

TEST BANK



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Integrated

Intermediate Accounting

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SIXTH EDITION



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Chapter 02 Review of the Accounting Process

True / False Questions

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

True False

2. Debits increase asset accounts and decrease liability accounts.

True False

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

True False

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

True False

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

True False

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

True False

7. The adjusted trial balance contains only permanent accounts.

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

Matching Questions

17. Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

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

18. Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

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

19. Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

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

20. Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

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

21. Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

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

22. Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

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

23. Listed below are ten terms followed by a list of phrases that describe or characterize the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

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

Multiple Choice Questions

24. The accounting equation can be stated as:

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

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

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

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

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

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

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

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

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

29. A sale on account would be recorded by:

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

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

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

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

a:

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

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

| | | | |
|----|---|--------|--------|
| a. | Prepaid Rent | 12,000 | |
| | Rent expense | | 12,000 |
| b. | Cash | 12,000 | |
| | Unearned revenue | | 12,000 |
| c. | Interest expense | 12,000 | |
| | Interest payable | | 12,000 |
| d. | Bad debt expense | 12,000 | |
| | Allowance for uncollectible accounts | | 12,000 |

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

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

| | | | |
|----|---------------------|-----|-----|
| a. | Inventory | 620 | |
| | Accounts receivable | | 620 |
| | Sales | 960 | |
| | Revenue from sales | | 960 |
| b. | Accounts receivable | 960 | |
| | Sales revenue | | 960 |
| | Cost of goods sold | 620 | |
| | Inventory | | 620 |
| c. | Inventory | 620 | |
| | Gain on sale | 340 | |
| | Sales revenue | | 960 |
| d. | Accounts receivable | 960 | |
| | Sales revenues | | 620 |
| | Gain on sale | | 340 |

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

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

| | | | |
|----|--------------------|-------|-------|
| a. | Inventory | 2,000 | |
| | Accounts payable | | 2,000 |
| b. | Cost of goods sold | 2,000 | |
| | Deferred revenue | 1,000 | |
| | Sales in advance | | 3,000 |
| c. | Cost of goods sold | 2,000 | |
| | Inventory payable | | 2,000 |
| d. | Cost of goods sold | 2,000 | |
| | Profit | 1,000 | |
| | Sales payable | | 3,000 |

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

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

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

36. An example of a contra account is:

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

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

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

38. Recording revenue earned from a customer, but not yet collected, is an example of:

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

39. When a magazine sells subscriptions to customers, it is an example of:

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

40. On December 31, 2011, Coolwear, Inc. had balances in its accounts receivable and allowance for uncollectible accounts of \$48,400 and \$0, respectively. No receivables were written off during the year. At the end of 2011, Coolwear estimated that \$2,100 in receivables would not be collected. Bad debt expense for 2011 would be:

- A. \$0.
- B. \$46,300.
- C. \$1,050.
- D. \$2,100.

41. Adjusting entries are primarily needed for:

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

42. Prepayments occur when:

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

43. Accruals occur when cash flows:

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

44. On December 31, 2011, the end of Larry's Used Cars first year of operations, the accounts receivable was \$53,600. The company estimates that \$1,200 of the year-end receivables will not be collected. Accounts receivable in the 2011 balance sheet will be valued at:

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

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

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

46. Which of the following would not be an adjusting entry?

- a. Prepaid Rent
 Rent expense
- b. Cash
 Unearned revenue
- c. Interest expense
 Interest payable
- d. Bad debt expense
 Allowance for uncollectible
 accounts

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

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

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

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

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

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

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

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

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

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

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

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

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

53. Yummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2011, and charged the \$4,200 premium to Insurance expense. At its December 31, 2011, year-end, Yummy Foods would record which of the following adjusting entries?

- | | | | |
|----|-------------------|-------|-------|
| a. | Insurance expense | 875 | |
| | Prepaid insurance | | 875 |
| b. | Prepaid insurance | 875 | |
| | Insurance expense | | 875 |
| c. | Insurance expense | 875 | |
| | Prepaid insurance | 3,325 | |
| | Insurance payable | | 4,200 |
| d. | Prepaid insurance | 3,325 | |
| | Insurance expense | | 3,325 |

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

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

- | | | | |
|----|------------------|--------|--------|
| a. | Salaries expense | 22,400 | |
| | Prepaid salaries | 9,600 | |
| | Salaries payable | | 32,000 |
| b. | Salaries expense | 6,400 | |
| | Salaries payable | | 6,400 |
| c. | Prepaid salaries | 9,600 | |
| | Salaries payable | | 9,600 |
| d. | Salaries expense | 22,400 | |
| | Salaries payable | | 22,400 |

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

55. On September 1, 2011, Fortune Magazine sold 600 one-year subscriptions for \$81 each. The total amount received was credited to unearned subscriptions revenue. What would be the required adjusting entry at December 31, 2011?

| | | | |
|----|--------------------------------|--------|--------|
| a. | Unearned subscriptions revenue | 48,600 | |
| | Subscriptions revenue | | 16,200 |
| | Prepaid subscriptions | | 32,400 |
| b. | Unearned subscriptions revenue | 16,200 | |
| | Subscriptions revenue | | 16,200 |
| c. | Unearned subscriptions revenue | 16,200 | |
| | Subscriptions payable | | 16,200 |
| d. | Unearned subscriptions revenue | 32,400 | |
| | Subscriptions revenue | | 32,400 |

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

56. Mama's Pizza Shoppe borrowed \$8,000 at 9% interest on May 1, 2011, with principal and interest due on October 31, 2012. The company's fiscal year ends June 30, 2011. What adjusting entry would the company record on June 30, 2011?

| | | | |
|----|------------------|-----|-----|
| a. | No entry. | | |
| b. | Interest expense | 240 | |
| | Interest payable | | 240 |
| c. | Interest expense | 120 | |
| | Interest payable | | 120 |
| d. | Prepaid interest | 120 | |
| | Interest payable | | 120 |

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

57. On September 15, 2011, Oliver's Mortuary received a \$6,000, nine-month note bearing interest at an annual rate of 10% from the estate of Jay Hendrix for services rendered. Oliver's has a December 31 year-end. What adjusting entry would the company record on December 31, 2011?

| | | | |
|----|---------------------|-----|-----|
| a. | Interest receivable | 175 | |
| | Interest revenue | | 175 |
| b. | Interest receivable | 230 | |
| | Interest revenue | | 230 |
| c. | Interest receivable | 175 | |
| | Notes receivable | | 175 |
| d. | Interest receivable | 600 | |
| | Interest revenue | | 175 |
| | Cash | | 425 |

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

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

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

59. Eve's Apples opened business on January 1, 2011, and paid for two insurance policies effective that date. The liability policy was \$36,000 for eighteen months, and the crop damage policy was \$12,000 for a two-year term. What was the balance in Eve's prepaid insurance as of December 31, 2011?

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

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

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

61. On November 1, 2011, Tim's Toys borrows \$30,000,000 at 9% to finance the holiday sales season. The note is for a six-month term and both principal and interest are payable at maturity. What should be the balance of interest payable for the loan as of December 31, 2011?

- A. \$112,500.
- B. \$225,000.
- C. \$450,000.
- D. \$1,350,000.

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

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

63. Cost of goods sold is:

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

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

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

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

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

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

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

67. Permanent accounts would not include:

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

68. Permanent accounts would not include:

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

69. The purpose of closing entries is to transfer:

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

70. Temporary accounts would not include:

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

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

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

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

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

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

- A. An adjustment for depreciation reduces the net income.
- B. An adjustment for bad debts increases the net income.
- C. A reduction in prepaid expenses decreases net income.
- D. An increase in accrued payables decreases net income.

74. Molly's Auto Detailers maintains its records on the cash basis. During 2011, Molly's collected \$72,000 from customers and paid \$21,000 in expenses. Depreciation expense of \$5,000 would have been recorded on the accrual basis. Over the course of the year, accounts receivable increased \$4,000, prepaid expenses decreased \$2,000, and accrued liabilities decreased \$1,000. Molly's accrual basis net income would be:

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

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

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

76. The Hamada Company sales for 2011 totaled \$150,000 and purchases totaled \$95,000. Selected January 1, 2011, balances were: accounts receivable, \$18,000; inventory, \$14,000; and accounts payable, \$12,000. December 31, 2011, balances were: accounts receivable, \$16,000; inventory, \$15,000; and accounts payable, \$13,000. Net cash flows from these activities were:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Essay Questions

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

Required: In column A, indicate whether a debit will:

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

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

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

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

82. Buildings and equipment (B&E)

83. Short-term notes payable

84. Cost of goods sold

85. Accounts receivable

86. Inventory

87. Unearned revenues

88. Property taxes payable

89. Retained earnings

90. Interest revenue

91. Supplies expense

92. Allowance for uncollectible accounts

93. Capital stock

Chapter 02 - Review of the Accounting Process

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

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

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

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

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

96. Purchased inventory on account.

97. Sold inventory on account.

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

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

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

101. Collected cash on account from customers.

102. Sold inventory for cash.

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

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

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

106. Paid property taxes that have already been accrued.

107. Declared cash dividends on common stock.

108. Paid rent for the next three months.

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

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

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

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

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

111. Flint Hills, Inc. has prepared a year-end 2011 trial balance. Certain accounts in the trial balance do not reflect all activities that have occurred.

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

1. The Supplies account shows a balance of \$540, but a count of supplies reveals only \$210 on hand.
2. Flint Hills initially records the payments of all insurance premiums as expenses. The trial balance shows a balance of \$420 in Insurance expense. A review of insurance policies reveals that \$125 of insurance is unexpired.
3. Flint Hills' employees work Monday through Friday, and salaries of \$2,400 per week are paid each Friday. Flint Hills' year-end falls on Tuesday.
4. On December 31, 2011, Flint Hills received a utility bill for December electricity usage of \$190 that will be paid in early January.

112. The following is selected financial information for Osmond Dental Laboratories for 2010 and 2011:

| | <u>2010</u> | <u>2011</u> |
|------------------------------|-------------|-------------|
| Retained earnings, January 1 | \$53,000 | ? |
| Net income | 37,000 | 42,000 |
| Dividends declared and paid | 15,000 | 18,000 |
| Capital stock | 70,000 | ? |

Osmond issued 2,000 shares of additional capital stock in 2011 for \$20,000. There were no other capital transactions.

Required: Prepare a statement of shareholders' equity for Osmond Dental Laboratories for the year ended December 31, 2011.

113. The Yankel Corporation's controller prepares adjusting entries only at the end of the fiscal year. The following adjusting entries were prepared on December 31, 2011:

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

Additional information:

1. The company borrowed \$30,000 on June 30, 2011. Principal and interest are due on June 30, 2012. This note is the company's only interest-bearing debt.
2. Insurance for the year on the company's office buildings is \$90,000. The insurance is paid in advance.
3. On August 31, 2011, Yankel lent money to a customer. The customer signed a note with principal and interest at 9% due in one year.

Required:

Determine the following:

1. What is the interest rate on the company's note payable?
2. The 2011 insurance payment was made at the beginning of which month?
3. How much did Yankel lend its customer on August 31?

Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item of information, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2011 Income Statement and 12/31/11 Balance Sheet. Assume no income taxes.

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

N = No Effect

O = Overstated

U = Understated

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114.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|----------------------------|--------------------|
| \$2,000 interest on a loan was not yet paid or recorded | | | | |

115.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|----------------------------|--------------------|
| The estimated uncollectible accounts receivable is now zero and should be \$25,000. | | | | |

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116.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|----------------------------|--------------------|
| \$10,000 of the paid and recorded rent expense pertains to the year 2012. | | | | |

117.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|--|--------------------|-------------------------|----------------------------|--------------------|
| \$20,000 in depreciation on some equipment was still unrecorded. | | | | |

118.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|----------------------------|--------------------|
| \$4,000 in cash dividends declared and paid in December 2011 were unrecorded. | | | | |

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/11. You notice several omissions and incorrect items during your review, some of which are noted below. For each one, you are to determine what effect, if any, these items would have on the stated components of O'Brian Co.'s 2011 Income Statement and 12/31/11 Balance Sheet if they are not corrected or updated. Assume no income taxes.

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

N = No Effect

O = Overstated

U = Understated

119.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|----------------------------|--------------------|
| Uncollectible accounts of \$7,000, as a percentage of sales, are estimated at the end of the year. The entry has not been made. | | | | |

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120.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|-------------------------------|-----------------------|
| The journal entry for depreciation on equipment for 2011 was recorded for \$48,000. It should have been \$66,000. | | | | |

121.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|--|--------------------|-------------------------|-------------------------------|-----------------------|
| Cash dividends declared and paid on December 15, 2011 were unrecorded. | | | | |

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122.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|-------------------------------|-----------------------|
| \$10,000 of the rent revenue collected and recorded as earned this year pertains to 2012. | | | | |

123.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|--|--------------------|-------------------------|-------------------------------|-----------------------|
| Interest earned during the year on a note receivable was not yet collected or recorded | | | | |

124.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|--|--------------------|-------------------------|-------------------------------|-----------------------|
| Supplies purchased during the year for \$1,000 cash were recorded by a debit to Supplies Expense and a credit to Cash. Only \$200 of supplies <u>remain</u> at the end of the year, but no further entries have been made. | | | | |

The adjusted trial balance for China Tea Company at December 31, 2011 is presented below:

| | <u>Debit</u> | <u>Credit</u> |
|--------------------------------------|----------------|----------------|
| Cash | 10,500 | |
| Accounts receivable | 150,000 | |
| Allowance for uncollectible accounts | | 10,000 |
| Prepaid rent | 5,000 | |
| Inventory | 25,000 | |
| Equipment | 300,000 | |
| Accumulated depreciation - equipment | | 125,000 |
| Accounts payable | | 20,000 |
| Notes payable - due in three months | | 30,000 |
| Salaries payable | | 4,000 |
| Interest payable | | 1,000 |
| Capital stock | | 200,000 |
| Retained earnings | | 50,000 |
| Sales revenue | | 400,000 |
| Costs of goods sold | 180,000 | |
| Salaries expense | 120,000 | |
| Rent expense | 15,000 | |
| Depreciation expense | 30,000 | |
| Interest expense | 2,000 | |
| Bad debt expense | 2,500 | |
| Totals | <u>840,000</u> | <u>840,000</u> |

125. Prepare the closing entries for China Tea Company for the year ended December 31, 2011.

126. Prepare an income statement for China Tea Company for the year ended December 31, 2011.

127. Prepare a classified balance sheet for China Tea Company as of December 31, 2011.

The following information, based on the 12/31/11 Annual Report to Shareholders of Krafty Foods (\$in millions),

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

128. Based on the information presented above, prepare the 2011 Income Statement for Krafty Foods.

129. Based on the information presented above, prepare the 12/31/11 Balance Sheet for Krafty Foods.

The December 31, 2011 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

| <u>Account Title</u> | <u>Debits</u> | <u>Credits</u> |
|--|------------------|------------------|
| Accounts payable | | 80,000 |
| Accounts receivable | 170,000 | |
| Accumulated depreciation – equipment | | 260,000 |
| Allowance for uncollectible accounts | | 10,000 |
| Capital stock | | 490,000 |
| Cash | 26,000 | |
| Cost of goods sold | 480,000 | |
| Depreciation expense | 60,000 | |
| Equipment | 700,000 | |
| Interest expense | 4,000 | |
| Inventory | 150,000 | |
| Note payable (due in six months) | | 60,000 |
| Rent expense | 30,000 | |
| Retained earnings | | 62,000 |
| Salaries payable | | 8,000 |
| Sales revenue | | <u>770,000</u> |
| Salaries expense | <u>120,000</u> | |
| TOTALS | <u>1,740,000</u> | <u>1,740,000</u> |

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

130. Kline's 2011 net income (or loss):

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131. Kline's 12/31/11 total current assets:

132. Kline's 12/31/11 total current liabilities:

133. Kline's 12/31/11 total shareholders' equity:

134. Presented below is income statement information of the Nebraska Corporation for the year ended December 31, 2011.

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

Required:

Prepare the necessary closing entries at December 31, 2011.

135. Raintree Corporation maintains its records on a cash basis. At the end of each year the company's accountant obtains the necessary information to prepare accrual basis financial statements. The following cash flows occurred during the year ended December 31, 2011:

Cash receipts:

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

Cash disbursements:

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

Selected balance sheet information:

| | <u>12/31/10</u> | <u>12/31/11</u> |
|------------------------------------|-----------------|-----------------|
| Cash | \$25,000 | \$101,000 |
| Accounts receivable | 42,000 | 70,000 |
| Inventory | 60,000 | 82,000 |
| Prepaid insurance | 2,000 | ? |
| Prepaid rent | 7,000 | ? |
| Interest receivable | 1,500 | ? |
| Note receivable | 50,000 | 50,000 |
| Equipment | 150,000 | 150,000 |
| Accumulated depreciation–equipment | (40,000) | (55,000) |
| Accounts payable (for merchandise) | 50,000 | 62,000 |
| Salaries payable | 20,000 | 28,000 |
| Common stock | 200,000 | 250,000 |

Additional information:

1. On June 30, 2010, Raintree lent a customer \$50,000. Interest at 6% is payable annually on each June 30. Principal is due in 2014.
2. The annual insurance payment is made in advance on March 31.
3. Annual rent on the company's facilities is paid in advance on September 30.

Required:

1. Prepare an accrual basis income statement for 2011 (ignore income taxes).
2. Determine the following balance sheet amounts on December 31, 2011:
 - a. Interest receivable
 - b. Prepaid insurance
 - c. Prepaid rent

136. Silicon Chip Company's fiscal year-end is December 31. At the end of 2011, it owed employees \$22,000 in wages that will be paid on January 7, 2012.

Required:

1. Prepare an adjusting entry to record accrued salaries, a reversing entry on January 1, 2012, and an entry to record the payment of wages on January 7, 2012.
2. Prepare journal entries to record the accrued salaries on December 31 and the payment of salaries on January 7 assuming a reversing entry is not made.

The following answers point out the key phrases that should appear in students' answers. They are not intended to be examples of complete student responses. It might be helpful to provide detailed instructions to students on how brief or in-depth you want their answers to be.

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

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

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

140. What is an accrued liability?

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

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

143. What is the purpose of the closing process?

144. Claymore Corporation maintains its book on a cash basis. During 2011, the company collected \$825,000 in fees from its clients and paid out \$512,000 in expenses. You are able to determine the following information about accounts receivable, supplies, prepaid rent, salaries payable, and interest payable:

| | <u>January 1, 2011</u> | <u>December 31, 2011</u> |
|---------------------|------------------------|--------------------------|
| Accounts receivable | \$110,000 | \$120,000 |
| Supplies | 15,000 | 18,000 |
| Prepaid rent | 12,000 | 11,000 |
| Salaries payable | 16,500 | 14,200 |
| Interest payable | 4,000 | 5,500 |

In addition, 2011 depreciation expense on office equipment and furniture is \$55,000.

Required:

Determine accrual basis income for 2011.

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

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

transaction.

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

True / False Questions

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

TRUE

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Easy

2. Debits increase asset accounts and decrease liability accounts.

TRUE

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Easy

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

FALSE

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Easy

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

FALSE

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Easy

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

TRUE

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Easy

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

FALSE

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Easy

7. The adjusted trial balance contains only permanent accounts.

FALSE

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Easy

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

FALSE

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Easy

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

FALSE

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Easy

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

TRUE

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Easy

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

FALSE

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Easy

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

TRUE

AACSB: Reflective thinking

Bloom's: Knowledge

Learning Objective: 02-07 Explain the closing process.

Level of Learning: Easy

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

TRUE

AACSB: Reflective thinking

Bloom's: Knowledge

Learning Objective: 02-07 Explain the closing process.

Level of Learning: Easy

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

FALSE

AACSB: Reflective thinking

Bloom's: Knowledge

Learning Objective: Appendix B

Level of Learning: Medium

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

TRUE

AACSB: Reflective thinking

Bloom's: Knowledge

Learning Objective: Appendix C

Level of Learning: Easy

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

FALSE

*AACSB: Reflective thinking
Bloom's: Knowledge
Learning Objective: Appendix C
Level of Learning: Easy*

Matching Questions

17. Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

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

*AACSB: Reflective thinking
Bloom's: Comprehension*

18. Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

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

AACSB: Reflective thinking
Bloom's: Comprehension

19. Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

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

AACSB: Reflective thinking
Bloom's: Comprehension

20. Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

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

AACSB: Reflective thinking
Bloom's: Comprehension

21. Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

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

AACSB: Reflective thinking
Bloom's: Comprehension

22. Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

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

AACSB: Reflective thinking
Bloom's: Comprehension

23. Listed below are ten terms followed by a list of phrases that describe or characterize the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

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

AACSB: Reflective thinking
Bloom's: Comprehension

Multiple Choice Questions

Chapter 02 - Review of the Accounting Process

24. The accounting equation can be stated as:

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

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Easy

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

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

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Medium

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

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

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Medium

Chapter 02 - Review of the Accounting Process

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

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

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

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

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

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

29. A sale on account would be recorded by:

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

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

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

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

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

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

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

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Hard

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

- | | | | |
|----|---|--------|--------|
| a. | Prepaid Rent | 12,000 | |
| | Rent expense | | 12,000 |
| b. | Cash | 12,000 | |
| | Unearned revenue | | 12,000 |
| c. | Interest expense | 12,000 | |
| | Interest payable | | 12,000 |
| d. | Bad debt expense | 12,000 | |
| | Allowance for uncollectible accounts | | 12,000 |

A. Option A

B. Option B

C. Option C

D. Option D

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

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

- | | | | |
|----|---------------------|-----|-----|
| a. | Inventory | 620 | |
| | Accounts receivable | | 620 |
| | Sales | 960 | |
| | Revenue from sales | | 960 |
| b. | Accounts receivable | 960 | |
| | Sales revenue | | 960 |
| | Cost of goods sold | 620 | |
| | Inventory | | 620 |
| c. | Inventory | 620 | |
| | Gain on sale | 340 | |
| | Sales revenue | | 960 |
| d. | Accounts receivable | 960 | |
| | Sales revenues | | 620 |
| | Gain on sale | | 340 |

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

AACSB: Analytic
Bloom's: Analysis
Learning Objective: 02-02 Record transactions using the general journal format.
Level of Learning: Hard

Chapter 02 - Review of the Accounting Process

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

- | | | | |
|----|--------------------|-------|-------|
| a. | Inventory | 2,000 | |
| | Accounts payable | | 2,000 |
| b. | Cost of goods sold | 2,000 | |
| | Deferred revenue | 1,000 | |
| | Sales in advance | | 3,000 |
| c. | Cost of goods sold | 2,000 | |
| | Inventory payable | | 2,000 |
| d. | Cost of goods sold | 2,000 | |
| | Profit | 1,000 | |
| | Sales payable | | 3,000 |

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

AACSB: Analytic
Bloom's: Analysis
Learning Objective: 02-02 Record transactions using the general journal format.
Level of Learning: Hard

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

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

AACSB: Reflective thinking
Bloom's: Knowledge
Learning Objective: 02-03 Post the effects of journal entries to general ledger accounts and prepare an unadjusted trial balance.
Level of Learning: Medium

Chapter 02 - Review of the Accounting Process

36. An example of a contra account is:

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

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Medium

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

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

AACSB: Reflective thinking

Bloom's: Synthesis

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

Level of Learning: Easy

38. Recording revenue earned from a customer, but not yet collected, is an example of:

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

AACSB: Reflective thinking

Bloom's: Synthesis

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

Level of Learning: Easy

39. When a magazine sells subscriptions to customers, it is an example of:

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

AACSB: Reflective thinking

Bloom's: Synthesis

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

Level of Learning: Easy

40. On December 31, 2011, Coolwear, Inc. had balances in its accounts receivable and allowance for uncollectible accounts of \$48,400 and \$0, respectively. No receivables were written off during the year. At the end of 2011, Coolwear estimated that \$2,100 in receivables would not be collected. Bad debt expense for 2011 would be:

- A. \$0.
- B. \$46,300.
- C. \$1,050.
- D. \$2,100.**

Bad debt expense = estimated bad debts = \$2,100

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Easy

41. Adjusting entries are primarily needed for:

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

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Easy

42. Prepayments occur when:

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

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Medium

43. Accruals occur when cash flows:

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

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Medium

44. On December 31, 2011, the end of Larry's Used Cars first year of operations, the accounts receivable was \$53,600. The company estimates that \$1,200 of the year-end receivables will not be collected. Accounts receivable in the 2011 balance sheet will be valued at:

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

Accounts receivable = \$53,600 - 1,200 = \$52,400

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Medium

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

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

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

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

46. Which of the following would not be an adjusting entry?

- a. Prepaid Rent
 Rent expense
- b. Cash
 Unearned revenue
- c. Interest expense
 Interest payable
- d. Bad debt expense
 Allowance for uncollectible
 accounts

A. Option A

B. Option B

C. Option C

D. Option D

AACSB: Reflective thinking

Bloom's: Synthesis

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

Level of Learning: Medium

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

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

AACSB: Reflective thinking

Bloom's: Synthesis

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

Level of Learning: Medium

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

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

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Medium

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

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

AACSB: Reflective thinking

Bloom's: Synthesis

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

Level of Learning: Medium

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

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

AACSB: Reflective thinking

Bloom's: Synthesis

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

Level of Learning: Medium

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

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

AACSB: Reflective thinking

Bloom's: Synthesis

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

Level of Learning: Medium

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

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

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

53. Yummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2011, and charged the \$4,200 premium to Insurance expense. At its December 31, 2011, year-end, Yummy Foods would record which of the following adjusting entries?

- | | | | |
|----|-------------------|-------|-------|
| a. | Insurance expense | 875 | |
| | Prepaid insurance | | 875 |
| b. | Prepaid insurance | 875 | |
| | Insurance expense | | 875 |
| c. | Insurance expense | 875 | |
| | Prepaid insurance | 3,325 | |
| | Insurance payable | | 4,200 |
| d. | Prepaid insurance | 3,325 | |
| | Insurance expense | | 3,325 |

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

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

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

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

- | | | | |
|----|------------------|--------|--------|
| a. | Salaries expense | 22,400 | |
| | Prepaid salaries | 9,600 | |
| | Salaries payable | | 32,000 |
| b. | Salaries expense | 6,400 | |
| | Salaries payable | | 6,400 |
| c. | Prepaid salaries | 9,600 | |
| | Salaries payable | | 9,600 |
| d. | Salaries expense | 22,400 | |
| | Salaries payable | | 22,400 |

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

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

55. On September 1, 2011, Fortune Magazine sold 600 one-year subscriptions for \$81 each. The total amount received was credited to unearned subscriptions revenue. What would be the required adjusting entry at December 31, 2011?

- | | | | |
|----|--------------------------------|--------|--------|
| a. | Unearned subscriptions revenue | 48,600 | |
| | Subscriptions revenue | | 16,200 |
| | Prepaid subscriptions | | 32,400 |
| b. | Unearned subscriptions revenue | 16,200 | |
| | Subscriptions revenue | | 16,200 |
| c. | Unearned subscriptions revenue | 16,200 | |
| | Subscriptions payable | | 16,200 |
| d. | Unearned subscriptions revenue | 32,400 | |
| | Subscriptions revenue | | 32,400 |

A. Option A

B. Option B

C. Option C

D. Option D

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

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

56. Mama's Pizza Shoppe borrowed \$8,000 at 9% interest on May 1, 2011, with principal and interest due on October 31, 2012. The company's fiscal year ends June 30, 2011. What adjusting entry would the company record on June 30, 2011?

- | | | | |
|----|------------------|-----|-----|
| a. | No entry. | | |
| b. | Interest expense | 240 | |
| | Interest payable | | 240 |
| c. | Interest expense | 120 | |
| | Interest payable | | 120 |
| d. | Prepaid interest | 120 | |
| | Interest payable | | 120 |

A. Option A

B. Option B

C. Option C

D. Option D

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

57. On September 15, 2011, Oliver's Mortuary received a \$6,000, nine-month note bearing interest at an annual rate of 10% from the estate of Jay Hendrix for services rendered. Oliver's has a December 31 year-end. What adjusting entry would the company record on December 31, 2011?

- | | | | |
|----|---------------------|-----|-----|
| a. | Interest receivable | 175 | |
| | Interest revenue | | 175 |
| b. | Interest receivable | 230 | |
| | Interest revenue | | 230 |
| c. | Interest receivable | 175 | |
| | Notes receivable | | 175 |
| d. | Interest receivable | 600 | |
| | Interest revenue | | 175 |
| | Cash | | 425 |

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

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

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

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

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

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

59. Eve's Apples opened business on January 1, 2011, and paid for two insurance policies effective that date. The liability policy was \$36,000 for eighteen months, and the crop damage policy was \$12,000 for a two-year term. What was the balance in Eve's prepaid insurance as of December 31, 2011?

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

| | |
|---|-----------------|
| Prepaid liability insurance: $\$36,000 \times 6/18$ | \$12,000 |
| Prepaid hazard insurance: $\$12,000 \times 12/24$ | <u>6,000</u> |
| Total prepaid insurance at 12/31/11 | <u>\$18,000</u> |

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

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

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

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

61. On November 1, 2011, Tim's Toys borrows \$30,000,000 at 9% to finance the holiday sales season. The note is for a six-month term and both principal and interest are payable at maturity. What should be the balance of interest payable for the loan as of December 31, 2011?

- A. \$112,500.
- B. \$225,000.
- C. \$450,000.**
- D. \$1,350,000.

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

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

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

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Easy

63. Cost of goods sold is:

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

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Easy

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

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

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Medium

65. In its first year of operations Best Corp. had income before tax of \$500,000. Best made income tax payments totaling \$210,000 during the year and has an income tax rate of 40%.

What was Best's net income for the year?

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

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

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

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

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

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-06 Describe the four basic financial statements.
Level of Learning: Hard

67. Permanent accounts would not include:

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

AACSB: Reflective thinking
Bloom's: Knowledge
Learning Objective: 02-07 Explain the closing process.
Level of Learning: Medium

68. Permanent accounts would not include:

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

AACSB: Reflective thinking
Bloom's: Knowledge
Learning Objective: 02-07 Explain the closing process.
Level of Learning: Medium

Chapter 02 - Review of the Accounting Process

69. The purpose of closing entries is to transfer:

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

AACSB: Reflective thinking

Bloom's: Synthesis

Learning Objective: 02-07 Explain the closing process.

Level of Learning: Medium

70. Temporary accounts would not include:

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

AACSB: Reflective thinking

Bloom's: Knowledge

Learning Objective: 02-07 Explain the closing process.

Level of Learning: Medium

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

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

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

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

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

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Hard

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

- A. An adjustment for depreciation reduces the net income.
- B.** An adjustment for bad debts increases the net income.
- C. A reduction in prepaid expenses decreases net income.
- D. An increase in accrued payables decreases net income.

AACSB: Analytic

Bloom's: Comprehension

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

Level of Learning: Medium

74. Molly's Auto Detailers maintains its records on the cash basis. During 2011, Molly's collected \$72,000 from customers and paid \$21,000 in expenses. Depreciation expense of \$5,000 would have been recorded on the accrual basis. Over the course of the year, accounts receivable increased \$4,000, prepaid expenses decreased \$2,000, and accrued liabilities decreased \$1,000. Molly's accrual basis net income would be:

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

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

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

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

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

AACSB: Analytic
 Bloom's: Application
 Learning Objective: 02-08 Convert from cash basis net income to accrual basis net income.
 Level of Learning: Hard

76. The Hamada Company sales for 2011 totaled \$150,000 and purchases totaled \$95,000. Selected January 1, 2011, balances were: accounts receivable, \$18,000; inventory, \$14,000; and accounts payable, \$12,000. December 31, 2011, balances were: accounts receivable, \$16,000; inventory, \$15,000; and accounts payable, \$13,000. Net cash flows from these activities were:

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

| | | | |
|---|--------------|------------------------|----------------|
| Sales | \$150,000 | Purchases | \$95,000 |
| Add decrease in A/R | <u>2,000</u> | Deduct increase in A/P | <u>(1,000)</u> |
| Cash collections | \$152,000 | Cash disbursements | \$94,000 |
| Net cash flows = \$152,000 - \$94,000 = <u>\$58,000</u> | | | |

AACSB: Analytic
 Bloom's: Application
 Learning Objective: 02-08 Convert from cash basis net income to accrual basis net income.
 Level of Learning: Hard

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

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

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Hard

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

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

AACSB: Analytic

Bloom's: Comprehension

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

Level of Learning: Medium

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

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

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

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

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Hard

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

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

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

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

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

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

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

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

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

Essay Questions

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

Required: In column A, indicate whether a debit will:

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

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

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

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

82. Buildings and equipment (B&E)

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

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

83. Short-term notes payable

| | Effect | Classification |
|--------------------------|--------|----------------|
| Short-term notes payable | 2 | 3 |

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

Chapter 02 - Review of the Accounting Process

84. Cost of goods sold

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

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

85. Accounts receivable

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

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

86. Inventory

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

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

Chapter 02 - Review of the Accounting Process

87. Unearned revenues

| | Effect | Classification |
|-------------------|--------|----------------|
| Unearned revenues | 2 | 3 |

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

88. Property taxes payable

| | Effect | Classification |
|------------------------|--------|----------------|
| Property taxes payable | 2 | 3 |

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

89. Retained earnings

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

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

Chapter 02 - Review of the Accounting Process

90. Interest revenue

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

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

91. Supplies expense

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

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

92. Allowance for uncollectible accounts

| | Effect | Classification |
|--------------------------------------|--------|----------------|
| Allowance for uncollectible accounts | 2 | 1 |

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

93. Capital stock

| | | |
|---------------|-------------|---------------------|
| Capital stock | Effect 2 | Classification 5 |
|---------------|-------------|---------------------|

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

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

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

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

Chapter 02 - Review of the Accounting Process

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

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

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-02 Record transactions using the general journal format.
Level of Learning: Hard

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

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

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-02 Record transactions using the general journal format.
Level of Learning: Hard

96. Purchased inventory on account.

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

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-02 Record transactions using the general journal format.
Level of Learning: Hard

97. Sold inventory on account.

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

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-02 Record transactions using the general journal format.
Level of Learning: Hard

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

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

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-02 Record transactions using the general journal format.
Level of Learning: Hard

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

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

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.
Level of Learning: Hard

Chapter 02 - Review of the Accounting Process

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

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

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-02 Record transactions using the general journal format.
Level of Learning: Hard

101. Collected cash on account from customers.

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

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-02 Record transactions using the general journal format.
Level of Learning: Hard

102. Sold inventory for cash.

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

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-02 Record transactions using the general journal format.
Level of Learning: Hard

Chapter 02 - Review of the Accounting Process

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

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

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-02 Record transactions using the general journal format.
Level of Learning: Hard

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

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

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-05 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.
Level of Learning: Hard

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

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

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-07 Explain the closing process.
Level of Learning: Hard

Chapter 02 - Review of the Accounting Process

106. Paid property taxes that have already been accrued.

| TRANSACTION | Account(s) debited | Account(s) credited | Transaction type |
|---|-----------------------|------------------------|---------------------|
| Paid property taxes that have already been accrued. | 2170 | 1100 | 1 |

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-02 Record transactions using the general journal format.
Level of Learning: Hard

107. Declared cash dividends on common stock.

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

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-02 Record transactions using the general journal format.
Level of Learning: Hard

108. Paid rent for the next three months.

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

AACSB: Analytic
Bloom's: Application
Learning Objective: 02-02 Record transactions using the general journal format.
Level of Learning: Hard

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

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

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

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

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

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

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

111. Flint Hills, Inc. has prepared a year-end 2011 trial balance. Certain accounts in the trial balance do not reflect all activities that have occurred.

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

1. The Supplies account shows a balance of \$540, but a count of supplies reveals only \$210 on hand.
2. Flint Hills initially records the payments of all insurance premiums as expenses. The trial balance shows a balance of \$420 in Insurance expense. A review of insurance policies reveals that \$125 of insurance is unexpired.
3. Flint Hills' employees work Monday through Friday, and salaries of \$2,400 per week are paid each Friday. Flint Hills' year-end falls on Tuesday.
4. On December 31, 2011, Flint Hills received a utility bill for December electricity usage of \$190 that will be paid in early January.

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

112. The following is selected financial information for Osmond Dental Laboratories for 2010 and 2011:

| | <u>2010</u> | <u>2011</u> |
|------------------------------|-------------|-------------|
| Retained earnings, January 1 | \$53,000 | ? |
| Net income | 37,000 | 42,000 |
| Dividends declared and paid | 15,000 | 18,000 |
| Capital stock | 70,000 | ? |

Osmond issued 2,000 shares of additional capital stock in 2011 for \$20,000. There were no other capital transactions.

Required: Prepare a statement of shareholders' equity for Osmond Dental Laboratories for the year ended December 31, 2011.

Osmond Dental Laboratories
Statement of Shareholders' Equity
For the Year Ended December 31, 2011

| | <u>Capital</u> <u>Stock</u> | <u>Retained</u> <u>Earnings</u> | <u>Total</u> <u>Shareholders'</u> <u>Equity</u> |
|----------------------------|--------------------------------|------------------------------------|---|
| Balance, January 1, 2011 | \$70,000 | \$75,000* | \$145,000 |
| Issue of capital stock | 20,000 | | 20,000 |
| Net income for 2011 | | 42,000 | 42,000 |
| Less: Dividends | | <u>- 18,000</u> | <u>- 18,000</u> |
| Balance, December 31, 2011 | <u>\$ 90,000</u> | <u>\$ 99,000</u> | <u>\$189,000</u> |

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

113. The Yankel Corporation's controller prepares adjusting entries only at the end of the fiscal year. The following adjusting entries were prepared on December 31, 2011:

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

Additional information:

1. The company borrowed \$30,000 on June 30, 2011. Principal and interest are due on June 30, 2012. This note is the company's only interest-bearing debt.
2. Insurance for the year on the company's office buildings is \$90,000. The insurance is paid in advance.
3. On August 31, 2011, Yankel lent money to a customer. The customer signed a note with principal and interest at 9% due in one year.

Required:

Determine the following:

1. What is the interest rate on the company's note payable?
 2. The 2011 insurance payment was made at the beginning of which month?
 3. How much did Yankel lend its customer on August 31?
1. \$1,800 represents six months of interest on a \$30,000 note, or 50% of annual interest.
 $\$1,800 \div .50 = \$3,600$ in annual interest
 $\$3,600 \div \$30,000 = \mathbf{12\% \text{ interest rate}}$

Or,
 $\$1,800 \div \$30,000 = .06$ six-month rate
 To annualize the nine month rate: $.06 \times 12/6 = .12$ or 12%
 2. $\$90,000 \div 12 \text{ months} = \$7,500$ per month in insurance
 $\$60,000 \div \$7,500 = 8$ months expired. The insurance was paid on **May 1**, eight months ago.
 3. \$3,000 represents four months (September through December) in accrued interest, or \$750 per month.
 $\$750 \times 12 \text{ months} = \$9,000$ in annual interest
 $\text{Principal} \times 9\% = \$9,000$
 $\text{Principal} = \$9,000 \div .09 = \mathbf{\$100,000 \text{ note}}$

Chapter 02 - Review of the Accounting Process

AACSB: Analytic

Bloom's: Comprehension

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

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

Level of Learning: Hard

Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item of information, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2011 Income Statement and 12/31/11 Balance Sheet. Assume no income taxes.

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

N = No Effect

O = Overstated

U = Understated

114.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|----------------------------|--------------------|
| \$2,000 interest on a loan was not yet paid or recorded | | | | |

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|----------------------------|--------------------|
| \$2,000 interest on a loan was not yet paid or recorded | N | U 2,000 | O 2,000 | O2,000 |

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

Chapter 02 - Review of the Accounting Process

115.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|----------------------------|--------------------|
| The estimated uncollectible accounts receivable is now zero and should be \$25,000. | | | | |

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|----------------------------|--------------------|
| The total estimated uncollectible accounts receivable is now zero and should be \$25,000. | 025,000 | N | 025,000 | 025,000 |

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

116.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|----------------------------|--------------------|
| \$10,000 of the paid and recorded rent expense pertains to the year 2012. | | | | |

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|----------------------------|--------------------|
| \$10,000 of the paid and recorded rent expense pertains to the year 2012. | U10,000 | N | U10,000 | U10,000 |

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

Chapter 02 - Review of the Accounting Process

117.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|--|--------------------|-------------------------|----------------------------|--------------------|
| \$20,000 in depreciation on some equipment was still unrecorded. | | | | |

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|--|--------------------|-------------------------|----------------------------|--------------------|
| \$20,000 in depreciation on some equipment was still unrecorded. | 020,000 | N | 020,000 | 020,000 |

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

118.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|----------------------------|--------------------|
| \$4,000 in cash dividends declared and paid in December 2011 were unrecorded. | | | | |

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|----------------------------|--------------------|
| \$4,000 in cash dividends declared and paid in December 2011 were unrecorded. | 04,000 | N | 04,000 | N |

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/11. You notice several omissions and incorrect items during your review, some of which are noted below. For each one, you are to determine what effect, if any, these items would have on the stated components of O'Brian Co.'s 2011 Income Statement and 12/31/11 Balance Sheet if they are not corrected or updated. Assume no income taxes.

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

N = No Effect

O = Overstated

U = Understated

119.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|-------------------------------|-----------------------|
| Uncollectible accounts of \$7,000, as a percentage of sales, are estimated at the end of the year. The entry has not been made. | | | | |

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|-------------------------------|-----------------------|
| Uncollectible accounts of \$7,000, as a percentage of sales, are estimated at the end of the year. The entry has not been made. | O | N | O | O |

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

Chapter 02 - Review of the Accounting Process

120.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|-------------------------------|-----------------------|
| The journal entry for depreciation on equipment for 2011 was recorded for \$48,000. It should have been \$66,000. | | | | |

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|-------------------------------|-----------------------|
| The journal entry for depreciation on equipment for 2011 was recorded for \$48,000. It should have been \$66,000. | O | N | O | O |

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

Chapter 02 - Review of the Accounting Process

121.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|--|--------------------|-------------------------|-------------------------------|-----------------------|
| Cash dividends declared and paid on December 15, 2011 were unrecorded. | | | | |

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|--|--------------------|-------------------------|-------------------------------|-----------------------|
| Cash dividends declared and paid on December 15, 2011 were unrecorded. | O | N | O | N |

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Hard

Chapter 02 - Review of the Accounting Process

122.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|-------------------------------|-----------------------|
| \$10,000 of the rent revenue collected and recorded as earned this year pertains to 2012. | | | | |

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|-------------------------------|-----------------------|
| \$10,000 of the rent revenue collected and recorded as earned this year pertains to 2012. | N | U | O | O |

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

Chapter 02 - Review of the Accounting Process

123.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|--|--------------------|-------------------------|-------------------------------|-----------------------|
| Interest earned during the year on a note receivable was not yet collected or recorded | | | | |

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|--|--------------------|-------------------------|-------------------------------|-----------------------|
| Interest earned during the year on a note receivable was not yet collected or recorded | U | N | U | U |

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Medium

Chapter 02 - Review of the Accounting Process

124.

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|--|--------------------|-------------------------|-------------------------------|-----------------------|
| Supplies purchased during the year for \$1,000 cash were recorded by a debit to Supplies Expense and a credit to Cash. Only \$200 of supplies <u>remain</u> at the end of the year, but no further entries have been made. | | | | |

| Additional Information | 12/31/11 Assets | 12/31/11 Liabilities | 12/31/11 Owners' Equity | 2011 Net Income |
|---|--------------------|-------------------------|-------------------------------|-----------------------|
| Supplies purchased during the year for \$1,000 cash were recorded by a debit to Supplies Expense and a credit to Cash. Only \$200 of supplies remain at the end of the year, but no further entries have been made. | U | N | U | U |

AACSB: Analytic

Bloom's: Analysis

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

Level of Learning: Hard

Chapter 02 - Review of the Accounting Process

The adjusted trial balance for China Tea Company at December 31, 2011 is presented below:

| | <u>Debit</u> | <u>Credit</u> |
|--------------------------------------|----------------|----------------|
| Cash | 10,500 | |
| Accounts receivable | 150,000 | |
| Allowance for uncollectible accounts | | 10,000 |
| Prepaid rent | 5,000 | |
| Inventory | 25,000 | |
| Equipment | 300,000 | |
| Accumulated depreciation - equipment | | 125,000 |
| Accounts payable | | 20,000 |
| Notes payable - due in three months | | 30,000 |
| Salaries payable | | 4,000 |
| Interest payable | | 1,000 |
| Capital stock | | 200,000 |
| Retained earnings | | 50,000 |
| Sales revenue | | 400,000 |
| Costs of goods sold | 180,000 | |
| Salaries expense | 120,000 | |
| Rent expense | 15,000 | |
| Depreciation expense | 30,000 | |
| Interest expense | 2,000 | |
| Bad debt expense | <u>2,500</u> | |
| Totals | <u>840,000</u> | <u>840,000</u> |

125. Prepare the closing entries for China Tea Company for the year ended December 31, 2011.

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

AACSB: Analytic

Bloom's: Application

Learning Objective: 02-07 Explain the closing process.

Level of Learning: Hard

126. Prepare an income statement for China Tea Company for the year ended December 31, 2011.

China Tea Company
Income Statement
For the Year Ended December 31, 2011

| | | |
|----------------------|--------------|------------------|
| Sales revenue | | \$400,000 |
| Cost of goods sold | | <u>180,000</u> |
| Gross profit | | 220,000 |
| Other expenses: | | |
| Salaries expense | \$120,000 | |
| Rent expense | 15,000 | |
| Depreciation expense | 30,000 | |
| Interest expense | 2,000 | |
| Bad debt expense | <u>2,500</u> | |
| Total other expenses | | <u>169,500</u> |
| Net income | | <u>\$ 50,500</u> |

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

127. Prepare a classified balance sheet for China Tea Company as of December 31, 2011.

China Tea Company
Balance Sheet
At December 31, 2011

Assets

Current assets:

| | | | |
|--|---------------|--------------|--|
| Cash | | \$ 10,500 | |
| Accounts receivable | \$150,000 | | |
| Less: allowance for uncollectible accounts | <u>10,000</u> | 140,000 | |
| Inventory | | 25,000 | |
| Prepaid rent | | <u>5,000</u> | |
| Total current assets | | 180,500 | |

Property and equipment:

| | | | |
|--------------------------------|----------------|------------------|--|
| Equipment | 300,000 | | |
| Less: Accumulated depreciation | <u>125,000</u> | <u>175,000</u> | |
| Total assets | | <u>\$355,500</u> | |

Liabilities and Shareholders' Equity

Current liabilities:

| | | | |
|---------------------------|--|--------------|--|
| Accounts payable | | \$ 20,000 | |
| Notes payable | | 30,000 | |
| Salaries payable | | 4,000 | |
| Interest payable | | <u>1,000</u> | |
| Total current liabilities | | 55,000 | |

Shareholders' equity:

| | | | |
|--|----------------|------------------|--|
| Capital stock | \$200,000 | | |
| Retained earnings | <u>100,500</u> | <u>300,500</u> | |
| Total shareholders' equity | | <u>300,500</u> | |
| Total liabilities and shareholders' equity | | <u>\$355,500</u> | |

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

The following information, based on the 12/31/11 Annual Report to Shareholders of Krafty Foods (\$in millions),

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

128. Based on the information presented above, prepare the 2011 Income Statement for Krafty Foods.

| Krafty Foods | |
|--|------------------------|
| Income Statement | |
| For the Year Ended December 31, 2011 | |
| (\$ in millions) | |
| Operating revenues | \$33,875 |
| Cost of sales | <u>17,531</u> |
| Gross profit | 16,344 |
| Marketing, general and administration expenses | <u>11,460</u> |
| Operating income | 4,884 |
| Interest and other debt expense, net | <u>1,437</u> |
| Income before taxes | 3,447 |
| Income tax expense | <u>1,565</u> |
| Net income | <u><u>\$ 1,882</u></u> |

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

129. Based on the information presented above, prepare the 12/31/11 Balance Sheet for Krafty Foods.

**Krafty Foods
Balance Sheet
At December 31, 2011**

(\$ in millions)

Assets

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

Liabilities and Shareholders' Equity

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

The December 31, 2011 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

| <u>Account Title</u> | <u>Debits</u> | <u>Credits</u> |
|--|------------------|------------------|
| Accounts payable | | 80,000 |
| Accounts receivable | 170,000 | |
| Accumulated depreciation – equipment | | 260,000 |
| Allowance for uncollectible accounts | | 10,000 |
| Capital stock | | 490,000 |
| Cash | 26,000 | |
| Cost of goods sold | 480,000 | |
| Depreciation expense | 60,000 | |
| Equipment | 700,000 | |
| Interest expense | 4,000 | |
| Inventory | 150,000 | |
| Note payable (due in six months) | | 60,000 |
| Rent expense | 30,000 | |
| Retained earnings | | 62,000 |
| Salaries payable | | 8,000 |
| Sales revenue | | <u>770,000</u> |
| Salaries expense | <u>120,000</u> | |
| TOTALS | <u>1,740,000</u> | <u>1,740,000</u> |

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

130. Kline's 2011 net income (or loss):

Kline's 2011 net income (or loss) = \$76,000

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

Chapter 02 - Review of the Accounting Process

131. Kline's 12/31/11 total current assets:

Kline's 12/31/11 total current assets = \$336,000

Computation: $26,000 + 170,000 - 10,000 + 150,000$

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

132. Kline's 12/31/11 total current liabilities:

Kline's 12/31/11 total current liabilities = \$148,000

Computation: $80,000 + 60,000 + 8,000$

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

133. Kline's 12/31/11 total shareholders' equity:

Kline's 12/31/11 total owners' equity = \$628,000

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

134. Presented below is income statement information of the Nebraska Corporation for the year ended December 31, 2011.

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

Required:

Prepare the necessary closing entries at December 31, 2011.

December 31, 2011

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

AACSB: Analytic

Bloom's: Application

Learning Objective: 02-07 Explain the closing process.

Level of Learning: Hard

135. Raintree Corporation maintains its records on a cash basis. At the end of each year the company's accountant obtains the necessary information to prepare accrual basis financial statements. The following cash flows occurred during the year ended December 31, 2011:

Cash receipts:

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

Cash disbursements:

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

Selected balance sheet information:

| | <u>12/31/10</u> | <u>12/31/11</u> |
|------------------------------------|-----------------|-----------------|
| Cash | \$25,000 | \$101,000 |
| Accounts receivable | 42,000 | 70,000 |
| Inventory | 60,000 | 82,000 |
| Prepaid insurance | 2,000 | ? |
| Prepaid rent | 7,000 | ? |
| Interest receivable | 1,500 | ? |
| Note receivable | 50,000 | 50,000 |
| Equipment | 150,000 | 150,000 |
| Accumulated depreciation–equipment | (40,000) | (55,000) |
| Accounts payable (for merchandise) | 50,000 | 62,000 |
| Salaries payable | 20,000 | 28,000 |
| Common stock | 200,000 | 250,000 |

Additional information:

1. On June 30, 2010, Raintree lent a customer \$50,000. Interest at 6% is payable annually on each June 30. Principal is due in 2014.
2. The annual insurance payment is made in advance on March 31.
3. Annual rent on the company's facilities is paid in advance on September 30.

Required:

1. Prepare an accrual basis income statement for 2011 (ignore income taxes).
2. Determine the following balance sheet amounts on December 31, 2011:
 - a. Interest receivable
 - b. Prepaid insurance
 - c. Prepaid rent

Chapter 02 - Review of the Accounting Process

| | | |
|--|---|--------------------|
| 1. Sales revenue: | | |
| | Cash collected from customers | \$450,000 |
| | Add: Increase in accounts receivable | <u>28,000</u> |
| | Sales revenue | <u>\$478,000</u> |
| Interest revenue: | | |
| | Cash received | \$3,000 |
| | Add: Amount accrued at the end of 2011 ($\$50,000 \times .06 \times 6/12$) | 1,500 (a) |
| | Deduct: Amount accrued at the end of 2010 | <u>(1,500)</u> |
| | Interest revenue | <u>\$3,000</u> |
| Cost of goods sold: | | |
| | Cash paid for merchandise | \$220,000 |
| | Add: Increase in accounts payable | <u>12,000</u> |
| | Purchases during 2011 | 232,000 |
| | Deduct: Increase in inventory | <u>(22,000)</u> |
| | Cost of goods sold | <u>\$210,000</u> |
| Insurance expense: | | |
| | Cash paid | \$9,000 |
| | Add: Prepaid insurance expired during 2010 | 2,000 |
| | Deduct: Prepaid insurance on 12/31/11 ($\$9,000 \times 3/12$) | <u>(2,250) (b)</u> |
| | Insurance expense | <u>\$8,750</u> |
| Salaries expense: | | |
| | Cash paid | \$180,000 |
| | Add: Increase in salaries payable | <u>8,000</u> |
| | Salaries expense | <u>\$188,000</u> |
| Rent expense: | | |
| | Amount paid | \$12,000 |
| | Add: Prepaid rent on 12/31/10 expired during 2011 | 7,000 |
| | Deduct: Prepaid rent on 12/31/11 ($\$12,000 \times 9/12$) | <u>(9,000) (c)</u> |
| | Rent expense | <u>\$10,000</u> |
| Depreciation expense: Increase in accumulated depreciation | | <u>\$15,000</u> |

Raintree Corporation
Income statement
For the Year Ended December 31, 2011

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

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

136. Silicon Chip Company's fiscal year-end is December 31. At the end of 2011, it owed employees \$22,000 in wages that will be paid on January 7, 2012.

Required:

1. Prepare an adjusting entry to record accrued salaries, a reversing entry on January 1, 2012, and an entry to record the payment of wages on January 7, 2012.
2. Prepare journal entries to record the accrued salaries on December 31 and the payment of salaries on January 7 assuming a reversing entry is not made.

| | | |
|---------------------------------|--------|--------|
| 1. | | |
| December 31 - adjusting entry | | |
| Salaries expense | 22,000 | |
| Salaries payable..... | | 22,000 |
| | | |
| January 1 - reversing entry | | |
| Salaries payable | 22,000 | |
| Salaries expense | | 22,000 |
| | | |
| January 7 - payment of salaries | | |
| Salaries expense..... | 22,000 | |
| Cash..... | | 22,000 |
| | | |
| 2. | | |
| December 31 - adjusting entry | | |
| Salaries expense..... | 22,000 | |
| Salaries payable..... | | 22,000 |
| | | |
| January 7 - payment of salaries | | |
| Salaries payable | 22,000 | |
| Cash..... | | 22,000 |

AACSB: Analytic
Bloom's: Application
Learning Objective: Appendix B
Level of Learning: Hard

The following answers point out the key phrases that should appear in students' answers. They are not intended to be examples of complete student responses. It might be helpful to provide detailed instructions to students on how brief or in-depth you want their answers to be.

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

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

AACSB: Reflective thinking

Bloom's: Comprehension

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

Level of Learning: Hard

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

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

AACSB: Reflective thinking

Bloom's: Comprehension

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

Level of Learning: Medium

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

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

AACSB: Reflective thinking

Bloom's: Comprehension

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

Level of Learning: Medium

140. What is an accrued liability?

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

AACSB: Reflective thinking

Bloom's: Knowledge

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

Level of Learning: Medium

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

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

AACSB: Reflective thinking

Bloom's: Comprehension

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

Level of Learning: Medium

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

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

AACSB: Reflective thinking

Bloom's: Comprehension

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

Level of Learning: Hard

143. What is the purpose of the closing process?

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

AACSB: Reflective thinking

Bloom's: Comprehension

Learning Objective: 02-07 Explain the closing process.

Level of Learning: Medium

144. Claymore Corporation maintains its book on a cash basis. During 2011, the company collected \$825,000 in fees from its clients and paid out \$512,000 in expenses. You are able to determine the following information about accounts receivable, supplies, prepaid rent, salaries payable, and interest payable:

| | <u>January 1, 2011</u> | <u>December 31, 2011</u> |
|---------------------|------------------------|--------------------------|
| Accounts receivable | \$110,000 | \$120,000 |
| Supplies | 15,000 | 18,000 |
| Prepaid rent | 12,000 | 11,000 |
| Salaries payable | 16,500 | 14,200 |
| Interest payable | 4,000 | 5,500 |

In addition, 2011 depreciation expense on office equipment and furniture is \$55,000.

Required:

Determine accrual basis income for 2011.

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

AACSB: Analytic

Bloom's: Application

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

Level of Learning: Hard

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

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

transaction.

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

AACSB: Reflective thinking
 Bloom's: Comprehension
 Learning Objective: Appendix C
 Level of Learning: Medium