS: 1 DIF: Medium OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

20. The last step in the accounting cycle is to
    a. prepare a post-closing trial balance.
    b. journalize and post closing entries.
    c. prepare financial statements.
    d. journalize and post adjusting entries.

    ANS: A PTS: 1 DIF: Easy OBJ: LO 1
    TOP: AICPA FN-Measurement MSC: AACSB Reflective Thinking

21. Which of the following is *not* presented in an income statement?
   a. Revenues
   b. Expenses
   c. Net income
   d. Dividends

   ANS: D PTS: 1 DIF: Easy OBJ: LO 2
   TOP: AICPA FN-Reporting MSC: AACSB Reflective Thinking

22. On March 1, 2010, Forest Co. borrowed cash and signed a 36-month, interest-bearing note on which both the principal and interest are payable on February 28, 2013. At December 31, 2013, the liability for accrued interest should be
   a. 10 months' interest.
   b. 22 months' interest.
   c. 34 months' interest.
   d. 36 months' interest.

   ANS: C PTS: 1 DIF: Medium OBJ: LO 3
   TOP: AICPA FN-Measurement MSC: AACSB Analytic

23. An example of an adjusting entry involving a deferred revenue is

a.	Cash	xxx	
	Unearned Rental Revenue		xxx
b.	Rental Revenue	xxx	
	Cash		xxx
c.	Unearned Rental Revenue	xxx	
	Rental Revenue		xxx
d.	Accounts Receivable	xxx	
	Sales		xxx

   ANS: C PTS: 1 DIF: Easy OBJ: LO 3
   TOP: AICPA FN-Measurement MSC: AACSB Analytic

24. The allowance for doubtful accounts is an example of a(n)
   a. expense account.
   b. contra account.
   c. adjunct account.
   d. control account.

   ANS: B PTS: 1 DIF: Easy OBJ: LO 2
   TOP: AICPA FN-Measurement MSC: AACSB Reflective Thinking

25. Iowa Cattle Company uses a periodic inventory system. Iowa purchased cattle from Big D Ranch at a cost of $27,000 on credit. The entry to record the receipt of the cattle would be

a.

Purchases	27,000	
Accounts Payable		27,000

b.

Inventory	27,000	
Accounts Payable		27,000

c.

Purchases	27,000	
Cash		27,000

d.

Inventory	27,000	
Cash		27,000

ANS: A PTS: 1 DIF: Easy OBJ: LO 2
TOP: AICPA FN-Measurement MSC: AACSB Analytic

26. Which of the following is presented in a balance sheet?
a. Prepaid expenses
b. Revenues
c. Net income
d. Gains

ANS: A PTS: 1 DIF: Easy OBJ: LO 2
TOP: AICPA FN-Reporting MSC: AACSB Reflective Thinking

27. If an expense has been incurred but not yet recorded, then the end-of-period adjusting entry would involve
a. a liability account and an asset account.
b. a liability account and a revenue account.
c. an asset and an expense account.
d. a receivable account and a revenue account.

ANS: C PTS: 1 DIF: Medium OBJ: LO 3
TOP: AICPA FN-Measurement MSC: AACSB Analytic

28. Failure to record depreciation expense at the end of an accounting period results in
a. understated income.
b. understated assets.
c. overstated expenses.
d. overstated assets.

ANS: D PTS: 1 DIF: Easy OBJ: LO 3
TOP: AICPA FN-Measurement MSC: AACSB Analytic

29. Iowa Cattle Company uses a perpetual inventory system. Iowa purchased cattle from Big D Ranch at a cost of $19,500, payable at time of delivery. The entry to record the delivery would be

a.	Purchases	19,500	
	Accounts Payable		19,500
b.	Inventory	19,500	
	Accounts Payable		19,500
c.	Purchases	19,500	
	Cash		19,500
d.	Inventory	19,500	
	Cash		19,500

ANS: D PTS: 1 DIF: Easy OBJ: LO 2
TOP: AICPA FN-Measurement MSC: AACSB Analytic

30. Beginning and ending Accounts Receivable balances were $28,000 and $24,000, respectively. If collections from clients during the period were $80,000, then total services rendered on account were apparently
a. $76,000.
b. $84,000.
c. $104,000.
d. $108,000.

ANS: A PTS: 1 DIF: Easy OBJ: LO 2
TOP: AICPA FN-Measurement MSC: AACSB Analytic

31. For a given year, beginning and ending total liabilities were $8,400 and $10,000, respectively. At year-end, owners' equity was $26,000 and total assets were $2,000 larger than at the beginning of the year. If new capital stock issued exceeded dividends by $2,400, net income (loss) for the year was apparently
a. ($2,800).
b. ($2,000).
c. $400.
d. $2,800.

ANS: B PTS: 1 DIF: Challenging OBJ: LO 2
TOP: AICPA FN-Measurement MSC: AACSB Analytic

32. The Supplies on Hand account balance at the beginning of the period was $6,600. Supplies totaling $12,825 were purchased during the period and debited to Supplies on Hand. A physical count shows $3,825 of Supplies on Hand at the end of the period. The proper journal entry at the end of the period
a. debits Supplies on Hand and credits Supplies Expense for $9,000.
b. debits Supplies Expense and credits Supplies on Hand for $12,825.
c. debits Supplies on Hand and credits Supplies Expense for $15,600.
d. debits Supplies Expense and credits Supplies on Hand for $15,600.

ANS: D PTS: 1 DIF: Easy OBJ: LO 3
TOP: AICPA FN-Measurement MSC: AACSB Analytic

33. Arid Company paid $1,704 on June 1, 2013, for a two-year insurance policy and recorded the entire amount as Insurance Expense. The December 31, 2013, adjusting entry is
    a. debit Prepaid Insurance and credit Insurance Expense, $497.
    b. debit Insurance Expense and credit Prepaid Insurance, $497.
    c. debit Insurance Expense and credit Prepaid Insurance, $1,207.
    d. debit Prepaid Insurance and credit Insurance Expense, $1,207.

    ANS: D PTS: 1 DIF: Medium OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

34. Moon Company purchased equipment on November 1, 2011, by giving its supplier a 12-month, 9 percent note with a face value of $48,000. The December 31, 2011, adjusting entry is
    a. debit Interest Expense and credit Cash, $720.
    b. debit Interest Expense and credit Interest Payable, $720.
    c. debit Interest Expense and credit Interest Payable, $1,080.
    d. debit Interest Expense and credit Interest Payable, $4,320.

    ANS: B PTS: 1 DIF: Medium OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

35. In November and December 2011, Bee Company, a newly organized newspaper publisher, received $72,000 for 1,000 three-year subscriptions at $24 per year, starting with the January 2, 2012, issue of the newspaper. How much should Bee report in its 2011 income statement for subscription revenue?
    a. $0
    b. $12,000
    c. $24,000
    d. $72,000

    ANS: A PTS: 1 DIF: Easy OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

36. On December 31 of the current year, Holmgren Company's bookkeeper made an entry debiting Supplies Expense and crediting Supplies on Hand for $12,600. The Supplies on Hand account had a $15,300 debit balance on January 1. The December 31 balance sheet showed Supplies on Hand of $11,400. Only one purchase of supplies was made during the month, on account. The entry for that purchase was
    a. debit Supplies on Hand, $8,700 and credit Cash, $8,700.
    b. debit Supplies Expense, $8,700 and credit Accounts Payable, $8,700.
    c. debit Supplies on Hand, $8,700 and credit Accounts Payable, $8,700.
    d. debit Supplies on Hand, $16,500 and credit Accounts Payable, $16,500.

    ANS: C PTS: 1 DIF: Medium OBJ: LO 2
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

37. The following errors were made in preparing a trial balance: the $1,350 balance of Inventory was omitted; the $450 balance of Prepaid Insurance was listed as a credit; and the $300 balance of Salaries Expense was listed as Utilities Expense. The debit and credit totals of the trial balance would differ by
    a. $1,350.
    b. $1,800.
    c. $2,100.
    d. $2,250.

ANS: D PTS: 1 DIF: Challenging OBJ: LO 3
TOP: AICPA FN-Measurement MSC: AACSB Analytic

38. Crescent Corporation's interest revenue for 2011 was $13,100. Accrued interest receivable on December 31, 2011, was $2,275 and $1,875 on December 31, 2010. The cash received for interest during 2011 was
    a. $1,350.
    b. $10,825.
    c. $12,700.
    d. $13,100.

ANS: C PTS: 1 DIF: Medium OBJ: LO 2
TOP: AICPA FN-Measurement MSC: AACSB Analytic

39. Sky Corporation's salaries expense for 201 was $136,000. Accrued salaries payable on December 31, 2011, was $17,800 and $8,400 on December 31, 2010. The cash paid for salaries during 2011 was
    a. $126,600.
    b. $127,600.
    c. $145,400.
    d. $153,800.

ANS: A PTS: 1 DIF: Easy OBJ: LO 2
TOP: AICPA FN-Measurement MSC: AACSB Analytic

40. Winston Company sells magazine subscriptions for one- to three-year subscription periods. Cash receipts from subscribers are credited to Magazine Subscriptions Collected in Advance, and this account had a balance of $9,600,000 at December 31, 2011, before year-end adjustment. Outstanding subscriptions at December 31, 2011, expire as follows:

During 2012	$2,600,000
During 2013	3,200,000
During 2014	1,800,000

In its December 31, 2011, balance sheet, what amount should Winston report as the balance for magazine subscriptions collected in advance?
    a. $2,000,000
    b. $3,800,000
    c. $7,600,000
    d. $9,600,000

ANS: C PTS: 1 DIF: Challenging OBJ: LO 3
TOP: AICPA FN-Measurement MSC: AACSB Analytic

41. L. Lane received $12,000 from a tenant on December 1 for four months' rent of an office. This rent was for December, January, February, and March. If Lane debited Cash and credited Unearned Rental Income for $12,000 on December 1, what necessary adjustment would be made on December 31?

a.	Unearned Rental Income	3,000	
	Rental Income		3,000
b.	Rental Income	3,000	
	Unearned Rental Income		3,000
c.	Unearned Rental Income	9,000	
	Rental Income		9,000
d.	Rental Income	9,000	
	Unearned Rental Income		9,000

ANS: A PTS: 1 DIF: Medium OBJ: LO 3
TOP: AICPA FN-Measurement MSC: AACSB Analytic

42. Ingle Company paid $12,960 for a four-year insurance policy on September 1 and recorded the $12,960 as a debit to Prepaid Insurance and a credit to Cash. What adjusting entry should Ingle make on December 31, the end of the accounting period?

a.	Prepaid Insurance	810	
	Insurance Expense		810
b.	Insurance Expense	1,080	
	Prepaid Insurance		1,080
c.	Insurance Expense	3,240	
	Prepaid Insurance		3,240
d.	Prepaid Insurance	11,880	
	Insurance Expense		11,880

ANS: B PTS: 1 DIF: Easy OBJ: LO 3
TOP: AICPA FN-Measurement MSC: AACSB Analytic

43. Bannister Inc.'s fiscal year ended on November 30, 2011. The accounts had not been adjusted for the fiscal year ending November 30, 2011. The balance in the prepaid insurance account as of November 30, 2011, was $35,200 (before adjustment at Nov. 30, 2011) and consisted of the following policies:

Policy Number	Date of Purchase	Date of Expiration	Balance in Account
279248	7/1/2011	6/30/2012	$14,400
694421	12/1/2009	11/30/2011	9,600
800616	4/1/2010	3/31/2012	11,200
			$35,200

The adjusting entry required on November 30, 2011, would be

a.	Insurance Expense	24,000	
	Prepaid Insurance		24,000
b.	Insurance Expense	9,600	
	Prepaid Insurance		9,600
c.	Insurance Expense	11,200	
	Prepaid Insurance		11,200
d.	Insurance Expense	16,400	
	Prepaid Insurance		16,400

ANS: A
#279248:
$14,400 balance represents twelve months of coverage left since no adjustment has been made at Nov. 30, 2011. $14,400/12 = $1,200/ month. Policy was purchased on 7/1/11, so five months have expired, or $1,200 × 5 mos. = **$6,000 that should be expensed for year ending 11/30/2011.**

#694421:
The entire balance of $9,600 should be expensed **for the year ending 11/30,2011** since the policy expired on Nov. 30, 2011, and the $9,600 balance represents the final year of prepaid insurance remaining to be expensed, assuming again that no adjustments have been made at Nov. 30, 2011, for the year then ended.

#800616:
The balance of $11,200 represents 16 months of coverage left at the **beginning** of fiscal year 2011. $11,200/16 = $700. 12 months of prepaid insurance should be expensed for the fiscal year ending 11/30/2011. 12 months x $700 = $**8,400 to be expensed for the year ending 11/30/2011.**

Total amount to be expensed at 11/30/2011:

#279248	$ 6,000
#694421	$ 9,600
#800616	$ 8,400
Total	$24,000

PTS: 1 DIF: Challenging OBJ: LO 3 TOP: AICPA FN-Measurement
MSC: AACSB Analytic

44. Kite Company paid $24,900 in insurance premiums during 2011. Kite showed $3,600 in prepaid insurance on its December 31, 2011, balance sheet and $4,500 on December 31, 2010. The insurance expense on the income statement for 2011 was
   a. $16,800.
   b. $24,000.
   c. $25,800.
   d. $33,000.

ANS: C PTS: 1 DIF: Easy OBJ: LO 3
TOP: AICPA FN-Measurement MSC: AACSB Analytic

45. Thompson Company sublet a portion of its office space for ten years at an annual rental of $36,000, beginning on May 1. The tenant is required to pay one year's rent in advance, which Thompson recorded as a credit to Rental Income. Thompson reports on a calendar-year basis. The adjustment on December 31 of the first year should be

a.	Rental Income	12,000	
	Unearned Rental Income		12,000
b.	Rental Income	24,000	
	Unearned Rental Income		24,000
c.	Unearned Rental Income	12,000	
	Rental Income		12,000
d.	Unearned Rental Income	24,000	
	Rental Income		24,000

ANS: A PTS: 1 DIF: Medium OBJ: LO 3
TOP: AICPA FN-Measurement MSC: AACSB Analytic

46. Sky Company collected $12,350 in interest during 2011. Sky showed $1,850 in interest receivable on its December 31, 2011, balance sheet and $5,300 on December 31, 2010. The interest revenue on the income statement for 2011 was
a. $3,450.
b. $8,900.
c. $12,350.
d. $14,200.

ANS: B PTS: 1 DIF: Easy OBJ: LO 3
TOP: AICPA FN-Measurement MSC: AACSB Analytic

47. On September 1, 2010, Star Corp. issued a note payable to Federal Bank in the amount of $450,000. The note had an interest rate of 12 percent and called for three equal annual principal payments of $150,000. The first payment for interest and principal was made on September 1, 2011. At December 31, 2011, Star should record accrued interest payable of
a. $11,000.
b. $12,000.
c. $16,500.
d. $18,000.

ANS: B PTS: 1 DIF: Medium OBJ: LO 3
TOP: AICPA FN-Measurement MSC: AACSB Analytic

48. The following balances have been excerpted from Edwards' balance sheets:

	December 31, 2011	December 31, 2010
Prepaid Insurance	$ 6,000	$ 7,500
Interest Receivable	3,700	14,500
Salaries Payable	61,500	53,000

Edwards Company paid or collected during 2011 the following items:

Insurance premiums paid	$ 41,500
Interest collected	123,500
Salaries paid	481,000

The insurance expense on the income statement for 2011 was

a. $28,000.
b. $40,000.
c. $43,000.
d. $55,000.

ANS: C PTS: 1 DIF: Medium OBJ: LO 3
TOP: AICPA FN-Measurement MSC: AACSB Analytic

49. The work sheet of PSI Company shows Income Tax Expense of $9,000 and Income Tax Payable of $9,000 in the Adjustments columns. What will be the ultimate disposition of these items on the work sheet?

a. Income Tax Expense will appear as a debit of $9,000 and Income Tax Payable as credit in the Balance Sheet columns.
b. Income Tax Expense will appear as a debit of $9,000 and Income Tax Payable as credit in the Income Statement columns.
c. Income Tax Expense will appear as a debit of $9,000 in the Balance Sheet columns and Income Tax Payable as credit in the Income Statement columns.
d. Income Tax Expense will appear as a debit of $9,000 in the Income Statement columns and Income Tax Payable as credit in the Balance Sheet columns.

ANS: D PTS: 1 DIF: Medium OBJ: LO 3
TOP: AICPA FN-Measurement MSC: AACSB Reflective Thinking

50. The following balances have been excerpted from Edwards' balance sheets:

	December 31, 2011	December 31, 2010
Prepaid Insurance	$ 6,000	$ 7,500
Interest Receivable	3,700	14,500
Salaries Payable	61,500	53,000

Edwards Company paid or collected during 2011 the following items:

Insurance premiums paid	$ 41,500
Interest collected	123,500
Salaries paid	481,000

The interest revenue on the income statement for 2011 was

a. $90,500.
b. $112,700.
c. $117,500.
d. $156,500.

ANS: B PTS: 1 DIF: Medium OBJ: LO 3
TOP: AICPA FN-Measurement MSC: AACSB Analytic

51. Chips-n-Bits Company sells service contracts for personal computers. The service contracts are for a one-year, two-year, or three-year period. All sales are for cash and all receipts are credited to Unearned Service Contract Revenues. This account had a balance of $144,000 at December 31, 2010, before year-end adjustment. Service contract costs are charged as incurred to the Service Contract Expense account, which had a balance of $36,000 at December 31, 2010. Service contracts still outstanding at December 31, 2010, expire as follows:

During 2011	$30,000
During 2012	45,000
During 2013	20,000

What amount should be reported as unearned service contract revenues in Chips-n-Bits December 31, 2010, balance sheet?
a. $49,000
b. $59,000
c. $95,000
d. $108,000

ANS: C	PTS: 1	DIF: Challenging	OBJ: LO 3
TOP: AICPA FN-Measurement		MSC: AACSB Analytic	

52. Teller Inc. reported an allowance for doubtful accounts of $30,000 (credit) at December 31, 2011, before performing an aging of accounts receivable. As a result of the aging, Teller Inc. determined that an estimated $52,000 of the December 31, 2011, accounts receivable would prove uncollectible. The adjusting entry required at December 31, 2011, would be

a.	Doubtful Accounts Expense	22,000	
	Allowance for Doubtful Accounts ...		22,000
b.	Allowance for Doubtful Accounts	22,000	
	Accounts Receivable		22,000
c.	Doubtful Accounts Expense	52,000	
	Allowance for Doubtful Accounts ...		52,000
d.	Allowance for Doubtful Accounts	52,000	
	Doubtful Accounts Expense		52,000

ANS: A	PTS: 1	DIF: Medium	OBJ: LO 3
TOP: AICPA FN-Measurement		MSC: AACSB Analytic	

53. Comet Corporation's liability account balances at June 30, 2011, included a 10 percent note payable. The note is dated October 1, 2009, and carried an original principal amount of $600,000. The note is payable in three equal annual payments of $200,000 plus interest. The first interest and principal payment was made on October 1, 2010. In Comet's June 30, 2011, balance sheet, what amount should be reported as Interest Payable for this note?
a. $10,000
b. $15,000
c. $30,000
d. $45,000

ANS: C	PTS: 1	DIF: Medium	OBJ: LO 3
TOP: AICPA FN-Measurement		MSC: AACSB Analytic	

54. Scott Co. reported an allowance for doubtful accounts of $28,000 (credit) at December 31, 2011, before performing an aging of accounts receivable. As a result of the aging, Scott determined that an estimated $27,000 of the December 31, 2011, accounts receivable would prove uncollectible. The adjusting entry required at December 31, 2011, would be

a.	Doubtful Accounts Expense	27,000	
	Allowance for Doubtful Accounts ...		27,000
b.	Doubtful Accounts Expense	27,000	
	Accounts Receivable		27,000
c.	Allowance for Doubtful Accounts	1,000	
	Doubtful Accounts Expense		1,000
d.	Doubtful Accounts Expense	1,000	
	Allowance for Doubtful Accounts ...		1,000

ANS: C PTS: 1 DIF: Medium OBJ: LO 3
TOP: AICPA FN-Measurement MSC: AACSB Analytic

55. The following balances have been excerpted from Edwards' balance sheets:

	December 31, 2011	December 31, 2010
Prepaid Insurance	$ 6,000	$ 7,500
Interest Receivable	3,700	14,500
Salaries Payable	61,500	53,000

Edwards Company paid or collected during 2011 the following items:

Insurance premiums paid	$ 41,500
Interest collected	123,500
Salaries paid	481,000

The salary expense on the income statement for 2011 was
a. $366,500.
b. $472,500.
c. $489,500.
d. $595,500.

ANS: C PTS: 1 DIF: Medium OBJ: LO 2
TOP: AICPA FN-Measurement MSC: AACSB Analytic

56. The use of computers in processing accounting data
a. eliminates the need for accountants.
b. eliminates the double entry system as a basis for analyzing transactions.
c. eliminates the need for financial reporting standards such as those promulgated by the FASB.
d. may result in the elimination of document trails used to verify accounting records.

ANS: D PTS: 1 DIF: Easy OBJ: LO 5
TOP: AICPA BB-Leveraging Technology MSC: AACSB Technology

57. The basic financial statements are listed below:

    (1) Balance sheet
    (2) Statement of retained earnings
    (3) Income statement
    (4) Statement of cash flows

    In which of the following sequences does the accountant ordinarily prepare the statements?
    a. 1, 4, 3, 2
    b. 2, 1, 3, 4
    c. 3, 2, 1, 4
    d. 3, 2, 4, 1

    ANS: C PTS: 1 DIF: Easy OBJ: LO 1
    TOP: AICPA FN-Measurement MSC: AACSB Reflective Thinking

58. Which of the following regarding accrual versus cash-basis accounting is true?
    a. The FASB believes that the cash basis is appropriate for some smaller companies, especially those in the service industry.
    b. The cash basis is less useful in predicting the timing and amounts of future cash flows of an enterprise.
    c. Application of the cash basis results in an income statement reporting revenues and expenses.
    d. The cash basis requires a complete set of double-entry records.

    ANS: B PTS: 1 DIF: Medium OBJ: LO 4
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

59. Under the cash basis of accounting,
    a. revenues are recorded when they are earned.
    b. accounts receivable would appear on the balance sheet.
    c. depreciation of assets having an economic life of more than one year is recognized.
    d. the matching principle is ignored.

    ANS: D PTS: 1 DIF: Easy OBJ: LO 4
    TOP: AICPA FN-Measurement MSC: AACSB Reflective Thinking

60. Total net income over the life of an enterprise is
    a. higher under the cash basis than under the accrual basis.
    b. lower under the cash basis than under the accrual basis.
    c. the same under the cash basis as under the accrual basis.
    d. not susceptible to measurement.

    ANS: C PTS: 1 DIF: Medium OBJ: LO 4
    TOP: AICPA FN-Measurement MSC: AACSB Reflective Thinking

61. What is the correct order of the following events in the accounting process?

I. Financial statements are prepared.
II. Adjusting entries are recorded.
III. Nominal accounts are closed.

a. I, II, III
b. II, I, III
c. III, II, I
d. II, III, I

ANS: B PTS: 1 DIF: Easy OBJ: LO 1
TOP: AICPA FN-Measurement MSC: AACSB Reflective Thinking

62. Which of the following is true regarding the accounting process?
a. Preparation of the trial balance ensures that all amounts have been posted to the correct accounts.
b. Preparation of the trial balance is a step in the recording process.
c. Preparation of the trial balance determines that total debits equal total credits.
d. Preparation of the trial balance determines both that total debits equal total credits and that all amounts have been posted to the correct accounts.

ANS: C PTS: 1 DIF: Medium OBJ: LO 1
TOP: AICPA FN-Measurement MSC: AACSB Analytic

63. An example of a nominal account would be
a. Allowance for Doubtful Accounts.
b. Notes Payable.
c. Prepaid Expense.
d. Cost of Goods Sold.

ANS: D PTS: 1 DIF: Easy OBJ: LO 1
TOP: AICPA FN-Measurement MSC: AACSB Analytic

64. Which of the following accounts most likely would *not* appear in a post-closing trial balance?
a. Retained Earnings
b. Inventory
c. Sales Revenue
d. Common Stock

ANS: C PTS: 1 DIF: Easy OBJ: LO 1
TOP: AICPA FN-Measurement MSC: AACSB Reflective Thinking

65. Which of the following is true?
a. Prepaid expenses are increased by a credit.
b. Gains are increased by a debit.
c. Losses are increased by a credit.
d. Accumulated depreciation is increased by a credit.

ANS: D PTS: 1 DIF: Easy OBJ: LO 2
TOP: AICPA FN-Measurement MSC: AACSB Reflective Thinking

66. Which of the following accounts would be increased by a debit?
    a. Common Stock
    b. Notes Payable
    c. Accounts Payable
    d. Dividends

    ANS: D PTS: 1 DIF: Easy OBJ: LO 2
    TOP: AICPA FN-Measurement MSC: AACSB Reflective Thinking

67. Which of the following is correct?
    a. Retained Earnings normally has a debit balance.
    b. Retained Earnings normally has a credit balance.
    c. Retained Earnings is closed at the end of the fiscal year.
    d. Retained Earnings is a nominal account.

    ANS: B PTS: 1 DIF: Medium OBJ: LO 2
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

68. Which of the following is *not* an appropriate account title?
    a. Dividends Expense
    b. Prepaid Expense
    c. Insurance Expense
    d. Unearned Revenue

    ANS: A PTS: 1 DIF: Easy OBJ: LO 2
    TOP: AICPA FN-Measurement MSC: AACSB Reflective Thinking

69. Which of the following is *not* considered a book of original entry?
    a. General journal
    b. General ledger
    c. Sales journal
    d. Purchases journal

    ANS: B PTS: 1 DIF: Easy OBJ: LO 2
    TOP: AICPA FN-Measurement MSC: AACSB Reflective Thinking

70. Which of the following accounts would *not* appear on a post-closing trial balance?
    a. Retained Earnings
    b. Accumulated Depreciation
    c. Depreciation Expense
    d. Allowance for Doubtful Accounts

    ANS: C PTS: 1 DIF: Easy OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Reflective Thinking

71. Accumulated Depreciation is an example of a(n)
    a. expense account.
    b. adjunct account.
    c. control account.
    d. contra account.

    ANS: D PTS: 1 DIF: Easy OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Reflective Thinking

72. Failure to record salaries owed but not paid at the end of an accounting period results in
    a. overstated retained earnings.
    b. overstated assets.
    c. overstated revenue.
    d. understated retained earnings.

    ANS: A PTS: 1 DIF: Medium OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

73. If an inventory account is overstated at the beginning of the year, the effect will be to
    a. overstate net purchases.
    b. overstate gross margin.
    c. overstate cost of goods available for sale.
    d. understate cost of goods sold.

    ANS: C PTS: 1 DIF: Medium OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

74. Which of the following is consistent with the cash-basis of accounting?
    a. Recording a liability for a lawsuit the company is expected to lose
    b. Recording bad debt expense when an account proves uncollectible
    c. Recording salaries payable at the end of an accounting period
    d. Recording revenue when earned

    ANS: B PTS: 1 DIF: Medium OBJ: LO 4
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

75. A Company shows $22,000 of insurance expense for the fiscal year. The company records showed a balance in prepaid insurance at the beginning of the year of $5,000 and a balance at the end of the year of $3,000. What amount of cash was paid for insurance during the year?
    a. $2,000
    b. $22,000
    c. $20,000
    d. $25,000

    ANS: C PTS: 1 DIF: Medium OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

76. For a given year, beginning and ending total liabilities were $18,000 and $20,400, respectively. At year-end, owners' equity was $40,200 and total assets were $4,000 larger than at the beginning of the year. If new capital stock issued exceeded dividends by $4,800, net income (loss) for the year was apparently
    a. $(3,200).
    b. $(4,000).
    c. $800.
    d. $3,200.

    ANS: A PTS: 1 DIF: Challenging OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

77. At the beginning of the fiscal year, office supplies inventory amounted to $600. During the year, office supplies amounting to $8,800 were purchased. This amount was debited to office supplies expense. An inventory of office supplies at the end of the fiscal year showed $400 of supplies remaining. The beginning of the year balance is still reflected in the office supplies inventory account. What is the required amount of the adjustment to the office supplies expense account?
    a. $9,000 debit
    b. $200 debit
    c. $8,400 credit
    d. $8,800 credit

    ANS: B PTS: 1 DIF: Challenging OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

78. Montague Company reported the following balances:

	Beginning of Year	End of Year
Inventory	$65,000	$72,500
Accounts payable	18,750	12,500

    Montague paid suppliers $122,500 during the year. What is Montague's cost of goods sold for the year?
    a. $136,250
    b. $123,750
    c. $121,250
    d. $108,750

    ANS: D PTS: 1 DIF: Medium OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

79. Caribou Corporation shows the following balances:

	Beginning of Year	End of Year
Inventory	$80,000	$72,500
Accounts Payable	40,000	30,000

    Caribou paid suppliers $100,000 during the year. What is Caribou's cost of goods sold for the year?
    a. $97,500
    b. $107,500
    c. $102,500
    d. $92,500

    ANS: B PTS: 1 DIF: Medium OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

80. The following is a summary of the increases in the account categories of the balance sheet of Riley Company for the most recent fiscal year:

Assets	$187,000	Liabilities	$45,000
Capital Stock	125,000	Additional Paid-in Capital	12,000

The only change to retained earnings during the fiscal year was for $20,000 of dividends. What was the company's net income for the fiscal year?
a. $25,000
b. $15,000
c. $5,000
d. $20,000

ANS: A PTS: 1 DIF: Challenging OBJ: LO 3
TOP: AICPA FN-Measurement MSC: AACSB Analytic

81. On August 1 of the current year, Kyle Company borrowed $278,000 from the local bank. The loan was for 12 months at 9 percent interest payable at the maturity date. The adjusting entry at the end of the fiscal year relating to this obligation would include a
a. debit to interest expense of $25,020.
b. debit to interest expense of $10,425.
c. credit to note payable of $10,425.
d. debit to interest receivable of $10,425.

ANS: B PTS: 1 DIF: Medium OBJ: LO 3
TOP: AICPA FN-Measurement MSC: AACSB Analytic

82. Carbon Company's accounting records provided the following information (all amounts in thousands of dollars):

Account	Balances 12/31/2010	Balances 12/31/2011
Current Assets	$ 240	$?
Property, Plant, and Equipment	1,600	1,700
Current Liabilities	?	130
Long-term Liabilities	580	?

All assets and liabilities of the firm are reported in the schedule above. Working capital of $92 remained unchanged from 2010 to 2011. Net income in 2011 was $64. No dividends were declared during 2011 and there were no other changes in owners' equity. Total long-term liabilities at the end of 2011 would be
a. $340.
b. $432.
c. $580.
d. $616.

ANS: D PTS: 1 DIF: Challenging OBJ: LO 3
TOP: AICPA FN-Measurement MSC: AACSB Analytic

83. At the end of the current fiscal year, an analysis of the payroll records of Bev Company showed accrued salaries of $22,200. The Accrued Salaries Payable account had a balance of $32,000 at the end of the current fiscal year, which was unchanged from its balance at the end of the prior fiscal year. The books of the company have not yet been closed. The entry needed in this situation would include a
    a. debit to Retained Earnings of $9,800.
    b. credit to Retained Earnings of $9,800.
    c. debit to Accrued Salaries payable of $9,800.
    d. debit to Salaries Expense of $9,800.

    ANS: C PTS: 1 DIF: Challenging OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

84. Ryan Company purchased a machine on July 1, 2011. The machine cost $250,000 and has a salvage value of $10,000 and a useful life of eight years. The adjusting entry for the year ending December 31, 2012, would include a debit to Depreciation Expense of
    a. $30,000.
    b. $15,000.
    c. $31,250.
    d. $15,625.

    ANS: A PTS: 1 DIF: Medium OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

85. Carlton Company sold equipment for $3,700 that originally cost $22,000. The balance of the Accumulated Depreciation account related to this equipment was $19,000. The entry to record the disposal of this equipment would include a
    a. debit to Loss on Sale of Equipment of $700.
    b. credit to Gain on Sale of Equipment of $700.
    c. credit to Equipment of $3,000.
    d. debit to Gain on Sale of Equipment of $700.

    ANS: B PTS: 1 DIF: Medium OBJ: LO 3
    TOP: AICPA FN-Measurement MSC: AACSB Analytic

PROBLEM

1. The records of Jerick Corp. show the following information:

    (a) Purchased a three-year insurance policy for $10,800 on September 1, 2011, and recorded the premium payment in the asset account.
    (b) Borrowed $60,000 on a 1-year, 12% note on August 1, 2011. Interest is payable at maturity.
    (c) Collected $8,400 on September 1, 2011, to cover six months' rent paid in advance, and recorded the receipt in a revenue account.
    (d) The Allowance for Doubtful Accounts shows an unadjusted balance of $500 (debit) as of December 31, 2011. Based on an aging of receivables, it is determined that the balance in the allowance account should be $1,872 at December 31, 2011.
    (e) Machinery purchased on January 1, 2011, for $600,000 is to be depreciated at the rate of 25 percent per year.

    Prepare journal entries to adjust the books of Jerick Corp. at December 31, 2011.

ANS:

(a)	Insurance Expense	1,200	
	Prepaid Insurance		1,200
(b)	Interest Expense	3,000	
	Interest Payable		3,000
(c)	Rental Income	2,800	
	Unearned Rental Income		2,800
(d)	Doubtful Accounts Expense	2,372	
	Allowance for Doubtful Accounts		2,372
(e)	Depreciation Expense--Machinery	150,000	
	Accumulated Depreciation--Machinery		150,000

PTS: 1 DIF: Medium OBJ: LO 3 TOP: AICPA FN-Measurement
MSC: AACSB Analytic

2. The information listed below was obtained from the accounting records of Cahill Company as of June 30, 2011, the end of the company's fiscal year.

(a) Payments to vendors of $2,000 were made for purchases on account during the year and were not recorded.
(b) On June 28, 2011, Cahill received $4,500 in advance for services to be performed in July 2011. The $4,500 was credited to Sales Revenue.
(c) Building and land were purchased in 2004 for $750,000. The building's fair market value was $620,000 at the time of purchase. The building is being depreciated over a 25-year life using the straight-line method, and assuming no salvage value.
(d) On June 1, 2011, $120,000 was loaned to a shareholder on a 6-month note with interest at an annual rate of 7 percent. Interest is due at maturity.
(e) Accrued salaries and wages are $2,500 at June 30, 2011.
(f) The office supplies account has a balance of $3,110. An inventory of supplies revealed a total of $602.

Prepare journal entries to adjust the books of Cahill Company at June 30, 2011.

ANS:

(a)	Accounts Payable	2,000	
	Cash		2,000
(b)	Sales Revenue	4,500	
	Unearned Sales Revenue		4,500
(c)	Depreciation Expense--Building	24,800	
	Accumulated Depreciation--Building		24,800
(d)	Interest Receivable	700	
	Interest Revenue		700
(e)	Salaries and Wages Expense	2,500	
	Salaries and Wages Payable		2,500
(f)	Office Supplies Expense	2,508	
	Office Supplies		2,508

PTS: 1 DIF: Medium OBJ: LO 3 TOP: AICPA FN-Measurement
MSC: AACSB Analytic

3. Caddis Co. had these unadjusted account balances on December 31, 2011:

Inventory, January 1, 2011	$175,250
Purchases	143,500
Freight-In	13,770
Purchase Discounts	3,150
Purchase Returns and Allowance	25,410

Assuming that the ending inventory is $88,400, prepare the entry to adjust the inventory accounts.

ANS:

Purchase Discounts	3,150	
Purchase Returns and Allowances	25,410	
Cost of Goods Sold	215,560	
Purchases		143,500
Freight-In		13,770
Inventory		86,850

PTS: 1 DIF: Medium OBJ: LO 3 TOP: AICPA FN-Measurement
MSC: AACSB Analytic

4. The following account balances pertain to the Henryville Manufacturing Co. at September 30, 2011 (before adjusting entries).

	Debit	Credit
Accounts Receivable	$ 40,000	
Allowance for Doubtful Accounts		$ 2,500
Inventory	99,700	
Prepaid Insurance	2,400	
Equipment	300,000	
Accumulated Depreciation		125,000
Notes Payable		48,000
Unearned Revenue		72,000

Additional information:

(a) The controller and the credit manager agreed that, based on an aging of year-end accounts receivable, the allowance for doubtful accounts should be increased to $4,300.
(b) The credit manager determined that a customer account with a balance of $850 was uncollectible (without regard to the information in (a) above).
(c) The $48,000 note payable is dated August 13, 2011, and bears interest at 12 percent per annum. The note and interest are payable at maturity on November 13, 2011. (Assume a 365-day year and round to the nearest dollar.)
(d) The prepaid insurance balance arose from the payment of an annual premium on January 1, 2011.
(e) The company maintains a perpetual inventory system. The inventory at September 30, 2008, was $102,600 as determined by physical count.
(f) The equipment is being depreciated over a 20-year estimated useful life.

(g) The unearned revenue represents an amount received for a long-term equipment rental to the Northcrest Tool & Die Co. The cash ($72,000) was received on April 26, 2011, and represents prepayment of a 1-year rental beginning May 1, 2011.

Prepare adjusting entries to Henryville Co.'s accounts at September 30, 2011. Each entry should be made in general journal format. Identify each entry by using the letter of the paragraph containing the additional information for the entry.

ANS:

(a)	Doubtful Accounts Expense	1,800	
	Allowance for Doubtful Accounts		1,800
(b)	Allowance for Doubtful Accounts	850	
	Accounts Receivable		850
(c)	Interest Expense ($48,000 × 12% × 48/365)	757	
	Interest Payable		757
(d)	Insurance Expense ($200 × 9 months)	1,800	
	Prepaid Insurance		1,800
(e)	Inventory ($102,600 – $99,700)	2,900	
	Cost of Goods Sold		2,900
(f)	Depreciation Expense--Equipment	15,000	
	Accumulated Depreciation--Equipment................		15,000
(g)	Unearned Revenue ($72,000 × 5/12)	30,000	
	Rental Revenue		30,000

PTS: 1 DIF: Medium OBJ: LO 3 TOP: AICPA FN-Measurement
MSC: AACSB Analytic

5. Schroeder Co. had the following transactions pertaining to the fiscal year ended October 31, 2011.

-- June 15, 2011, paid an annual casualty insurance premium of $5,400 for a policy beginning July 1, 2011.
-- October 1, 2011, received advance payment of $6,930 from a customer for a 9-month equipment rental.

Provide the appropriate journal entries to record the preceding transactions. Adjust the accounts at year-end assuming that no entries have been made between the transaction date and year-end and assuming that:

(1) transactions were originally recorded in asset and liability accounts.
(2) transactions were originally recorded in revenue and expense accounts.

ANS:

(1) Insurance:

2011			
June 15	Prepaid Insurance	5,400	
	Cash		5,400
Oct. 31	Insurance Expense ($5,400 × 4/12)	1,800	
	Prepaid Insurance		1,800

Equipment rental:

Oct. 1	Cash	6,930	
	Unearned Rent Revenue		6,930
Oct. 31	Unearned Rent Revenue ($6,930 × 1/9)	770	
	Rent Revenue		770

(2) Insurance:

2011			
June 15	Insurance Expense	5,400	
	Cash		5,400
Oct. 31	Prepaid Insurance ($5,400 × 8/12)	3,600	
	Insurance Expense		3,600

Equipment rental:

Oct. 1	Cash	6,930	
	Rent Revenue		6,930
Oct. 31	Rent Revenue ($6,930 × 8/9)	6,160	
	Unearned Rent Revenue		6,160

PTS: 1 DIF: Medium OBJ: LO 2 | LO 3 TOP: AICPA FN-Measurement
MSC: AACSB Analytic

6. Record the following transactions and events of Royal Wulff Company in general journal form. If the item does not require a journal entry, write "no entry."

(a) Sold merchandise costing $4,500 for $1,000 cash and $7,000 on open account. A perpetual inventory system is used.
(b) Purchased land and building for $100,000 cash and a $300,000 mortgage. The land was recently appraised at $60,000 and the building at $340,000.
(c) Received payment on account, $12,000.
(d) Estimated that utilities expense for the coming six months will total $7,600.
(e) Declared a cash dividend totaling $13,500. The dividend will be paid in six weeks.

ANS:

(a)	Cash	1,000	
	Accounts Receivable	7,000	
	Sales		8,000
	Cost of Goods Sold	4,500	
	Inventory		4,500
(b)	Land	60,000	
	Building	340,000	
	Cash		100,000
	Mortgage Payable		300,000
(c)	Cash	12,000	
	Accounts Receivable		12,000
(d)	No entry		
(e)	Dividends (or Retained Earnings)	13,500	
	Dividends Payable		13,500

PTS: 1 DIF: Easy OBJ: LO 2 TOP: AICPA FN-Measurement
MSC: AACSB Analytic

7. For each of the journal entries below, write a description of the underlying event. Assume that for prepaid expenses original debits are made to an expense account.

(a)	Allowance for Doubtful Accounts	xxx	
	Accounts Receivable		xxx
(b)	Interest Expense	xxx	
	Notes Payable	xxx	
	Cash		xxx
(c)	Cash	xxx	
	Unearned Revenue		xxx
(d)	Supplies on Hand	xxx	
	Supplies Expense		xxx
(e)	Cash	xxx	
	Accounts Receivable		xxx

ANS:
(a) Write-off of an uncollectible account.
(b) Cash payment on a note payable. Part of the payment is for principal and part is for interest.
(c) Received cash in advance for products or services not yet delivered.
(d) Adjusting entry to record supplies on hand.
(e) Received customer payment on account.

PTS: 1 DIF: Easy OBJ: LO 2 TOP: AICPA FN-Measurement
MSC: AACSB Analytic

8. The following data are from a comparison of the balance sheets of Brassie Company as of December 31, 2011, and December 31, 2010:

Accounts Receivable	increase	$7,600
Inventory	decrease	4,500
Accounts Payable .... (all accounts payable relate to inventory purchases)	increase	2,400
Prepaid Insurance	decrease	1,350
Wages Payable	decrease	670

The following data are from Brassie's 2011 income statement:

Sales	$200,000
Cost of Goods Sold	110,000
Insurance Expense	25,000
Wages Expense	40,000

During 2011:

(a) How much cash was collected from customers?
(b) How much cash was paid for inventory purchases?
(c) How much cash was paid for insurance?
(d) How much cash was paid for wages?

ANS:
(a) $200,000 – $7,600 = $192,400
(b) $110,000 – $4,500 – $2,400 = $103,100
(c) $25,000 – $1,350 = $23,650
(d) $40,000 + $670 = $40,670

PTS: 1 DIF: Medium OBJ: LO 2 TOP: AICPA FN-Measurement
MSC: AACSB Analytic

9. Pheasant Tail Company's total equity increased by $32,000 during 2011. New stockholder investment during the year totaled $65,000. Total revenues during the year were $500,000 and total expenses were $460,000. Cash on hand decreased by $7,500 during the year. What amount of dividends did Pheasant Tail declare during 2011?

ANS:

Increase in total equity during 2011	$ 32,000
New stockholder investment	65,000
Decrease in retained earnings during 2011	$(33,000)
Net income ($500,000 – $460,000)	40,000
Difference = Dividends declared during 2011	$ 73,000

PTS: 1 DIF: Medium OBJ: LO 2 TOP: AICPA FN-Measurement
MSC: AACSB Analytic

10. The trial balance and transaction descriptions below are for Coachman Company:

Coachman Company
Trial Balance
February 1, 2011

	Debit	Credit
Cash	$ 250	
Accounts Receivable	320	
Inventory	495	
Equipment	1,200	
Accumulated Depreciation		$ 245
Accounts Payable		185
Mortgage Payable		900
Common Stock		300
Retained Earnings		635
	$2,265	$2,265

Summary transactions for February:

(a) Collected $100 on open account
(b) Purchased $130 inventory for $20 cash and the remainder on open account.
(c) Bought new equipment costing $200 for $50 cash, with the remainder due on a mortgage payable.
(d) Paid $85 on open account.
(e) Recorded depreciation expense of $35.
(f) Sold goods costing $90 for $30 cash and $120 on open account.

What is Coachman's total equity at the end of February?

ANS:

Retained Earnings

		Begin	635
(e)	35		
(f)	90	(f)	150
			660

Total equity = Retained Earnings $660 + Common Stock $300 = $960.

PTS: 1 DIF: Medium OBJ: LO 2 TOP: AICPA FN-Measurement
MSC: AACSB Analytic

11. Account balances taken from the ledger of Middler Company on December 31, 2011, are as follows:

Accounts Payable	$119,000
Accounts Receivable	139,200
Advertising Expense	12,000
Accumulated Depreciation--Buildings	31,500
Allowance for Doubtful Accounts	2,550
Buildings	315,000
Capital Stock, $10 par	450,000
Cash	45,750
Dividends	12,000
Freight-In	10,500
Insurance Expense	2,100
Interest Expense	5,295
Interest Revenue	1,335
Inventory, December 31, 2010	104,850
Land	78,000
Long-Term Investments	12,150
Mortgage Payable	43,500
Notes Payable--Short-Term	24,000
Office Expense	28,800
Purchases	521,130
Purchase Discounts	12,150
Retained Earnings, December 31, 2010	13,695
Sales	745,000
Sales Discounts	24,750
Sales Returns	14,400
Selling Expense	94,050
Supplies Expense	3,450
Real Estate and Payroll Taxes	19,305

Adjustments on December 31, 2011, are required as follows:

(a) The inventory on hand is $135,915.
(b) The allowance for doubtful accounts is to be increased to a balance of $6,250.
(c) Buildings are depreciated at the rate of 5 percent per year.
(d) Accrued selling expenses are $6,075.
(e) There are supplies of $1,050 on hand.
(f) Prepaid insurance at December 31, 2011, totals $1,290.
(g) Accrued interest on long-term investments is $360.
(h) Accrued real estate and payroll taxes are $1,170.
(i) Accrued interest on the mortgage is $240.
(j) Income tax is estimated to be 30 percent of the income before income tax (round to nearest dollar).

(1) Prepare an eight-column work sheet.
(2) Prepare adjusting and closing entries.

ANS:
(1)

Middler Company
Work Sheet
For Year Ended December 31, 2011

	Trial Balance Debit	Trial Balance Credit		Adjustment Debit		Adjustment Credit
Cash	45,750					
Accounts Receivable	139,200					
Allowance for Doubtful Accounts		2,550			(b)	3,700
Inventory	104,850		(a)	31,065		
Interest Receivable			(g)	360		
Prepaid Insurance			(f)	1,290		
Supplies on Hand			(e)	1,050		
Long-Term Investments	12,150					
Land	78,000					
Buildings	315,000					
Accumulated Depreciation--Buildings.........		31,500			(c)	15,750
Accounts Payable		119,000				
Selling Expense Payable........					(d)	6,075
Real Estate and Payroll Taxes Payable					(h)	1,170
Interest Payable					(i)	240
Income Taxes Payable (0.30 × $29,535)					(j)	8,861
Notes Payable--Short-Term...		24,000				
Mortgage Payable		43,500				
Capital Stock, $10 par...........		450,000				
Retained Earnings, Dec. 31, 2010....................................		13,695				
Dividends	12,000					
Sales		745,000				
Sales Discounts	24,750					
Sales Returns	14,400					
Interest Revenue		1,335			(g)	360
Purchases	521,130				(a)	521,130
Purchase Discounts		12,150	(a)	12,150		
Freight-In	10,500				(a)	10,500
Cost of Goods Sold			(a)	488,415		
Real Estate and Payroll .... Taxes Expense	19,305		(h)	1,170		
Selling Expense	94,050		(d)	6,075		
Supplies Expense	3,450				(e)	1,050
Doubtful Accounts Expense..			(b)	3,700		
Depreciation Expense--Buildings			(c)	15,750		
Income Tax Expense			(j)	8,861		
Advertising Expense	12,000					
Insurance Expense	2,100				(f)	1,290
Interest Expense	5,295		(i)	240		
Office Expense	28,800					
	1,442,730	1,442,730		570,126		570,126

Middler Company
Work Sheet
For Year Ended December 31, 2011

	Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit
Cash			45,750	
Accounts Receivable			139,200	
Allowance for Doubtful Accounts				6,250
Inventory			135,915	
Interest Receivable			360	
Prepaid Insurance			1,290	
Supplies on Hand			1,050	
Long-Term Investments			12,150	
Land			78,000	
Buildings			315,000	
Accumulated Depreciation-- Buildings				47,250
Accounts Payable				119,000
Selling Expense Payable				6,075
Real Estate and Payroll Taxes Payable				1,170
Interest Payable				240
Income Taxes Payable (.30 × $29,535)				8,861
Notes Payable--Short-Term				24,000
Mortgage Payable				43,500
Capital Stock, $10 par				450,000
Retained Earnings, Dec. 31, 2011				13,695
Dividends			12,000	
Sales		745,000		
Sales Discounts	24,750			
Sales Returns	14,400			
Interest Revenue		1,695		
Purchases				
Purchase Discounts				
Freight-In				
Cost of Goods Sold	488,415			
Real Estate and Payroll Taxes Expense	20,475			
Selling Expense	100,125			
Supplies Expense	2,400			
Doubtful Accounts Expense	3,700			
Depreciation Expense-- Buildings	15,750			
Income Tax Expense	8,861			
Advertising Expense	12,000			
Insurance Expense	810			
Interest Expense	5,535			
Office Expense	28,800			
	726,021	746,695	740,715	720,041
Net Income.............................	20,674			20,674
	746,695	746,695	740,715	740,715

(2)

Adjusting Entries

(a)	Inventory	31,065	
	Purchase Discounts	12,150	
	Cost of Goods Sold	488,415	
	Purchases		521,130
	Freight-In		10,500
(b)	Doubtful Accounts Expense	3,700	
	Allowance for Doubtful Accounts		3,700
(c)	Depreciation Expense, Buildings	15,750	
	Accumulated Depreciation, Buildings		15,750
(d)	Selling Expense	6,075	
	Selling Expense Payable		6,075
(e)	Supplies on Hand	1,050	
	Supplies Expense		1,050
(f)	Prepaid Insurance	1,290	
	Insurance Expense		1,290
(g)	Interest Receivable	360	
	Interest Revenue		360
(h)	Real Estate and Payroll Taxes	1,170	
	Real Estate and Payroll Taxes Payable		1,170
(i)	Interest Expense	240	
	Interest Payable		240
(j)	Income Tax	8,861	
	Income Tax Payable		8,861

Closing Entries

Interest Revenue	1,695	
Sales	745,000	
Retained Earnings		746,695
Retained Earnings	726,021	
Cost of Goods Sold		488,415
Advertising Expense		12,000
Insurance Expense		810
Interest Expense		5,535
Office Expense		28,800
Sales Discounts		24,750
Sales Returns		14,400
Selling Expense		100,125
Real Estate and Payroll Taxes		20,475
Supplies Expense		2,400
Doubtful Accounts Expense		3,700
Depreciation Expense, Buildings		15,750
Income Tax Expense		8,861

Retained Earnings	12,000	
Dividends		12,000

PTS: 1 DIF: Challenging OBJ: LO 2 | LO 3
TOP: AICPA FN-Measurement | AICPA FN-Reporting MSC: AACSB Analytic

12. Presented below is the December 31 trial balance of Cassini Studios.

Cassini Studios
Trial Balance
December 31, 2011

	Debit	Credit
Cash	$ 14,800	
Accounts Receivable	33,600	
Allowances for Doubtful Accounts		$ 2,160
Inventory, January 1	62,400	
Furniture and Equipment	67,200	
Accumulated Depreciation--Furniture and Equipment		26,880
Prepaid Insurance	4,080	
Notes Payable		22,400
Cassini, Capital		72,000
Sales		480,000
Purchases	320,000	
Sales Salaries Expense	40,000	
Advertising Expense	5,360	
Administrative Salaries Expense	52,000	
Office Expense	4,000	
	$603,440	$603,440

(1) Prepare adjusting journal entries for the following items:
- (a) Adjust the Allowance for Doubtful Accounts to 8 percent of the accounts receivable.
- (b) Furniture and equipment is depreciated at 20 percent per year.
- (c) Insurance expired during the year, $2,040.
- (d) Interest accrued on notes payable, $2,688.
- (e) Sales salaries earned but not paid, $1,920.
- (f) Advertising paid in advance, $560.
- (g) Office supplies on hand, $1,200, charged to Office Expense when purchased.

(2) Prepare closing entries for Cassini after the above adjusting entries have been made. Additional information shows the inventory on December 31 was $64,000.

ANS:
(1)

(a)	Bad Debts Expense	528	
	Allowance for Doubtful Accounts		528
(b)	Depreciation Expense--Furniture and Equipment	13,440	
	Accumulated Depreciation--Furniture and Equipment		13,440
(c)	Insurance Expense	2,040	
	Prepaid Insurance		2,040
(d)	Interest Expense	2,688	
	Interest Payable		2,688
(e)	Sales Salaries Expense	1,920	
	Salaries Payable		1,920
(f)	Prepaid Advertising	560	
	Advertising Expense		560
(g)	Office Supplies on Hand	1,200	
	Office Expense		1,200

(2)

Dec. 31	Cost of Goods Sold	318,400	
	Inventory	1,600	
	Purchases		320,000
Dec. 31	Sales	480,000	
	Retained Earnings		480,000
Dec. 31	Retained Earnings	438,616	
	Cost of Goods Sold		318,400
	Advertising Expense		4,800
	Administrative Salaries Expense		52,000
	Sales Salaries Expense		41,920
	Office Expense		2,800
	Insurance Expense		2,040
	Bad Debts Expense		528
	Depreciation Expense--Furniture and Equipment		13,440
	Interest Expense		2,688

PTS: 1 DIF: Medium OBJ: LO 3 TOP: AICPA FN-Measurement
MSC: AACSB Analytic

13. The following ten items are independent of each other. For each item, indicate the amount of any cash flow that occurs or state that no cash flow resulted from the item.

1. Prepaid rent decreased $20,000 during the year. Rent expense recognized for the year amounted to $30,000.
2. Patent amortization recognized amounted to $30,000.
3. Net income was $100,000; retained earnings increased $60,000; and dividends payable decreased $20,000.
4. Wages payable decreased $12,000 and wages expense for the year amounted to $48,000.

5. The balance in accounts receivable at the beginning of the year was $600,000, and at the end of the year was $175,000. Sales for the year were $1,000,000. The balance of the allowance for doubtful accounts was $20,000 at the beginning of the year and $35,000 at the end of the year. Bad debt expense for the year was $40,000.
6. Sales on account for the year are $1,000 and the balance in accounts receivable increased $200 during the year. All sales are on account.
7. Sale at a gain of $500 of a plant asset costing $4,000 with $2,500 of accumulated depreciation.
8. The balance in accumulated depreciation increased $10,000 for the year. No disposals of plant assets occurred during the year.
9. At the beginning of the fiscal year, merchandise inventory amounted to $30,000. A physical count at year-end showed $37,000 worth of inventory on hand. The balance of accounts payable at the beginning of the fiscal year was $26,000 and at the end of the fiscal year was $30,000. Cost of goods sold for the fiscal year was $42,000. The company uses a perpetual inventory system.
10. The retained earnings account decreased $10,000. Net income for the fiscal year was $15,000. Dividends payable decreased $10,000.

ANS:
1. Of the total rent expense, $20,000 represented the expiration of prepaid rent paid for an earlier period while $10,000 of rent was actually paid in cash during the current period.
2. No cash flow is associated with depreciation or amortization; these are noncash expenses.
3. Dividends declared equals $100,000 – $60,000 = $40,000. Dividends payable decreased $20,000 such that $60,000 of dividends were paid.
4. Wages expense for the year was $48,000 and wages payable decreased by $12,000, which means that wages paid must have been $60,000.
5. Begin with the allowance account and determine the amount of the accounts written off ($20,000 + $40,000 – $35,000 = $25,000). Go to the accounts receivable account and calculate the amount of cash collected on receivables ($600,000 + $1,000,000 – $25,000 – $175,000 = $1,400,000).
6. Sales exceeded cash collections by $200 since accounts receivable increased resulting in cash flows of $800.
7. Book value of the plant asset costing $4,000 with $2,500 accumulated depreciation is $1,500. A gain of $500 results from a selling price of $1,500 book value + $500 gain, or $2,000, the amount of the cash flow in the transaction.
8. Depreciation expense for the year was $10,000. There was no cash flow since depreciation is a noncash expense.
9. Cash payments to supplies equal $45,000. This amount is determined by subtracting from cost of goods sold of $42,000 the $4,000 increase in accounts payable and adding the $7,000 increase in inventory.
10. Dividends declared equals $15,000 + $10,000 = $25,000. Dividends payable decreased $10,000 such that dividends paid equals $35,000.

PTS: 1 DIF: Challenging OBJ: LO 2 | LO 4 TOP: AICPA FN-Measurement
MSC: AACSB Analytic

14. The following information is available for the Central Company:

Central Company
Balance Sheet
December 31, xxxx

ASSETS		
	Current Year	**Prior Year**
Cash	$125,000	$100,000
Accounts Receivable	515,000	500,000
Allowance for Doubtful Accounts	(70,150)	(60,000)
Inventory	660,000	500,000
Prepaid Expenses	80,000	72,000
Equipment	892,000	900,000
Less: Accumulated Depreciation	(460,000)	(452,500)
LIABILITIES		
Accounts Payable	430,000	370,000
Accrued Expenses	250,000	230,000
Income Tax Payable	58,000	50,000

Central Company
Income Statement
For Year Ending December 31, xxxx

Sales (all sales are on credit)	$780,000
Cost of Goods Sold	450,000
Gross Profit	$330,000
Operating Expenses:	
Bad Debt Expense	25,150
Depreciation Expense	11,500
Other Operating Expenses	160,000
Loss on Sale of Equipment	1,500
Income Tax Expense	43,000

Determine the amount of cash flow associated with each of the following items:

1. Cash receipts from customers.
2. Cash payments to suppliers.
3. Cash payments for other operating expenses.
4. Cash received from sale of equipment (no equipment purchases were made during the year and only one sale of equipment occurred during the years).
5. Cash paid for income taxes.

ANS:

1. Cash flows from sales to customers for the fiscal year equals the amount of cash collected on accounts receivable. The change in accounts receivable cannot be determined without considering the change in the allowance account. The allowance account had a beginning balance of $60,000, bad debt expense for the year was $25,150, and the ending balance of the allowance was $70,150. The amount of accounts written off against the allowance for the year is $60,000 + $25,150 – $70,150 = $15,000. The change in accounts receivable is determined by taking the beginning balance of receivables, adding credit sales, subtracting the amount of accounts written off, and subtracting the ending balance of accounts receivable. This computation is $500,000 + $780,000 – $15,000 – $515,000 = $750,000, the amount of cash collected from customers.
2. Cash payments to suppliers equals purchases minus increase in accounts payable.Purchases for the period equals cost of goods sold plus increase in inventory, or $450,000 + ($660,000 – $500,000) = $610,000. Change in accounts payable equals $430,000 – $370,000 = $60,000. Purchases minus increase in accounts payable equals $610,000 – $60,000 = $550,000, the total cash payments to suppliers.
3. Cash payments for other operating expenses equals accrual basis operating expenses plus the increase in prepaid expenses minus the increase in accrued expenses, or $160,000 + ($80,000 – $72,000) – ($250,000 – $230,000) = $148,000.
4. Cash received from the sale of equipment equals the original cost of the equipment sold minus the accumulated depreciation on the equipment sold plus the loss on the sale of the equipment. Since no equipment purchases were made during the year, the cost of the equipment sold is $892,000 – $900,000 = $8,000. Depreciation on the equipment sold equals the beginning balance of accumulated depreciation plus the depreciation expense during the period minus the ending balance of accumulated depreciation ($452,500 + $11,500 – $460,000 = $4,000). The loss is given as $1,500. As a result, $8,000 – $4,000 – (1,500) = $2,500, the amount of the cash proceeds.
5. Cash paid for income taxes equals income tax expense minus the increase in income tax payable, or $43,000 – $8,000 = $35,000.

PTS: 1 DIF: Challenging OBJ: LO 2 | LO 3 TOP: AICPA FN-Measurement
MSC: AACSB Analytic

15. *Statement of Financial Accounting Concepts No. 1* states that one of the objectives of financial reporting is to help "current and potential investors and creditors (and other users) in assessing the amounts, timing, and uncertainty of future cash flows such as dividends or interest payments." Generally Accepted Accounting Principles (GAAP) require the use of the accrual basis of accounting.

Explain the difference between the accrual basis and the cash basis of accounting and why GAAP requires the accrual basis.

ANS:

Statement of Financial Accounting Concepts No. 1 assumes that investors and creditors are interested in cash-flow information when evaluating investment opportunities. Accrual information helps investors estimate future net cash flows and the risks associated with these flows. The accrual basis is required under Generally Accepted Accounting Principles (GAAP).

Accrual basis accounting requires that an event that alters the economic status of a firm as represented in the firm's financial statements be recognized in the period in which the event occurs rather than when cash is exchanged. The accrual basis focuses on transactions and related events with cash consequences. Under the accrual basis, revenues are recorded when they are earned and expenses when they are incurred. Recognition of expenses or revenues in the accounting records under the accrual basis often occurs before or after the payment or receipt of cash.

The earnings figure resulting from application of the accrual basis reflects changes in financial position rather than immediate cash consequences. Accrual basis earnings more fully reflect the resource changes affecting the firm's net assets for a period than does the cash basis. Financial statement users find earnings information valuable because profits determine the long-run success of a company. Accrual measures, including financial statement ratios, have been found by researchers to be more accurate predictors of business failure. Companies with poor operating cash flows can survive for extended periods of time if creditors are willing to renegotiate and restructure debt. Companies that are growing rapidly may have negative cash flows because these companies may need to invest heavily in capital expenditures.

Adjusting journal entries are required under the accrual basis to ensure that revenues are recorded when earned and expenses are recorded when incurred. For example, an adjusting journal entry records interest expense before cash is paid since the passage of time results in the obligation to ultimately pay interest.

A cash basis accounting system reports only the receipt and disbursement of cash. Cash basis accounting requires few, if any adjusting entries. Cash information is far from useless, however.

In the short run, cash flow information is most important since it indicates whether a borrower will produce sufficient cash to pay its liabilities. Creditors are interested in a company's past and future ability to generate positive cash flows.

Research has found that cash flow information increases the overall information content of financial statements. Cash flow information also has been shown to supply risk assessment information beyond that provided by accrual basis earnings information. For example, a company with a strong working capital position but with large amounts of inventories, prepaid expenses, and receivables might be in a weak cash position.

The increasing complexity of financial accounting principles and the increasing complexity of financial statements as a result of applying these principles has increased the demand by financial statement users for cash flow information. Under current accrual basis accounting principles, managers also have flexibility to choose among several reporting choices thus allowing the manipulation of earnings under current GAAP.

The prevailing view currently is that neither cash flow nor accrual basis information alone is sufficient for a complete understanding of a company's performance. The relationships between revenues and cash inflows and between expenses and cash outflows can be understood only by studying both types of information.

PTS: 1 DIF: Challenging OBJ: LO 4
TOP: AICPA FN-Measurement | AICPA FN-Reporting
MSC: AACSB Communication | AACSB Reflective Thinking