

TEST BANK

INTERMEDIATE ACCOUNTING

Eighth Edition



SPICELAND • SEPE • NELSON • THOMAS



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 recorded at the end of any period when financial statements are prepared.

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 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

Multiple Choice Questions

17. The accounting equation can be stated as:

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

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

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

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

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

A. Paying employee salaries.

B. Purchasing equipment.

C. Depreciating equipment.

D. Collecting a receivable.

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

A. Writing off an uncollectible account.

B. Recording the expiration of prepaid insurance.

C. Recording unpaid salaries.

D. Paying salaries to company employees.

20. XYZ Corporation receives \$100,000 from investors for issuing them shares of its stock. XYZ's journal entry to record this transaction would include a:
- A. Debit to investments.
 - B. Credit to retained earnings.
 - C. Credit to capital stock.
 - D. Credit to revenue.
21. Incurring an expense for advertising on account would be recorded by:
- A. Debiting liabilities.
 - B. Crediting assets.
 - C. Debiting an expense.
 - D. Debiting assets.
22. A sale on account would be recorded by:
- A. Debiting revenue.
 - B. Crediting assets.
 - C. Crediting liabilities.
 - D. Debiting assets.
23. 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.

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

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

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

A.

Prepaid rent	12,000	
Rent expense		12,000

B.

Cash	12,000	
Deferred revenue		12,000

C.

Interest expense	12,000	
Interest payable		12,000

D.

Salaries expense	12,000	
Salaries payable		12,000

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

A.

Inventory	620	
Accounts receivable		620
Sales	960	
Revenue from sales		960

B.

Accounts receivable	960	
Sales revenue		960
Cost of goods sold	620	
Inventory		620

C.

Inventory	620	
Gain on sale	340	
Sales revenue		960

D.

Accounts receivable	960	
Sales revenues		620
Gain on sale		340

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

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

28. Which of the following accounts has a normal debit balance?

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

29. An example of a contra account is:

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

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

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

31. Recording revenue that is earned, but not yet collected, is an example of:

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

32. When a magazine company collects cash for selling a subscription, it is an example of:
- A. An accrued liability transaction.
 - B. An accrued receivable transaction.
 - C. A prepaid expense transaction.
 - D. A deferred revenue transaction.
33. On December 31, 2015, Coolwear, Inc. had a balance in its prepaid insurance account of \$48,400. During 2016, \$86,000 was paid for insurance. At the end of 2016, after adjusting entries were recorded, the balance in the prepaid insurance account was 42,000. Insurance expense for 2016 would be:
- A. \$6,400.
 - B. \$134,400.
 - C. \$86,000.
 - D. \$92,400.
34. Adjusting entries are primarily needed for:
- A. Cash basis accounting.
 - B. Accrual accounting.
 - C. Current value accounting.
 - D. Manual accounting systems.
35. Prepayments occur when:
- A. Cash flow precedes expense recognition.
 - B. Sales are delayed pending credit approval.
 - C. Customers are unable to pay the full amount due when goods are delivered.
 - D. Manufactured goods await quality control inspections.

36. Accruals occur when cash flows:

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

37. On December 31, 2016, 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 2016 balance sheet will be valued at:

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

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

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

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

A.

Prepaid rent
Rent expense

B.

Cash
Deferred revenue

C.

Interest expense
Interest payable

D.

Salaries expense
Salaries payable

40. The adjusting entry required when amounts previously recorded as deferred revenues are recognized includes:

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

41. Which of the following accounts has a normal credit balance?
- A. Salary expense.
 - B. Accrued income taxes payable.
 - C. Land.
 - D. Prepaid rent.
42. When a tenant makes an end-of-period adjusting entry credit to the "Prepaid rent" account:
- A. (S)he usually debits cash.
 - B. (S)he usually debits an expense account.
 - C. (S)he debits a liability account.
 - D. (S)he credits an owners' equity account.
43. When a business makes an end-of-period adjusting entry with a debit to supplies expense, the usual credit entry is made to:
- A. Accounts payable.
 - B. Supplies.
 - C. Cash.
 - D. Retained earnings.
44. The adjusting entry required to record accrued expenses includes:
- A. A credit to cash.
 - B. A debit to an asset.
 - C. A credit to an asset.
 - D. A credit to liability.

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

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

46. Yummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2016, and charged the \$4,200 premium to Insurance expense. At its December 31, 2016, 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

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

A.

Salaries expense	22,400	
Prepaid salaries	9,600	
Salaries payable		32,000

B.

Salaries expense	6,400	
Salaries payable		6,400

C.

Prepaid salaries	9,600	
Salaries payable		9,600

D.

Salaries expense	22,400	
Salaries payable		22,400

48. On September 1, 2016, Fortune Magazine sold 600 one-year subscriptions for \$81 each. The total amount received was credited to deferred subscriptions revenue. What is the required adjusting entry at December 31, 2016?

A.

Deferred subscriptions revenue	48,600	
Subscriptions revenue		16,200
Prepaid subscriptions		32,400

B.

Deferred subscriptions revenue	16,200	
Subscriptions revenue		16,200

C.

Deferred subscriptions revenue	16,200	
Subscriptions payable		16,200

D.

Deferred subscriptions revenue	32,400	
Subscriptions revenue		32,400

49. Mama's Pizza Shoppe borrowed \$8,000 at 9% interest on May 1, 2016, with principal and interest due on October 31, 2017. The company's fiscal year ends June 30, 2016. What adjusting entry is necessary on June 30, 2016?

A. No entry.

B.

Interest expense	240	
Interest payable		240

C.

Interest expense	120	
Interest payable		120

D.

Prepaid interest	120	
Interest payable		120

50. On September 15, 2016, Oliver's Mortuary received a \$6,000, nine-month note bearing interest at an annual rate of 10% from the estate of Jay Hendrix for services rendered. Oliver's has a December 31 year-end. What adjusting entry will the company record on December 31, 2016?

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

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

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

52. Eve's Apples opened business on January 1, 2016, and paid for two insurance policies effective that date. The liability policy was \$36,000 for 18 months, and the crop damage policy was \$12,000 for a two-year term. What is the balance in Eve's prepaid insurance as of December 31, 2016?
- A. \$9,000.
 - B. \$18,000.
 - C. \$30,000.
 - D. \$48,000.
53. Fink Insurance collected premiums of \$18,000,000 from its customers during the current year. The adjusted balance in the Deferred premiums account increased from \$6 million to \$8 million dollars during the year. What is Fink's revenue from insurance premiums recognized for the current year?
- A. \$10,000,000.
 - B. \$16,000,000.
 - C. \$18,000,000.
 - D. \$20,000,000.
54. On November 1, 2016, Tim's Toys borrows \$30,000,000 at 9% to finance the holiday sales season. The note is for a six-month term and both principal and interest are payable at maturity. What is the balance of interest payable for the loan as of December 31, 2016?
- A. \$112,500.
 - B. \$225,000.
 - C. \$450,000.
 - D. \$1,350,000.

55. An economic resource of an entity is:

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

56. Cost of goods sold is:

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

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

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

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

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

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

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

60. Permanent accounts would not include:

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

61. Permanent accounts would not include:

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

62. The purpose of closing entries is to transfer:

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

63. Temporary accounts would not include:
- A. Salaries payable.
 - B. Depreciation expense.
 - C. Supplies expense.
 - D. Cost of goods sold.
64. When converting an income statement from a cash basis to an accrual basis, expenses:
- A. Exceed cash payments to suppliers.
 - B. Equal cash payments to suppliers.
 - C. Are less than cash payments to suppliers.
 - D. May exceed or be less than cash payments to suppliers.
65. When the amount of revenue collected in advance decreases during an accounting period:
- A. Accrual-basis revenues exceed cash collections from customers.
 - B. Accrual-basis net income exceeds cash-basis net income.
 - C. Accrual-basis revenues are less than cash collections from customers.
 - D. Accrual-basis net income is less than cash-basis net income.
66. When converting an income statement from a cash basis to an accrual basis, which of the following is incorrect?
- A. An adjustment for depreciation reduces net income.
 - B. A decrease in salaries payable decreases net income.
 - C. A reduction in prepaid expenses decreases net income.
 - D. An increase in accrued payables decreases net income.

67. Molly's Auto Detailers maintains its records on the cash basis. During 2016, Molly's collected \$72,000 from customers and paid \$21,000 in expenses. Depreciation expense of \$5,000 would have been recorded on the accrual basis. Over the course of the year, accounts receivable increased \$4,000, prepaid expenses decreased \$2,000, and accrued liabilities decreased \$1,000. Molly's accrual basis net income was:
- A. \$38,000.
 - B. \$54,000.
 - C. \$49,000.
 - D. \$42,000.
68. Pat's Custom Tuxedo Shop maintains its records on the cash basis. During this past year Pat's collected \$42,000 in tailoring fees, and paid \$14,000 in expenses. Depreciation expense totaled \$2,000. Accounts receivable increased \$1,500, supplies increased \$4,000, and accrued liabilities increased \$2,500. Pat's accrual basis net income was:
- A. \$18,000.
 - B. \$34,000.
 - C. \$23,000.
 - D. \$29,000.
69. The Hamada Company sales for 2016 totaled \$150,000 and purchases totaled \$95,000. Selected January 1, 2016, balances were: accounts receivable, \$18,000; inventory, \$14,000; and accounts payable, \$12,000. December 31, 2016, 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.

70. 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.
71. 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.

72.

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

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

- A. Option a
- B. Option b
- C. Option c
- D. Option d

73.

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

	Cash Basis	Accrual Basis
a.	\$3,400,000	\$3,400,000
b.	\$5,400,000	\$2,400,000
c.	\$6,400,000	\$3,400,000
d.	\$6,400,000	\$2,400,000

- A. Option a
- B. Option b
- C. Option c
- D. Option d

74.

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

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

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

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

Matching Questions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Short Answer Questions

82.

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

Buildings and equipment (B&E)

83.

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

Short-term notes payable

84.

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

Cost of goods sold

85.

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

Accounts receivable

86.

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

Inventory

87.

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

Deferred revenues

88.

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

Property taxes payable

89.

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

Retained earnings

90.

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

Interest revenue

91.

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

Supplies expense

92.

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

Prepaid rent

93.

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

Capital stock

94.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

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

96.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

Purchased inventory on account.

97.	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	Loan receivable	3200	Retained earnings
	1150	Interest receivable	5000	Sales revenue
	1160	Other accrued receivables	5300	Interest revenue
	1200	Inventory	6000	Cost of goods sold
	1250	Supplies	6200	Advertising expense
	1260	Prepaid expenses	6210	Miscellaneous expense
	1320	Buildings and equipment (B&E)	6220	Depreciation expense
	1325	Accumulated depreciation-B&E	6230	Insurance expense
	2110	Short-term notes payable	6240	Property tax expense
	2120	Interest payable	6250	Rent expense
	2130	Accounts payable	6260	Supplies expense
	2140	Deferred revenues	6270	Salaries and wages expense
	2150	Salaries and 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, (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

Sold inventory on account.

98.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

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

100.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

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

101.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

Collected cash on account from customers.

102.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

Sold inventory for cash.

103.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

Received payment for services to be performed next year.

104.	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	Loan receivable	3200	Retained earnings
	1150	Interest receivable	5000	Sales revenue
	1160	Other accrued receivables	5300	Interest revenue
	1200	Inventory	6000	Cost of goods sold
	1250	Supplies	6200	Advertising expense
	1260	Prepaid expenses	6210	Miscellaneous expense
	1320	Buildings and equipment (B&E)	6220	Depreciation expense
	1325	Accumulated depreciation-B&E	6230	Insurance expense
	2110	Short-term notes payable	6240	Property tax expense
	2120	Interest payable	6250	Rent expense
	2130	Accounts payable	6260	Supplies expense
	2140	Deferred revenues	6270	Salaries and wages expense
	2150	Salaries and 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, (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)	Account(s)	Transaction
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	debited	credited	type
EXAMPLE: Sold \$110,000,000 in capital stock for cash.	1100	3100	1

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

105.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

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

106.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

Accrued property taxes were paid.

108.

1100	Cash	2170	Property taxes payable
1120	Short-term investments	2180	Rent payable
1130	Notes receivable	2200	Long-term notes payable
1140	Accounts receivable	3100	Capital stock
1145	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

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

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 salaries and wages, \$320.
8. Paid for supplies purchased in item (5).
9. Paid royalties due on first week's sales.
10. Recorded depreciation on equipment, \$50.

111. Flint Hills, Inc. has prepared a year-end 2016 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, 2016, 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 2015 and 2016:

	2015	2016
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 2016 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, 2016.

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, 2016:

	Debit	Credit
Interest expense	1,800	
Interest payable		1,800
Insurance expense	60,000	
Prepaid insurance		60,000
Interest receivable	3,000	
Interest revenue		3,000

Additional information:

1. The company borrowed \$30,000 on June 30, 2016. Principal and interest are due on June 30, 2017. 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, 2016, 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 2016 insurance payment was made at the beginning of which month?
3. How much did Yankel lend its customer on August 31?

114.

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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$2,000 interest on a loan was not yet paid or recorded				

115.

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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
The estimated uncollectible accounts receivable is now zero and should be \$25,000.				

116.

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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$10,000 of the paid and recorded rent expense pertains to the year 2017.				

117.

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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$20,000 in depreciation on some equipment was still unrecorded.				

118.

Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item of information, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$4,000 in cash dividends declared and paid in December 2016 were unrecorded.				

119.

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/16. 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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Uncollectible accounts of \$7,000, as a percentage of sales, are estimated at the end of the year. The entry has not been recorded.				

120.

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/16. 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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
The journal entry for depreciation on equipment for 2016 was recorded for \$48,000. It should have been \$66,000.				

121.

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/16. 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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Cash dividends declared and paid on December 15, 2016, were not recorded.				

122.

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/16. 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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$10,000 of the rent revenue collected and recorded as earned this year pertains to 2017.				

123.

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/16. 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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Interest earned during the year on a note receivable was not yet collected or recorded				

124.

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/16. 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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Supplies purchased during the year for \$1,000 cash were recorded by a debit to Supplies Expense and a credit to Cash. Only \$200 of supplies remain at the end of the year, but no further entries have been recorded.				

125.

The adjusted trial balance for China Tea Company at December 31, 2016, is presented below:

	Debit	Credit
Cash	10,500	
Accounts receivable	150,000	
Prepaid rent	5,000	
Inventory	25,000	
Equipment	300,000	
Accumulated depreciation - equipment		125,000
Accounts payable		30,000
Notes payable - due in three months		30,000
Salaries payable		4,000
Interest payable		1,000
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	
Advertising expense	<u>2,500</u>	<u> </u>
Totals	<u>840,000</u>	<u>840,000</u>

Prepare the closing entries for China Tea Company for the year ended December 31, 2016.

126. The adjusted trial balance for China Tea Company at December 31, 2016, is presented below:

	Debit	Credit
Cash	10,500	
Accounts receivable	150,000	
Prepaid rent	5,000	
Inventory	25,000	
Equipment	300,000	
Accumulated depreciation - equipment		125,000
Accounts payable		30,000
Notes payable - due in three months		30,000
Salaries payable		4,000
Interest payable		1,000
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	
Advertising expense	<u>2,500</u>	<u> </u>
Totals	<u>840,000</u>	<u>840,000</u>

Prepare an income statement for China Tea Company for the year ended December 31, 2016.

127. The adjusted trial balance for China Tea Company at December 31, 2016, is presented below:

	Debit	Credit
Cash	10,500	
Accounts receivable	150,000	
Prepaid rent	5,000	
Inventory	25,000	
Equipment	300,000	
Accumulated depreciation - equipment		125,000
Accounts payable		30,000
Notes payable - due in three months		30,000
Salaries payable		4,000
Interest payable		1,000
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	
Advertising expense	<u>2,500</u>	<u> </u>
Totals	<u>840,000</u>	<u>840,000</u>

Prepare a classified balance sheet for China Tea Company as of December 31, 2016.

128.

The following information, based on the 12/31/16 Annual Report to Shareholders of Krafty Foods (\$ in millions):

Accounts payable	1,897
Accounts receivable (net)	3,131
Accrued liabilities and taxes	4,105
Cash and cash equivalents	162
Cost of sales	17,531
Current payables to parent and affiliates	1,652
Current portion of long-term debt	540
Deferred income taxes and other liabilities	10,311
Earnings retained in the business as of 12/31/16	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

Based on the information presented above, prepare the 2013 Income Statement for Krafty Foods.

129. The following information, based on the 12/31/16 Annual Report to Shareholders of Krafty Foods (\$ in millions):

Accounts payable	1,897
Accounts receivable (net)	3,131
Accrued liabilities and taxes	4,105
Cash and cash equivalents	162
Cost of sales	17,531
Current payables to parent and affiliates	1,652
Current portion of long-term debt	540
Deferred income taxes and other liabilities	10,311
Earnings retained in the business as of 12/31/16	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

Based on the information presented above, prepare the 12/31/16 Balance Sheet for Krafty Foods.

130.

The December 31, 2016 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

Account Title	Debits	Credits
Accounts payable		90,000
Accounts receivable	170,000	
Accumulated depreciation – equipment		260,000
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 and wages payable		8,000
Sales revenue		<u>770,000</u>
Salaries expense	<u>120,000</u>	

TOTALS	<u>1,740,000</u>	<u>1,740,000</u>
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Required:

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

Kline's 2016 net income (or loss):

131.

The December 31, 2016 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

Account Title	Debits	Credits
Accounts payable		90,000
Accounts receivable	170,000	
Accumulated depreciation – equipment		260,000
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 and wages payable		8,000
Sales revenue		<u>770,000</u>
Salaries expense	<u>120,000</u>	

TOTALS	<u>1,740,000</u>	<u>1,740,000</u>
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Required:

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

Kline's 12/31/16 total current assets:

132.

The December 31, 2016 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

Account Title	Debits	Credits
Accounts payable		90,000
Accounts receivable	170,000	
Accumulated depreciation – equipment		260,000
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 and wages payable		8,000
Sales revenue		<u>770,000</u>
Salaries expense	<u>120,000</u>	

TOTALS	<u>1,740,000</u>	<u>1,740,000</u>
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Required:

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

Kline's 12/31/16 total current liabilities:

133.

The December 31, 2016 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

Account Title	Debits	Credits
Accounts payable		90,000
Accounts receivable	170,000	
Accumulated depreciation – equipment		260,000
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 and wages payable		8,000
Sales revenue		<u>770,000</u>
Salaries expense	<u>120,000</u>	

TOTALS	<u>1,740,000</u>	<u>1,740,000</u>
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Required:

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

Kline's 12/31/16 total shareholders' equity:

134.

Presented below is income statement information of the Nebraska Corporation for the year ended December 31, 2016.

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, 2016.

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, 2016:

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

Selected balance sheet information:

	12/31/15	12/31/16
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, 2015, Raintree lent a customer \$50,000. Interest at 6% is payable annually on each June 30. Principal is due in 2019.
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 2016 (ignore income taxes).
2. Determine the following balance sheet amounts on December 31, 2016:
 - a. Interest receivable
 - b. Prepaid insurance
 - c. Prepaid rent

136. Silicon Chip Company's fiscal year-end is December 31. At the end of 2016, it owed employees \$22,000 in salaries and wages that will be paid on January 7, 2017.

Required:

1. Prepare an adjusting entry to record accrued salaries and wages, a reversing entry on January 1, 2017, and an entry to record the payment of salaries and wages on January 7, 2017.
2. Prepare journal entries to record the accrued salaries and wages on December 31 and the payment of salaries and wages on January 7, assuming a reversing entry is not recorded.

Essay Questions

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

138. Describe what is meant by deferred revenues and provide two examples.

139. Describe what is meant by prepaid expenses and provide 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 2016, the company collected \$825,000 in fees from its clients and paid \$512,000 in expenses. You are able to determine the following information about accounts receivable, supplies, prepaid rent, salaries payable, and interest payable:

	January 1, 2016	December 31, 2016
Accounts receivable	\$110,000	\$120,000
Supplies	15,000	18,000
Prepaid rent	12,000	11,000
Salaries and wages payable	16,500	14,200
Interest payable	4,000	5,500

In addition, 2016 depreciation expense on office equipment and furniture is \$55,000.

Required:

Determine accrual basis income for 2016.

145.

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

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

Chapter 02 Review of the Accounting Process Answer Key

True / False Questions

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

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: The basic model-Accounting equation

2. Debits increase asset accounts and decrease liability accounts.

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: The basic model-Account relationships

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: The basic model-Account relationships

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Accounting processing cycle

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

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Adjusting entries

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Adjusting entries-Identify types

7. The adjusted trial balance contains only permanent accounts.

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Prepare an adjusted trial balance

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

FALSE

AACSB: Reflective Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Preparing the financial statements

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

FALSE

AACSB: Reflective Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Preparing the financial statements

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

TRUE

AACSB: Reflective Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Preparing the financial statements

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

FALSE

AACSB: Reflective Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 2 Medium

Topic Area: Preparing the financial statements

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

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 1 Easy

Topic Area: Closing process

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

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 1 Easy

Topic Area: Closing process

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-Appendix 2B Reversing Entries.

Level of Difficulty: 2 Medium

Topic Area: Reversing entries

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

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Subsidiary ledgers and special journals

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Subsidiary ledgers and special journals

Multiple Choice Questions

17. The accounting equation can be stated as:

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

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

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 2 Medium

Topic Area: The basic model-Accounting equation

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

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

Level of Difficulty: 2 Medium

Topic Area: The basic model

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

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

Level of Difficulty: 2 Medium

Topic Area: The basic model

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

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

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

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

22. A sale on account would be recorded by:

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

23. 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: Analytical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Record transactions in the general journal

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

A.

Prepaid rent	12,000	
Rent expense		12,000

B.

Cash	12,000	
Deferred revenue		12,000

C.

Interest expense	12,000	
Interest payable		12,000

D.

Salaries expense	12,000	
Salaries payable		12,000

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

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

A.

Inventory	620	
Accounts receivable		620
Sales	960	
Revenue from sales		960

B.

Accounts receivable	960	
Sales revenue		960
Cost of goods sold	620	
Inventory		620

C.

Inventory	620	
Gain on sale	340	
Sales revenue		960

D.

Accounts receivable	960	
Sales revenues		620
Gain on sale		340

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 3 Hard

Topic Area: Record transactions in the general journal

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

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

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 3 Hard

Topic Area: Record transactions in the general journal

28. Which of the following accounts has a normal debit balance?

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

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

Level of Difficulty: 1 Easy

Topic Area: Prepare an adjusted trial balance

Topic Area: The basic model-Account relationships

29. An example of a contra account is:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Adjusting entries-Identify types

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

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

Level of Difficulty: 1 Easy

Topic Area: Adjusting entries-Identify types

31. Recording revenue that is earned, but not yet collected, is an example of:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

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

Level of Difficulty: 1 Easy

Topic Area: Adjusting entries-Identify types

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

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

Level of Difficulty: 1 Easy

Topic Area: Record transactions in the general journal

33. On December 31, 2015, Coolwear, Inc. had a balance in its prepaid insurance account of \$48,400. During 2016, \$86,000 was paid for insurance. At the end of 2016, after adjusting entries were recorded, the balance in the prepaid insurance account was 42,000. Insurance expense for 2016 would be:

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

$$\text{Insurance expense} = \$48,400 + 86,000 - 42,000 = \underline{\$92,400}$$

AACSB: Analytical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

Topic Area: Conversion from cash basis to accrual basis

34. Adjusting entries are primarily needed for:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Adjusting entries

35. Prepayments occur when:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Identify types

36. Accruals occur when cash flows:
- A. Occur before expense recognition.
 - B. Occur after revenue or expense recognition.**
 - C. Are uncertain.
 - D. May be substituted for goods or services.

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Identify types

37. On December 31, 2016, 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 2016 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: Analytical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Identify types

Topic Area: Adjusting entries-Record and post

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

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

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

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

Topic Area: Conversion from cash basis to accrual basis

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

A.

Prepaid rent
Rent expense

B.

Cash
Deferred revenue

C.

Interest expense
Interest payable

D.

Salaries expense
Salaries payable

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

40. The adjusting entry required when amounts previously recorded as deferred revenues are recognized includes:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Identify types

41. Which of the following accounts has a normal credit balance?

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

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

Level of Difficulty: 1 Easy

Topic Area: Record, Post, and Prepare an Adjusted Trial Balance

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

- A. (S)he usually debits cash.
- B.** (S)he usually debits an expense account.
- C. (S)he debits a liability account.
- D. (S)he credits an owners' equity account.

AACSB: Analytical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

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

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 1 Easy

Topic Area: Adjusting entries-Record and post

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

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

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

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

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

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

46. Yummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2016, and charged the \$4,200 premium to Insurance expense. At its December 31, 2016, 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

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

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

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

A.

Salaries expense	22,400	
Prepaid salaries	9,600	
Salaries payable		32,000

B.

Salaries expense	6,400	
Salaries payable		6,400

C.

Prepaid salaries	9,600	
Salaries payable		9,600

D.

Salaries expense	22,400	
Salaries payable		22,400

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

48. On September 1, 2016, Fortune Magazine sold 600 one-year subscriptions for \$81 each. The total amount received was credited to deferred subscriptions revenue. What is the required adjusting entry at December 31, 2016?

A.

Deferred subscriptions revenue	48,600	
Subscriptions revenue		16,200
Prepaid subscriptions		32,400

B.

Deferred subscriptions revenue	16,200	
Subscriptions revenue		16,200

C.

Deferred subscriptions revenue	16,200	
Subscriptions payable		16,200

D.

Deferred subscriptions revenue	32,400	
Subscriptions revenue		32,400

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

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

49. Mama's Pizza Shoppe borrowed \$8,000 at 9% interest on May 1, 2016, with principal and interest due on October 31, 2017. The company's fiscal year ends June 30, 2016. What adjusting entry is necessary on June 30, 2016?

A. No entry.

B.

Interest expense	240	
Interest payable		240

C.

Interest expense	120	
Interest payable		120

D.

Prepaid interest	120	
Interest payable		120

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

50. On September 15, 2016, Oliver's Mortuary received a \$6,000, nine-month note bearing interest at an annual rate of 10% from the estate of Jay Hendrix for services rendered. Oliver's has a December 31 year-end. What adjusting entry will the company record on December 31, 2016?

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

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

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

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

Income Tax Payable	
<u>150,000</u>	<u>160,000</u>
	10,000

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Record, Post, and Prepare an Adjusted Trial Balance

52. Eve's Apples opened business on January 1, 2016, and paid for two insurance policies effective that date. The liability policy was \$36,000 for 18 months, and the crop damage policy was \$12,000 for a two-year term. What is the balance in Eve's prepaid insurance as of December 31, 2016?
- A. \$9,000.
B. \$18,000.
 C. \$30,000.
 D. \$48,000.

Prepaid liability insurance: \$36,000 x 6/18	\$12,000
Prepaid hazard insurance: \$12,000 x 12/24	<u>6,000</u>
Total prepaid insurance at 12/31/16	<u>\$18,000</u>

AACSB: Analytical Thinking

A/CPA: FN Measurement

Blooms: Analyze

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

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

Level of Difficulty: 3 Hard

Topic Area: Adjusting entries-Record and post

53. Fink Insurance collected premiums of \$18,000,000 from its customers during the current year. The adjusted balance in the Deferred premiums account increased from \$6 million to \$8 million dollars during the year. What is Fink's revenue from insurance premiums recognized for the current year?
- A. \$10,000,000.
 - B. \$16,000,000.**
 - C. \$18,000,000.
 - D. \$20,000,000.

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

AACSB: Analytical Thinking

A/CPA: FN Measurement

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

Topic Area: Conversion from cash basis to accrual basis

54. On November 1, 2016, Tim's Toys borrows \$30,000,000 at 9% to finance the holiday sales season. The note is for a six-month term and both principal and interest are payable at maturity. What is the balance of interest payable for the loan as of December 31, 2016?

- 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: Analytical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

55. An economic resource of an entity is:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: The basic model-Account relationships

56. Cost of goods sold is:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Record transactions in the general journal

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

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

AACSB: Reflective Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Preparing the financial statements

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

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Preparing the financial statements

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

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

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

Level of Difficulty: 2 Medium

Topic Area: Conversion from cash basis to accrual basis

Topic Area: Record transactions in the general journal

60. Permanent accounts would not include:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: The basic model-Account relationships

Topic Area: The closing process

61. Permanent accounts would not include:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: The basic model-Account relationships

Topic Area: The closing process

62. The purpose of closing entries is to transfer:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Create

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: The closing process

63. Temporary accounts would not include:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: The basic model-Account relationships

Topic Area: The closing process

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Conversion from cash basis to accrual basis

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Conversion from cash basis to accrual basis

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Conversion from cash basis to accrual basis

67. Molly's Auto Detailers maintains its records on the cash basis. During 2016, Molly's collected \$72,000 from customers and paid \$21,000 in expenses. Depreciation expense of \$5,000 would have been recorded on the accrual basis. Over the course of the year, accounts receivable increased \$4,000, prepaid expenses decreased \$2,000, and accrued liabilities decreased \$1,000. Molly's accrual basis net income was:

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 3 Hard

Topic Area: Conversion from cash basis to accrual basis

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

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 3 Hard

Topic Area: Conversion from cash basis to accrual basis

69. The Hamada Company sales for 2016 totaled \$150,000 and purchases totaled \$95,000. Selected January 1, 2016, balances were: accounts receivable, \$18,000; inventory, \$14,000; and accounts payable, \$12,000. December 31, 2016, balances were: accounts receivable, \$16,000; inventory, \$15,000; and accounts payable, \$13,000. Net cash flows from these activities were:

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 3 Hard

Topic Area: Conversion from cash basis to accrual basis

70. 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: Analytical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Conversion from cash basis to accrual basis

71. 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: Analytical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Conversion from cash basis to accrual basis

72.

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

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

- A. Option a
- B. Option b
- C. Option c
- D. Option d

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Conversion from cash basis to accrual basis

73.

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

	Cash Basis	Accrual Basis
a.	\$3,400,000	\$3,400,000
b.	\$5,400,000	\$2,400,000
c.	\$6,400,000	\$3,400,000
d.	\$6,400,000	\$2,400,000

- A. Option a
- B. Option b
- C. Option c
- D. Option d

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 3 Hard

Topic Area: Conversion from cash basis to accrual basis

74.

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

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

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

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Conversion from cash basis to accrual basis

Matching Questions

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

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

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 1 Easy

Topic Area: Adjusting entries-Identify types

Topic Area: Prepare an adjusted trial balance

Topic Area: Prepare an unadjusted trial balance

Topic Area: Record transactions in the general journal

Topic Area: The closing process

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 1 Easy

Topic Area: Adjusting entries-Identify types

Topic Area: Preparing the financial statements

Topic Area: The basic model-Account relationships

Topic Area: The closing process

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

Level of Difficulty: 2 Medium

Topic Area: Prepare an adjusted trial balance

Topic Area: Record transactions in the general journal

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 1 Easy

Topic Area: Accounting processing cycle

Topic Area: The basic model-Account relationships

Topic Area: The closing process

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

Level of Difficulty: 1 Easy

Topic Area: Accounting processing cycle

Topic Area: Subsidiary ledgers and special journals

Topic Area: The basic model-Account relationships

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

Level of Difficulty: 1 Easy

Topic Area: Accounting processing cycle

Topic Area: Subsidiary ledgers and special journals

Topic Area: The basic model-Account relationships

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

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

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Identify types

Topic Area: Prepare an unadjusted trial balance

Topic Area: Record transactions in the general journal

Topic Area: The basic model-Account relationships

Topic Area: The closing process

Short Answer Questions

82.

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

Buildings and equipment (B&E)

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

83.

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

Short-term notes payable

	Effect	Classification
Short-term notes payable	2	3

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

84.

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

Cost of goods sold

	Effect	Classification
Cost of goods sold	1	7

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

85.

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

Accounts receivable

	Effect	Classification
Accounts receivable	1	1

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

86.

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

Inventory

	Effect	Classification
Inventory	1	1

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

87.

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

Deferred revenues

	Effect	Classification
Deferred revenues	2	3

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

88.

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

Property taxes payable

	Effect	Classification
Property taxes payable	2	3

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

89.

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

Retained earnings

	Effect	Classification
Retained earnings	2	5

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

90.

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

Interest revenue

	Effect	Classification
Interest revenue	2	6

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

91.

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

Supplies expense

	Effect	Classification
Supplies expense	1	7

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

92.

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

Prepaid rent

	Effect	Classification
Prepaid rent	1	1

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

93.

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

Capital stock

	Effect	Classification
Capital stock	2	5

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

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: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

95.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

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: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

96.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

Purchased inventory on account.

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

97.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

Sold inventory on account.

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

98.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

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: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

99.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

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: Analytical Thinking

A/CPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

100.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

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: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

101.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

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: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

102.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

Sold inventory for cash.

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

103.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

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: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

104.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

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

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

105.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

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: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: The closing process

106.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

Accrued property taxes were paid.

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

107.

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	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

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: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

108.

1100	Cash	2170	Property taxes payable
1120	Short-term investments	2180	Rent payable
1130	Notes receivable	2200	Long-term notes payable
1140	Accounts receivable	3100	Capital stock
1145	Loan receivable	3200	Retained earnings
1150	Interest receivable	5000	Sales revenue
1160	Other accrued receivables	5300	Interest revenue
1200	Inventory	6000	Cost of goods sold
1250	Supplies	6200	Advertising expense
1260	Prepaid expenses	6210	Miscellaneous expense
1320	Buildings and equipment (B&E)	6220	Depreciation expense
1325	Accumulated depreciation-B&E	6230	Insurance expense
2110	Short-term notes payable	6240	Property tax expense
2120	Interest payable	6250	Rent expense
2130	Accounts payable	6260	Supplies expense
2140	Deferred revenues	6270	Salaries and wages expense
2150	Salaries and 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, (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

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: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

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

Required:

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

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

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 1 Easy

Topic Area: Record transactions in the general journal

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 salaries and wages, \$320.
8. Paid for supplies purchased in item (5).
9. Paid royalties due on first week's sales.
10. Recorded depreciation on equipment, \$50.

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.	Salaries and	320	

	wages expense		
	Cash		320
8.	Accounts payable	1,800	
	Cash		1,800
9.	Royalty expense	40	
	Cash		40
10.	Depreciation expense	50	
	Accumulated depreciation		50

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Record transactions in the general journal

111. Flint Hills, Inc. has prepared a year-end 2016 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, 2016, 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	
	Utilities payable		190

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

balance.

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

112.

The following is selected financial information for Osmond Dental Laboratories for 2015 and 2016:

	2015	2016
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 2016 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, 2016.

Osmond Dental Laboratories
Statement of Shareholders' Equity
For the Year Ended December 31, 2016

			Total
	Capital	Retained	Shareholders'
	Stock	Earnings	Equity
Balance, January 1, 2016	\$70,000	\$75,000*	\$145,000
Issue of capital stock	20,000		20,000
Net income for 2016		42,000	42,000
Less: Dividends		- 18,000	- 18,000
Balance, December 31, 2016	<u>\$ 90,000</u>	<u>\$ 99,000</u>	<u>\$189,000</u>

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 3 Hard

Topic Area: Preparing the financial statements

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, 2016:

	Debit	Credit
Interest expense	1,800	
Interest payable		1,800
Insurance expense	60,000	
Prepaid insurance		60,000
Interest receivable	3,000	
Interest revenue		3,000

Additional information:

1. The company borrowed \$30,000 on June 30, 2016. Principal and interest are due on June 30, 2017. 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, 2016, 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 2016 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

$\$3,600 \div \$30,000 = 12\%$ interest rate

Or,

Principal \times Rate \times Time = Interest

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

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

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

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

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

3. Principal \times Rate \times Time = Interest

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

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

Principal = \$100,000

Or

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

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

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

Principal = $\$9,000 \div .09 = \$100,000$ note

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

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

Level of Difficulty: 3 Hard

Topic Area: Adjusting entries-Identify types

Topic Area: Adjusting entries-Record and post

114.

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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$2,000 interest on a loan was not yet paid or recorded				

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$2,000	N	U 2,000	O 2,000	O 2,000

interest on a loan was not yet paid or recorded				
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AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

Topic Area: Preparing the financial statements

115.

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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
The estimated uncollectible accounts receivable is now zero and should be \$25,000.				

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
The estimated	O25,000	N	O25,000	O25,000

uncollectible accounts receivable is now zero and should be \$25,000.				
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AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

Topic Area: Preparing the financial statements

116.

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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$10,000 of the paid and recorded rent expense pertains to the year 2017.				

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$10,000 of	U10,000	N	U10,000	U10,000

the paid and recorded rent expense pertains to the year 2017.				
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AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

Topic Area: Preparing the financial statements

117.

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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$20,000 in depreciation on some equipment was still unrecorded.				

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$20,000 in depreciation on some equipment was still	O20,000	N	O20,000	O20,000

unrecorded.				
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AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

Topic Area: Preparing the financial statements

118.

Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item of information, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$4,000 in cash dividends declared and paid in December 2016 were unrecorded.				

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income

\$4,000 in cash dividends declared and paid in December 2016 were unrecorded.	04,000	N	04,000	N
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AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

Topic Area: Preparing the financial statements

119.

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/16. 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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Uncollectible accounts of \$7,000, as a percentage of sales, are estimated at the end of the year. The entry has not been recorded.				

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
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			Equity	Income
Uncollectible accounts of \$7,000, as a percentage of sales, are estimated at the end of the year. The entry has not been recorded.	O	N	O	O

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

Topic Area: Preparing the financial statements

120.

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/16. 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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
The journal entry for depreciation on equipment for 2016 was recorded for \$48,000. It should have been \$66,000.				

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
The journal entry for depreciation on equipment for 2016 was recorded for \$48,000. It should have been \$66,000.	O	N	O	O

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

Topic Area: Preparing the financial statements

121.

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/16. 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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Cash dividends declared and paid on December 15, 2016, were not recorded.				

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Cash dividends declared and paid on December 15, 2016, were not recorded.	O	N	O	N

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 3 Hard

Topic Area: Adjusting entries-Record and post

Topic Area: Preparing the financial statements

122.

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/16. 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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$10,000 of the rent revenue collected and recorded as earned this year pertains to 2017.				

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$10,000 of the rent revenue collected and recorded as earned this year pertains to 2017.	N	U	O	O

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

Topic Area: Preparing the financial statements

123.

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/16. 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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Interest earned during the year on a note receivable was not yet collected or recorded				

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Interest earned during the year on a note receivable was not yet collected or recorded	U	N	U	U

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Record and post

Topic Area: Preparing the financial statements

124.

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/16. 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 2016 Income Statement and 12/31/16 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

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Supplies purchased during the year for \$1,000 cash were recorded by a debit to Supplies Expense and a credit to Cash. Only \$200 of supplies remain at the end of the year, but no further entries have been recorded.				

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Supplies purchased during the year for \$1,000 cash were recorded by a debit to Supplies Expense and a credit to Cash. Only \$200 of supplies remain at the end of the year, but no further entries have been recorded.	U	N	U	U

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 3 Hard

Topic Area: Adjusting entries-Record and post

Topic Area: Preparing the financial statements

125.

The adjusted trial balance for China Tea Company at December 31, 2016, is presented below:

	Debit	Credit
Cash	10,500	
Accounts receivable	150,000	
Prepaid rent	5,000	
Inventory	25,000	
Equipment	300,000	
Accumulated depreciation - equipment		125,000
Accounts payable		30,000
Notes payable - due in three months		30,000
Salaries payable		4,000
Interest payable		1,000
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	
Advertising expense	<u>2,500</u>	<u> </u>
Totals	<u>840,000</u>	<u>840,000</u>

Prepare the closing entries for China Tea Company for the year ended December 31, 2016.

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: The closing process

126. The adjusted trial balance for China Tea Company at December 31, 2016, is presented below:

	Debit	Credit
Cash	10,500	
Accounts receivable	150,000	
Prepaid rent	5,000	
Inventory	25,000	
Equipment	300,000	
Accumulated depreciation - equipment		125,000
Accounts payable		30,000
Notes payable - due in three months		30,000
Salaries payable		4,000
Interest payable		1,000
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	
Advertising expense	<u>2,500</u>	<u> </u>
Totals	<u>840,000</u>	<u>840,000</u>

Prepare an income statement for China Tea Company for the year ended December 31, 2016.

China Tea Company Income Statement For the Year Ended December 31, 2016		
Sales revenue		\$400,000
Cost of goods sold		<u>180,000</u>

Gross profit		220,000
Other expenses:		
Salaries expense	\$120,000	
Rent expense	15,000	
Depreciation expense	30,000	
Interest expense	2,000	
Advertising expense	<u>2,500</u>	
Total other expenses		<u>169,500</u>
Net income		<u>\$ 50,500</u>

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Preparing the financial statements

127. The adjusted trial balance for China Tea Company at December 31, 2016, is presented below:

	Debit	Credit
Cash	10,500	
Accounts receivable	150,000	
Prepaid rent	5,000	
Inventory	25,000	
Equipment	300,000	
Accumulated depreciation - equipment		125,000
Accounts payable		30,000
Notes payable - due in three months		30,000
Salaries payable		4,000
Interest payable		1,000
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	
Advertising expense	<u>2,500</u>	<u> </u>
Totals	<u>840,000</u>	<u>840,000</u>

Prepare a classified balance sheet for China Tea Company as of December 31, 2016.

China Tea Company Balance Sheet At December 31, 2016		
Assets		
Current assets:		

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Preparing the financial statements

128.

The following information, based on the 12/31/16 Annual Report to Shareholders of Krafty Foods (\$ in millions):

Accounts payable	1,897
Accounts receivable (net)	3,131
Accrued liabilities and taxes	4,105
Cash and cash equivalents	162
Cost of sales	17,531
Current payables to parent and affiliates	1,652
Current portion of long-term debt	540
Deferred income taxes and other liabilities	10,311
Earnings retained in the business as of 12/31/16	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

Based on the information presented above, prepare the 2013 Income Statement for Krafty Foods.

Krafty Foods Income Statement For the Year Ended December 31, 2016	
(\$ in millions)	
Operating revenues	\$33,875
Cost of sales	<u>17,531</u>
Gross profit	16,344
Marketing, general and administration Expenses	<u>11,460</u>
Operating income	4,884
Interest and other debt expense, net	<u>1,437</u>
Income before taxes	3,447
Income tax expense	<u>1,565</u>
Net income	<u>\$ 1,882</u>

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Preparing the financial statements

129. The following information, based on the 12/31/16 Annual Report to Shareholders of Krafty Foods (\$ in millions):

Accounts payable	1,897
Accounts receivable (net)	3,131
Accrued liabilities and taxes	4,105
Cash and cash equivalents	162
Cost of sales	17,531
Current payables to parent and affiliates	1,652
Current portion of long-term debt	540
Deferred income taxes and other liabilities	10,311
Earnings retained in the business as of 12/31/16	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

Based on the information presented above, prepare the 12/31/16 Balance Sheet for Krafty Foods.

Krafty Foods Balance Sheet At December 31, 2016		
(\$ in millions)		
Assets		
Cash and cash equivalents		\$ 162
Accounts receivable (net)		3,131
Inventories		3,026
Other current assets		<u>687</u>
Total current assets		7,006
Property, plant and equipment (net)		9,109
Goodwill and other intangible assets (net)		35,957
Other noncurrent assets		<u>3,726</u>
Total assets		<u>\$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		<u>23,478</u>
Total liabilities and stockholders' equity		<u>\$55,798</u>

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Preparing the financial statements

130.

The December 31, 2016 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

Account Title	Debits	Credits
Accounts payable		90,000
Accounts receivable	170,000	
Accumulated depreciation – equipment		260,000
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 and wages payable		8,000
Sales revenue		<u>770,000</u>
Salaries expense	<u>120,000</u>	

TOTALS	<u>1,740,000</u>	<u>1,740,000</u>
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Required:

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

Kline's 2016 net income (or loss):

Kline's 2016 net income (or loss) = \$76,000

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

AACSB: Analytical Thinking

A/CPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Preparing the financial statements

131.

The December 31, 2016 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

Account Title	Debits	Credits
Accounts payable		90,000
Accounts receivable	170,000	
Accumulated depreciation – equipment		260,000
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 and wages payable		8,000
Sales revenue		<u>770,000</u>
Salaries expense	<u>120,000</u>	

TOTALS	<u>1,740,000</u>	<u>1,740,000</u>
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Required:

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

Kline's 12/31/16 total current assets:

Kline's 12/31/16 total current assets = \$346,000

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

AACSB: Analytical Thinking

A/CPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Preparing the financial statements

132.

The December 31, 2016 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

Account Title	Debits	Credits
Accounts payable		90,000
Accounts receivable	170,000	
Accumulated depreciation – equipment		260,000
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 and wages payable		8,000
Sales revenue		<u>770,000</u>
Salaries expense	<u>120,000</u>	

TOTALS	<u>1,740,000</u>	<u>1,740,000</u>
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Required:

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

Kline's 12/31/16 total current liabilities:

Kline's 12/31/16 total current liabilities = \$158,000

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Preparing the financial statements

133.

The December 31, 2016 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

Account Title	Debits	Credits
Accounts payable		90,000
Accounts receivable	170,000	
Accumulated depreciation – equipment		260,000
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 and wages payable		8,000
Sales revenue		<u>770,000</u>
Salaries expense	<u>120,000</u>	

TOTALS	<u>1,740,000</u>	<u>1,740,000</u>
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Required:

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

Kline's 12/31/16 total shareholders' equity:

Kline's 12/31/16 total owners' equity = \$628,000

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

AACSB: Analytical Thinking

A/CPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Preparing the financial statements

134.

Presented below is income statement information of the Nebraska Corporation for the year ended December 31, 2016.

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, 2016.

December 31, 2016

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: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: The closing process

135.

Raintree Corporation maintains its records on a cash basis. At the end of each year the company's accountant obtains the necessary information to prepare accrual basis financial statements. The following cash flows occurred during the year ended December 31, 2016:

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

Selected balance sheet information:

	12/31/15	12/31/16
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, 2015, Raintree lent a customer \$50,000. Interest at 6% is payable annually on each June 30. Principal is due in 2019.
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 2016 (ignore income taxes).
2. Determine the following balance sheet amounts on December 31, 2016:
 - a. Interest receivable
 - b. Prepaid insurance
 - c. Prepaid rent

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 2016 ($\$50,000 \times .06 \times 6/12$)	1,500	(a)
Deduct: Amount accrued at the end of 2012	<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 2016	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 2012	2,000	
Deduct: Prepaid insurance on 12/31/16 ($\$9,000 \times 3/12$)	<u>(2,250)</u>	(b)
Insurance expense	<u>\$8,750</u>	
Salaries expense:		
Cash paid	\$180,000	
Add: Increase in salaries payable	<u>8,000</u>	
Salaries expense	<u>\$188,000</u>	
Rent expense:		
Amount paid	\$12,000	
Add: Prepaid rent on 12/31/12 expired during 2016	7,000	
Deduct: Prepaid rent on 12/31/16 ($\$12,000 \times 9/12$)	<u>(9,000)</u>	(c)
Rent expense	<u>\$10,000</u>	
Depreciation expense: Increase in accumulated depreciation	<u>\$15,000</u>	

Raintree Corporation
Income statement
For the Year Ended December 31, 2016

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

2.

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 3 Hard

Topic Area: Conversion from cash basis to accrual basis

136. Silicon Chip Company's fiscal year-end is December 31. At the end of 2016, it owed employees \$22,000 in salaries and wages that will be paid on January 7, 2017.

Required:

1. Prepare an adjusting entry to record accrued salaries and wages, a reversing entry on January 1, 2017, and an entry to record the payment of salaries and wages on January 7, 2017.
2. Prepare journal entries to record the accrued salaries and wages on December 31 and the payment of salaries and wages on January 7, assuming a reversing entry is not recorded.

1.

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

2.

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

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

Learning Objective: 02-Appendix 2B Reversing Entries.

Level of Difficulty: 3 Hard

Topic Area: Reversing entries

Essay Questions

137. Describe the difference between external events and internal events, and provide 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

AICPA: BB Critical Thinking

Blooms: Understand

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

Level of Difficulty: 2 Medium

Topic Area: The basic model

138. Describe what is meant by deferred revenues and provide two examples.

Deferred 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

AICPA: BB Critical Thinking

Blooms: Understand

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

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Identify types

Topic Area: The basic model-Account relationships

139. Describe what is meant by prepaid expenses and provide 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

AICPA: BB Critical Thinking

Blooms: Understand

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

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Identify types

Topic Area: The basic model-Account relationships

140. What is an accrued liability?

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Remember

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

Level of Difficulty: 2 Medium

Topic Area: Adjusting entries-Identify types

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, and gain and loss accounts. The temporary accounts are closed out annually to facilitate measuring income on an annual basis. Temporary accounts are a convenience to aid the preparation of financial statements by recording revenues and expenses in these accounts rather than directly into retained earnings.

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

Level of Difficulty: 2 Medium

Topic Area: The basic model-Account relationships

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

AICPA: BB Critical Thinking

Blooms: Understand

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

Level of Difficulty: 3 Hard

Topic Area: Preparing the financial statements

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

AICPA: BB Critical Thinking

Blooms: Understand

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: The closing process

144.

Claymore Corporation maintains its book on a cash basis. During 2016, the company collected \$825,000 in fees from its clients and paid \$512,000 in expenses. You are able to determine the following information about accounts receivable, supplies, prepaid rent, salaries payable, and interest payable:

	January 1, 2016	December 31, 2016
Accounts receivable	\$110,000	\$120,000
Supplies	15,000	18,000
Prepaid rent	12,000	11,000
Salaries and wages payable	16,500	14,200
Interest payable	4,000	5,500

In addition, 2016 depreciation expense on office equipment and furniture is \$55,000.

Required:

Determine accrual basis income for 2016.

Cash basis net income (\$825,000 – 512,000)	\$313,000
Add:	
Increase in accounts receivable (\$120,000 – 110,000)	10,000

Increase in supplies (\$18,000 – 15,000)	3,000
Decrease in salaries and wages payable (\$16,500 – 14,200)	2,300
Deduct:	
Depreciation expense	(55,000)
Decrease in prepaid rent (\$12,000 – 11,000)	(1,000)
Increase in interest payable (\$5,500 – 4,000)	<u>(1,500)</u>
Accrual basis income	\$270,800

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 3 Hard

Topic Area: Conversion from cash basis to accrual basis

145.

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

Transaction	Journal
1. Received interest on a loan.	_____
2. Recorded amortization expense.	_____
3. Purchased equipment for cash.	_____
4. Purchased merchandise on account.	_____
5. Sold merchandise on credit (the sale only, not the cost of the merchandise).	_____
6. Sold merchandise for cash (the sale only, not the cost of the merchandise).	_____
7. Paid advertising bill.	_____
8. Recorded accrued	_____

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

Transaction	Journal
1. Received interest on a loan.	CR
2. Recorded amortization	GJ

expense.	
3. Purchased equipment for cash.	CD
4. Purchased merchandise on account.	PJ
5. Sold merchandise on credit (the sale only, not the cost of the merchandise).	SJ
6. Sold merchandise for cash (the sale only, not the cost of the merchandise).	CR
7. Paid advertising bill.	CD
8. Recorded accrued salaries and wages payable.	GJ
9. Paid utility bill.	CD
10. Recorded depreciation expense.	GJ
11. Sold equipment for cash.	CR
12. Collected	CR

cash from customers on account.	
13. Paid employee salaries and wages.	CD
14. Paid interest on a loan.	CD

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

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

Level of Difficulty: 2 Medium

Topic Area: Subsidiary ledgers and special journals