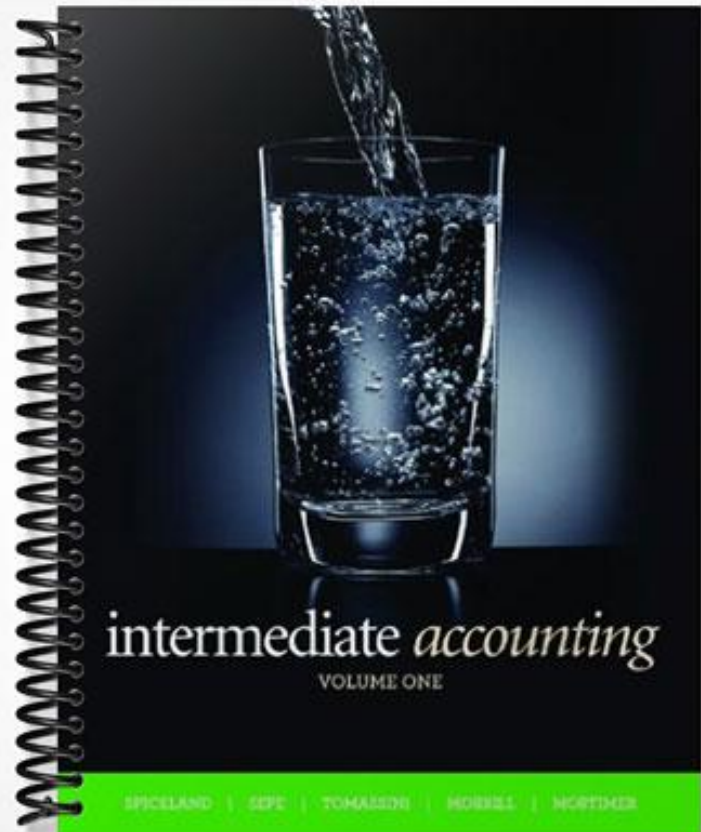


**TEST BANK**



*intermediate accounting*  
VOLUME ONE

SPICELAND | SEPE | TOMASEDDI | HORRIGLI | NORTHMER

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

1. Paid rent for the next three months.
  
2. Paid property taxes that have already been accrued.
  
3. Declared cash dividends on commonshares
  
4. Closed the income summary account, assuming there was a net income for the period.
  
5. When a magazine sells subscriptions to customers, it is an example of:
  - A. An accrued liability transaction.
  - B. An accrued receivable transaction.
  - C. A prepaid expense transaction.
  - D. An unearned revenue transaction.
  
6. On December 31, 2009, Coolwear, Inc. had balances in its accounts receivable and allowance for uncollectible accounts of \$48,400 and \$0, respectively. No receivables were written off during the year. At the end of 2009, Coolwear estimated that \$2,100 in receivables would not be collected. Bad debt expense for 2009 would be:
  - A. \$ 0.
  - B. \$46,300.
  - C. \$ 1,050.
  - D. \$ 2,100.

7. Adjusting entries are primarily needed for:
  - A. Cash basis accounting.
  - B. Accrual accounting.
  - C. Current value accounting.
  - D. Manual accounting systems.
  
8. 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.
  
9. 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.
  
10. On December 31, 2009, 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 2009 balance sheet will be valued at:
  - A. \$53,600.
  - B. \$54,800.
  - C. \$52,400.
  - D. \$ 1,200.
  
11. 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.
  
12. Which of the following would not be an adjusting entry?
  - A. Prepaid Rent  
    Rent expense
  - B. Cash  
    Unearned revenue
  - C. Interest expense  
    Interest payable
  - D. Bad debt expense  
    Allowance for uncollectible  
    accounts
  
13. The adjusting entry required when amounts previously recorded as unearned revenues are earned includes:
  - A. A debit to a liability.
  - B. A debit to an asset.
  - C. A credit to a liability.
  - D. A credit to an asset.
  
14. When a tenant makes an end-of-period adjusting entry credit to the "Prepaid rent" account:
  - A. (S) he usually debits cash.
  - B. (S) he usually debits an expense account.
  - C. (S) he debits a liability account.
  - D. (S) he does none of these.

15. When an employer 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.
16. Wages have been earned but are unpaid at the end of an accounting period.
17. Sold inventory for cash.
18. Received payment for services to be performed next year.
19. Collected a note receivable at maturity, including the interest that had already been accrued.
20. Collected cash on account from customers.
21. Accrued the interest earned but not collected on notes receivable.

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

23. Purchased inventory on account.

	Accounts Debited	Accounts credited	Transaction type
Transaction: Purchased inventory on account	1141	2121	1
Answer:			

24. Sold inventory on account.

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

	Accounts Debited	Accounts credited	Transaction type
Transaction: Purchased building and equipment for \$10,000,000, paying 20% cash and Issuing a 30 year note for balance	1321	1111, 2211	1
Answer:			

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

	Accounts Debited	Accounts credited	Transaction type
Transaction: Invested idle cash in short term money Market funds	1121	1111	1
Answer:			

## 27. Share capital

1111 Cash	2152 Property taxes payable
1121 Short term investments	2161 Rent payable
1131 Notes receivable	2211 Long term notes payable
1132 Accounts receivable	3121 Share capital
1133 Allowance for uncollectible accounts	3211 Retained earnings
1136 Interest receivable	5211 Sales revenue
1137 Other accrued receivables	5311 Interest revenue
1141 Inventory	6111 Cost of goods sold
1151 Supplies	6201 Advertising expense
1152 Prepaid expenses	6205 Bad debt expense
1321 Buildings and Equipment (B&E)	6208 Amortization expense
1322 Accumulated amortization –B&E	6215 Insurance expense
2111 Short term notes payable	6223 Property tax expense
2113 Interest payable	6224 Rent expense
2121 Accounts payable	6226 Supplies expense
2131 Unearned revenues	6230 Wages and salaries expense
2141 Salaries and wages payable	6411 Interest expense
2145 Dividends payable	6999 Income summary account

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

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
<b>EXAMPLE:</b> Sold \$110,000,000 in capital stock for	1111	3121	1

TRANSACTION	Accounts Debited	Accounts credited	Transaction type
<b>Example:</b> Sold \$110,000 in capital shares for cash	1111	3121	1

## 28. Supplies expense

## 29. Allowance for uncollectible accounts

30. Retained earnings

31. Interest revenue

32. Property taxes payable

33. Inventory

34. Unearned revenues

35. Accounts receivable

36. Cost of goods sold

37. 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.

38. 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

39. Buildings and equipment (B&E)

40. Short-term notes payable



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 expnes	1	7

41. 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

Prepaid insurance at January 1	\$52,200
Insurance expense recognized during the year	218,750
Prepaid insurance at December 31	61,250

follows:

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

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

42. Yummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2009, and charged the \$4,200 premium to Insurance expense. At its December 31, 2009, year-end, Yummy Foods

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

would record which of the following adjusting entries?

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

43. 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

A. Salaries expense	22,400
Prepaid salaries	9,600
Salaries payable	32,400

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

to record accrued salaries at the end of June?

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

44. On September 1, 2009, Fortune Magazine sold 600 one-year subscriptions for \$81 each. The total amount received was credited to unearned subscriptions revenue. What would be the required adjusting entry at

A. Unearned subscriptions revenue	48,600
Subscriptions revenue	16,200
Prepaid subscriptions	32,400

B. Unearned subscriptions revenue	16,200
Subscriptions revenue	16,200

C. Unearned subscriptions revenue	16,200
Subscriptions payable	16,200

D. Unearned subscriptions revenue	32,400
Subscriptions revenue	32,400

December 31, 2009?

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

E. Entry on 9/1: Cash	48,600
Unearned subscription revenue	48,600

45. Mama's Pizza Shoppe borrowed \$8,000 at 9% interest on May 1, 2009, with principal and interest due on October 31, 2010. The company's fiscal year ends June 30, 2009. What adjusting entry would the

A. No entry

B. Interest expense	240
Interest payable	240

C. Interest expense	120
Interest payable	120

D. Prepaid interest	120
Interest payable	120

company record on June 30, 2009?

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

46. On September 15, 2009, Oliver's Mortuary received a \$6,000, nine-month note bearing interest at an annual rate of 10% from the estate of Jay Hendrix for services rendered. Oliver's has a December 31 year-end. What adjusting entry would the company record on December 31, 2009?

A. Interest receivable	175
Interest revenue	175
B. Interest receivable	230
Interest revenue	230
C. Interest receivable	175
Notes receivable	175
D. Interest receivable	600
Interest revenue	175
Cash	425

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

47. 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

48. 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

Accounts Receivable	Accrued Liabilities
A. Yes	No
B. No	Yes
C. Yes	Yes
D. No	No

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

49. 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.

50. 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.

51. The Hamada Company sales for 2009 totaled \$150,000 and purchases totaled \$95,000. Selected January 1, 2009, balances were: accounts receivable, \$18,000; inventory, \$14,000; and accounts payable, \$12,000. December 31, 2009, balances were: accounts receivable, \$16,000; inventory, \$15,000; and accounts payable, \$13,000. Net cash flows from these activities were:
- \$45,000.
  - \$55,000.
  - \$58,000.
  - \$74,000.
52. 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. Amortization expense totaled \$2,000. Accounts receivable increased \$1,500, supplies increased \$4,000, and accrued liabilities increased \$2,500. Pat's accrual basis net income would be:
- \$18,000.
  - \$34,000.
  - \$23,000.
  - \$29,000.
53. Molly's Auto Detailers maintains its records on the cash basis. During 2009, Molly's collected \$72,000 from customers and paid \$21,000 in expenses. Amortization expense of \$5,000 would have been recorded on the accrual basis. Over the course of the year, accounts receivable increased \$4,000, prepaid expenses decreased \$2,000, and accrued liabilities decreased \$1,000. Molly's accrual basis net income would be:
- \$38,000.
  - \$54,000.
  - \$49,000.
  - \$42,000.

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

A. Prepaid Rent	12,000	
Rent Expense		12,000
B. Cash	12,000	
Unearned revenue		12,000
C. Interest Expense	12,000	
Interest payable		12,000
D. Bad debt expense	12,000	
Allowance for doubtful accounts		12,000

transaction?

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

55. Davis Hardware Company uses a perpetual inventory system. How should Davis record the sale of

A. Inventory	620	
Accounts Receivable		620
Sales	960	
Revenue from sales		960
B. Accounts Receivable	960	
Sales revenue		960
Cost of Goods Sold	620	
Inventory		620
C. Inventory	620	
Gain on Sale	340	
Sales Revenue		960
D. Accounts Receivable	960	
Sales Revenue		620
Gain on Sale		340

merchandise costing \$620 for \$960 on account?

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

56. Ace Bonding Company purchased merchandise inventory on account. The inventory costs \$2,000 and is

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

expected to sell for \$3,000. How should Ace record the purchase?

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

57. 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.

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

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

59. 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.

60. Permanent accounts would not include:
- A. Cost of goods sold.
  - B. Inventory.
  - C. Current liabilities.
  - D. Accumulated amortization.
61. 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.
62. Temporary accounts would not include:
- A. Salaries payable.
  - B. Amortization expense.
  - C. Supplies expense.
  - D. Cost of goods sold.
63. Dave's Duds reported cost of goods sold of \$2,000,000 this year. The inventory account increased by \$200,000 during the year to an ending balance of \$400,000. What was the cost of merchandise that Dave purchased during the year?
- A. \$1,600,000.
  - B. \$1,800,000.
  - C. \$2,200,000.
  - D. \$2,400,000.
64. Permanent accounts would not include:
- A. Interest expense.
  - B. Wages payable.
  - C. Prepaid rent.
  - D. Unearned revenues.
65. A future economic benefit owned or controlled by an entity is:
- A. A revenue.
  - B. An asset.
  - C. A liability.
  - D. A contra asset until used.
66. On November 1, 2009, Tim's Toys borrows \$30,000,000 at 9% to finance the holiday sales season. The note is for a six-month term and both principal and interest are payable at maturity. What should be the balance of interest payable for the loan as of December 31, 2009?
- A. \$ 112,500.
  - B. \$ 225,000.
  - C. \$ 450,000.
  - D. \$1,350,000.
67. Fink Insurance collected premiums of \$18,000,000 from its customers during the current year. The adjusted balance in the Unearned premiums account increased from \$6 million to \$8 million dollars during the year. What was Fink's revenues from earned insurance premiums for the current year?
- A. \$10,000,000.
  - B. \$16,000,000.
  - C. \$18,000,000.
  - D. \$20,000,000.

68. Eve's Apples opened business on January 1, 2009, and paid for two insurance policies effective that date. The liability policy was \$36,000 for eighteen-months, and the crop damage policy was \$12,000 for a two-year term. What was the balance in Eve's prepaid insurance as of December 31, 2009?
- A. \$ 9,000.
  - B. \$18,000.
  - C. \$30,000.
  - D. \$48,000.
69. In its first year of operations Acme Corp. had income before tax of \$400,000. Acme made income tax payments totaling \$150,000 during the year and has an income tax rate of 40%. What would be the balance in income tax payable at the end of the year?
- A. \$160,000 credit.
  - B. \$150,000 credit.
  - C. \$ 10,000 credit.
  - D. \$ 10,000 debit.
70. 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.
71. 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.
72. Making insurance payments in advance is an example of:
- A. An accrued receivable transaction.
  - B. An accrued liability transaction.
  - C. An unearned revenue transaction.
  - D. A prepaid expense transaction.
73. Recording revenue earned, but not yet collected, from a customer is an example of:
- A. A prepaid expense transaction.
  - B. An unearned revenue transaction.
  - C. An accrued liability transaction.
  - D. An accrued receivable transaction.
74. Cost of goods sold is:
- A. An asset account.
  - B. A revenue account.
  - C. An expense account.
  - D. A permanent equity account.

75. Presented below is income statement information of the Nebraska Corporation for the year ended

	Sales revenue	620,000	Cost of goods sold	355,000
	Salaries expense	90,000	Insurance expense	20,000
	Dividend revenue	3,000	Amortization expense	18,000
	Miscellaneous expense	12,000	Income tax expense	35,000
December 31, 2009.	Loss on sale of investments	8,000	Rent expense	10,000

**Required:** Prepare the necessary closing entries at December 31, 2009.

76. Kline's 12/31/09 total shareholders' equity:

77. Kline's 12/31/09 total current assets:

The December 31, 2009 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

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

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



78. Kline's 2009 net income (or loss):

79. Based on the information presented above, prepare the 12/31/09 Balance Sheet for Krafty Foods.

The following information, based on the 12/31/09 Annual Report to Shareholders of Krafty Foods (\$ in

Accounts payable	1,897
Accounts receivable (net)	3,131
Accrued liabilities and taxes	4,105
Cash and cash equivalents	162
Cost of sales	17,531
Current payables to parent and affiliates	1,652
Current portion of long term debt	540
Deferred income taxes and other liabilities	10,311
Retained earnings as of 12/31/09	2,391
Goodwill and other intangibles (net)	35,957
Income tax expense	1,565
Interest and other debt expense	1,437
Inventories	3,026
Long-term debt	8,134
Long term notes payable to parent and affiliates	5,000
Marketing, general and admin expenses	11,460
Operating revenues	33,875
Other current assets	687
Other non current assets	3,726
Other shareholders' equity	(2,568)
Paid in capital for common and preferred shares	23,655
Property, plant and equipment	9,109
Short term borrowings	681

millions),

80. Based on the information presented above, prepare the 2009 Income Statement for Krafty Foods.

81. Prepare an income statement for China Tea Company for the year ended December 31, 2009.

82. Prepare a classified balance sheet for China Tea Company as of December 31, 2009.

The adjusted trial balance for China Tea Company at December 31, 2009 is presented below:

	Debit	Credit
Cash	10,500	
Accounts receivable	150,000	
Allowance for uncollectible accounts		10,000
Prepaid rent	5,000	
Inventory	25,000	
Equipment	300,000	
Accumulated amortization-equipment		125,000
Accounts payable		20,000
Notes payable-due in three months		30,000
Salaries payable		4,000
Interest payable		1,000
Share capital		200,000
Retained earnings		50,000
Sales revenue		400,000
Cost of goods sold	180,000	
Salaries expense	120,000	
Rent expense	15,000	
Amortization expense	30,000	
Interest expense	2,000	
Bad debt expense	2,500	
Totals	840,000	840,000

83. Prepare the closing entries for China Tea Company for the year ended December 31, 2009.

84. Additional Information: Supplies purchased during the year for \$1,000 were recorded by a debit to supplies expense and a credit to cash. Only \$200 of supplies remain at the end of the year, but no further entries have been made

Assets:

Liabilities:

Owners' Equity

Net income

85. Additional Information: Interest earned during the year on a note receivable was not yet collected or recorded  
Assets:  
Liabilities:  
Owners' Equity  
Net income
86. Additional Information: Cash Dividends declared and paid in December 2009 were unrecorded  
Assets:  
Liabilities:  
Owners' Equity  
Net income:
87. Additional Information: \$10,000 of the rent revenue collected and recorded as earned this year pertains to 2010  
Assets:  
Liabilities:  
Owners' Equity  
Net income:
88. Additional Information: The journal entry for amortization on equipment for 2009 was recorded for \$48,000. It should have been \$66,000  
Assets:  
Liabilities:  
Owners' Equity  
Net income:

89. Additional Information: Uncollectible accounts of \$7,000 are estimated at the end of the year and recorded as a debit to Bad debts expense and a credit to Accounts receivable. This entry has not been made

Assets:

Liabilities:

Owners' Equity

Net income:

90. Additional Information:\$4,000 in cash dividends were declared and paid in December of 2009 but not recorded

Assets:

Liabilities:

Owners' Equity:

Net income

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/09. 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 2009 Income Statement and 12/31/09 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

91. Additional Information:\$20,000 in amortization on some equipment was unrecorded

Assets:

Liabilities:

Owners' Equity:

Net income

92. Additional Information: \$10,000 of the paid and recorded rent expense pertains to 2010

Assets:

Liabilities:

Owners' Equity:

Net income

93. Additional Information: The estimated uncollectible accounts receivable is now zero but should be \$25,000

Assets:

Liabilities:

Owners' Equity:

Net income

94. Additional Information: \$2,000 interest on loan was not yet paid or recorded

Assets:

Liabilities:

Owners' Equity:

Net income:

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 2009 Income Statement and 12/31/09 Balance Sheet. Assume no income taxes. Use the following code for your answers and be sure to include the dollar amounts of the effects:

0 = No Effect

+ = Overstated

- = Understated

95. 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,

	Debit	Credit
Interest expense	1,800	
Interest payable		1,800
Insurance expense	60,000	
Prepaid insurance		60,000
Interest receivable	3,000	
2009:      Interest revenue		3,000

Additional information:

The company borrowed \$30,000 on June 30, 2009. Principal and interest are due on June 30, 2010. This note is the company's only interest-bearing debt.

Insurance for the year on the company's office buildings is \$90,000. The insurance is paid in advance.

On August 31, 2009, 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:

What is the interest rate on the company's note payable?

The 2009 insurance payment was made at the beginning of which month?

How much did Yankel lend its customer on August 31?

96. The following is selected financial information for Osmond Dental Laboratories for 2008 and

	2008	2009
Retained earnings January 1	\$53,500	?
Net income	37,000	42,000
Dividends declared and paid	15,000	18,000
2009:      Share capital	70,000	?

Osmond issued 2,000 shares of additional share capital in 2009 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, 2009.

97. Flint Hills, Inc. has prepared a year-end 2009 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.  
The Supplies account shows a balance of \$540, but a count of supplies reveals only \$210 on hand. 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.  
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.  
On December 31, 2009, Flint Hills received a utility bill for December electricity usage of \$190 that will be paid in early January.
98. Prepare journal entries to record the following transactions of Daisy King Ice Cream Company. If an entry is not required, state "No Entry."  
Started business by issuing 10,000 shares of share capital for \$20,000.  
Signed a franchise agreement to pay royalties of 5% of sales.  
Leased a building for three years at \$500 per month and paid six months' rent in advance.  
Purchased equipment for \$5,400, paying \$1,000 down and signing a two-year, 10% note for the balance.  
Purchased \$1,800 of supplies on account.  
Recorded cash sales of \$800 for the first week.  
Paid weekly wages, \$320.  
Paid for supplies purchased in item (e).  
Paid royalties due on first week's sales.  
Recorded amortization on equipment, \$50.
99. 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."  
Purchased \$8,200 of inventory on account.  
Paid weekly salaries, \$920.  
Recorded sales for the first week: Cash: \$7,100; On account: \$5,300.  
Paid for inventory purchased in event (a.)  
Placed an order for \$6,200 of inventory.

100. An example of a contra account is:
- A. Amortization expense.
  - B. Accounts receivable.
  - C. Sales revenue.
  - D. Accumulated amortization.
101. Which of the following accounts has a debit balance?
- A. Accounts payable.
  - B. Accrued taxes.
  - C. Accumulated amortization.
  - D. Bad debt expense.
102. 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.
103. Mary Parker Co. invested \$15,000 in ABC Corporation and received share capital 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 share capital
  - D. Debit to expense.
104. A sale on account would be recorded by:
- A. Debiting revenue.
  - B. Crediting assets.
  - C. Crediting liabilities.
  - D. Debiting assets.
105. Incurring an expense for advertising on account would be recorded by:
- A. Debiting liabilities.
  - B. Crediting assets.
  - C. Debiting an expense.
  - D. Debiting assets.
106. XYZ Corporation receives \$100,000 from investors in exchange for common shares. XYZ's journal entry to record this transaction would include a:
- A. Debit to investments.
  - B. Credit to retained earnings.
  - C. Credit to share capital
  - D. Credit to revenue.
107. Examples of internal transactions include all of the following except:
- A. Writing off an uncollectible account.
  - B. Recording the expiration of prepaid insurance.
  - C. Recording unpaid wages.
  - D. Paying wages to company employees.
108. Examples of external transactions include all of the following except:
- A. Paying employees salaries.
  - B. Purchasing equipment.
  - C. Depreciating equipment.
  - D. Collecting a receivable.



109. The accounting equation can be stated as:

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

110. \_\_\_\_\_ Expenses incurred but not yet paid.  
\_\_\_\_\_

111. \_\_\_\_\_ A list of the general ledger accounts and their balances.  
\_\_\_\_\_

112. \_\_\_\_\_ Revenue earned before cash is received.  
\_\_\_\_\_

113. \_\_\_\_\_ Asset recorded when an expense is paid for in advance.  
\_\_\_\_\_

114. \_\_\_\_\_ Collection of storage areas, called accounts.  
\_\_\_\_\_

115. \_\_\_\_\_ Changes in the retained earnings component of shareholders' equity.  
\_\_\_\_\_

116. \_\_\_\_\_ Last step in the accounting processing cycle.  
\_\_\_\_\_

117. \_\_\_\_\_ Cash received from a customer in advance of providing a good or service.  
\_\_\_\_\_

118. \_\_\_\_\_ Records the effects of internal transactions.  
\_\_\_\_\_

119. \_\_\_\_\_ Refers to inflows of assets from the sale of goods and services.  
\_\_\_\_\_

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

**Terms:**

- A. Prepaid Expense
- B. Accrued liabilities
- C. Accrued receivables
- D. Unadjusted trial balance
- E. General ledger
- F. Revenues
- G. Post-closing trial balance
- H. Adjusting entries
- I. Temporary accounts
- J. Unearned revenues

120. \_\_\_\_\_ Determines the effects of an event in terms of the accounting equation.  
\_\_\_\_\_

121. \_\_\_\_\_ Liabilities created by a customer's prepayment.  
\_\_\_\_\_

122. \_\_\_\_\_ Used to record repetitive types of transactions.  
\_\_\_\_\_

123. \_\_\_\_ Used to identify external transactions.  
\_\_\_\_\_

124. \_\_\_\_ Refers to inflows of assets from the sale of goods and services.  
\_\_\_\_\_

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

**Terms:**

- A. Control accounts
- B. Journalize
- C. Liabilities
- D. Transaction analysis
- E. Special journals
- F. Revenues
- G. Source documents
- H. Retained earnings
- I. Post
- J. Unearned revenues

125. \_\_\_\_ Used to record repetitive types of transactions.  
\_\_\_\_\_

126. \_\_\_\_ Represents the cumulative amount of net income, less distributions to shareholders.  
\_\_\_\_\_

127. \_\_\_\_ Refers to nonowners' claims against the assets of a firm.  
\_\_\_\_\_

128. \_\_\_\_ Record chronologically the effects of transactions in debit/credit form.  
\_\_\_\_\_

129. \_\_\_\_ Transfer balances from journals to ledgers.  
\_\_\_\_\_

130. \_\_\_\_ Used to reset temporary accounts to a zero balance.  
\_\_\_\_\_

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- E. Special journals
- F. Revenues
- G. Source documents
- H. Retained earnings
- I. Post
- J. Unearned revenues

131. \_\_\_\_ Contains all the accounts of an entity.  
\_\_\_\_\_

132. \_\_\_\_ Used to record any type of transaction in chronological order.  
\_\_\_\_\_

133. \_\_\_\_ Asset and expense accounts normally have this type of balance.

\_\_\_\_\_

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

**Terms:**

- A. Closing entries
- B. Credit
- C. Debit
- D. Gains
- E. General journal
- F. General ledger
- G. Losses
- H. Periodic system
- I. Perpetual system
- J. Prepayments

134. \_\_\_\_ Refers to the right side of an account.

\_\_\_\_\_

135. \_\_\_\_ When cash flow precedes either expense or revenue recognition.

\_\_\_\_\_

136. \_\_\_\_ Requires entries to cost of goods sold account when merchandise is sold.

\_\_\_\_\_

137. \_\_\_\_ Requires adjusting entries to update the inventory account.

\_\_\_\_\_

138. \_\_\_\_ Recorded when there are dispositions of assets for consideration less than book values.

\_\_\_\_\_

139. \_\_\_\_ Recorded when there are dispositions of assets for consideration in excess of book values.

\_\_\_\_\_

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

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- E. General journal
- F. General ledger
- G. Losses
- H. Periodic system
- I. Perpetual system
- J. Prepayments

140. \_\_\_\_ The last step in the accounting processing cycle.

\_\_\_\_\_

141. \_\_\_\_ Represents outflows of resources incurred to generate revenues.

\_\_\_\_\_

142. \_\_\_\_ Portrays financial position at a point in time.

\_\_\_\_\_

143. \_\_\_\_ Records internal transactions not previously reported.

---

144. \_\_\_\_ Reports operating, investing, and financing activities.

---

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

**Terms:**

- A. Accruals
- B. Adjusted trial balance
- C. Adjusting entries
- D. Bad debt expense
- E. Balance sheet
- F. Prepayments
- G. Expenses
- H. Post-closing trial balance
- I. Cash flow statement
- J. Unadjusted trial balance

145. \_\_\_\_ A list of only permanent accounts and their balances prepared to show that the accounting equation is in balance.

---

146. \_\_\_\_ A list of accounts and their balances prepared before the effects of internal transactions are recorded.

---

147. \_\_\_\_ A list of accounts and balances containing the source data for preparation of financial statements.

---

148. \_\_\_\_ Assets or liabilities created when recognition precedes cash flows.

---

149. \_\_\_\_ Assets or liabilities created when cash flows precede recognition.

---

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

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

**Terms:**

- A. Accruals
- B. Adjusted trial balance
- C. Adjusting entries
- D. Bad debt expense
- E. Balance sheet
- F. Prepayments
- G. Expenses
- H. Post-closing trial balance
- I. Cash flow statement
- J. Unadjusted trial balance

151. The post-closing trial balance contains only permanent accounts.  
True False

152. The closing process brings all temporary accounts to a zero balance and updates the balance in the retained earnings account.  
True False
153. A reversing entry at the beginning of a period for salaries would include a debit to salaries expense.  
True False
154. The sale of merchandise on account would be recorded in a sales journal.  
True False
155. The Cash flow statement summarizes transactions that caused cash and cash equivalents to change during a reporting period.  
True False
156. The statement of shareholders' equity discloses the changes in the temporary shareholders' equity accounts.  
True False
157. Accruals occur when the cash flow precedes either revenue or expense recognition.  
True False
158. The adjusted trial balance contains only permanent accounts.  
True False
159. The income statement summarizes the operating activity of a firm at a particular point in time.  
True False
160. The balance sheet can be considered a change or flow statement.  
True False
161. Balance sheet accounts are referred to as temporary accounts because their balances are always changing.  
True False
162. After an unadjusted trial balance is prepared, the next step in the accounting processing cycle is the preparation of financial statements.  
True False
163. Adjusting journal entries are required to comply with the realization and matching principles.  
True False
164. Owners' equity can be expressed as assets minus liabilities.  
True False
165. Debits increase asset accounts and decrease liability accounts.  
True False
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True False
167. Debits increase asset accounts and decrease liability accounts.  
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168. Balance sheet accounts are referred to as temporary accounts because their balances are always changing.  
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180. The sale of merchandise on account would be recorded in a sales journal.  
True False
181. The payment of cash to a supplier would be recorded in a purchases journal.  
True False
182. \_\_\_\_ Assets or liabilities created when recognition precedes cash flows.  
\_\_\_\_\_
183. \_\_\_\_ Assets or liabilities created when cash flows precede recognition.  
\_\_\_\_\_
184. \_\_\_\_ A list of accounts and balances containing the source data for preparation of financial statements.  
\_\_\_\_\_
185. \_\_\_\_ A list of accounts and their balances prepared before the effects of internal transactions are recorded.  
\_\_\_\_\_
186. \_\_\_\_ A list of only permanent accounts and their balances prepared to show that the accounting equation is in balance.  
\_\_\_\_\_
187. \_\_\_\_ Reports operating, investing, and financing activities.  
\_\_\_\_\_

188. \_\_\_\_ Records internal transactions not previously reported.  
\_\_\_\_\_
189. \_\_\_\_ Portrays financial position at a point in time.  
\_\_\_\_\_
190. \_\_\_\_ Represents outflows of resources incurred to generate revenues.  
\_\_\_\_\_
191. \_\_\_\_ The last step in the accounting processing cycle.  
\_\_\_\_\_
192. \_\_\_\_ Recorded when there are dispositions of assets for consideration in excess of book values.  
\_\_\_\_\_
193. \_\_\_\_ Recorded when there are dispositions of assets for consideration less than book values.  
\_\_\_\_\_
194. \_\_\_\_ Requires adjusting entries to update the inventory account.  
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195. \_\_\_\_ Requires entries to cost of goods sold account when merchandise is sold.  
\_\_\_\_\_
196. \_\_\_\_ When cash flow precedes either expense or revenue recognition.  
\_\_\_\_\_
197. \_\_\_\_ Refers to the right side of an account.  
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198. \_\_\_\_ Asset and expense accounts normally have this type of balance.  
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199. \_\_\_\_ Used to record any type of transaction in chronological order.  
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200. \_\_\_\_ Contains all the accounts of an entity.  
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201. \_\_\_\_ Used to reset temporary accounts to a zero balance.  
\_\_\_\_\_
202. \_\_\_\_ Transfer balances from journals to ledgers.  
\_\_\_\_\_
203. \_\_\_\_ Record chronologically the effects of transactions in debit/credit form.  
\_\_\_\_\_
204. \_\_\_\_ Refers to nonowners' claims against the assets of a firm.  
\_\_\_\_\_
205. \_\_\_\_ Represents the cumulative amount of net income, less distributions to shareholders.  
\_\_\_\_\_
206. \_\_\_\_ Used to record repetitive types of transactions.  
\_\_\_\_\_
207. \_\_\_\_ Refers to inflows of assets from the sale of goods and services.  
\_\_\_\_\_
208. \_\_\_\_ Used to identify external transactions.  
\_\_\_\_\_

209. \_\_\_\_ Used to record repetitive types of transactions.  
\_\_\_\_\_
210. \_\_\_\_ Liabilities created by a customer's prepayment.  
\_\_\_\_\_
211. \_\_\_\_ Determines the effects of an event in terms of the accounting equation.  
\_\_\_\_\_
212. \_\_\_\_ Refers to inflows of assets from the sale of goods and services.  
\_\_\_\_\_
213. \_\_\_\_ Records the effects of internal transactions.  
\_\_\_\_\_
214. \_\_\_\_ Cash received from a customer in advance of providing a good or service.  
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215. \_\_\_\_ Last step in the accounting processing cycle.  
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216. \_\_\_\_ Changes in the retained earnings component of shareholders' equity.  
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217. \_\_\_\_ Collection of storage areas, called accounts.  
\_\_\_\_\_
218. \_\_\_\_ Asset recorded when an expense is paid for in advance.  
\_\_\_\_\_
219. \_\_\_\_ Revenue earned before cash is received.  
\_\_\_\_\_
220. \_\_\_\_ A list of the general ledger accounts and their balances.  
\_\_\_\_\_
221. \_\_\_\_ Expenses incurred but not yet paid.  
\_\_\_\_\_
222. The accounting equation can be stated as:  
A.  $A + L - OE = 0$ .  
B.  $A - L + OE = 0$ .  
C.  $- A + L - OE = 0$ .  
D.  $A - L - OE = 0$ .
223. Examples of external transactions include all of the following except:  
A. Paying employees salaries.  
B. Purchasing equipment.  
C. Depreciating equipment.  
D. Collecting a receivable.
224. Examples of internal transactions include all of the following except:  
A. Writing off an uncollectible account.  
B. Recording the expiration of prepaid insurance.  
C. Recording unpaid wages.  
D. Paying wages to company employees.



225. XYZ Corporation receives \$100,000 from investors in exchange for common shares. XYZ's journal entry to record this transaction would include a:
- Debit to investments.
  - Credit to retained earnings.
  - Credit to share capital
  - Credit to revenue.
226. Incurring an expense for advertising on account would be recorded by:
- Debiting liabilities.
  - Crediting assets.
  - Debiting an expense.
  - Debiting assets.
227. A sale on account would be recorded by:
- Debiting revenue.
  - Crediting assets.
  - Crediting liabilities.
  - Debiting assets.
228. Mary Parker Co. invested \$15,000 in ABC Corporation and received share capital in exchange. Mary Parker Co.'s journal entry to record this transaction would include a:
- Debit to investments.
  - Credit to retained earnings.
  - Credit to share capital
  - Debit to expense.
229. 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:
- Credit to cash.
  - Debit to cash discount.
  - Debit to note receivable.
  - Credit to note receivable.
230. Somerset Leasing received \$12,000 for 24 months rent in advance. How should Somerset record this transaction?
- |                                 |        |        |
|---------------------------------|--------|--------|
| A. Prepaid Rent                 | 12,000 |        |
| Rent Expense                    |        | 12,000 |
|                                 |        |        |
| B. Cash                         | 12,000 |        |
| Unearned revenue                | 12,000 |        |
|                                 |        |        |
| C. Interest Expense             | 12,000 |        |
| Interest payable                |        | 12,000 |
|                                 |        |        |
| D. Bad debt expense             | 12,000 |        |
| Allowance for doubtful accounts |        | 12,000 |
- Option A
  - Option B
  - Option C
  - Option D

231. Davis Hardware Company uses a perpetual inventory system. How should Davis record the sale of

A. Inventory	620	
Accounts Receivable		620
Sales	960	
Revenue from sales		960
B. Accounts Receivable	960	
Sales revenue		960
Cost of Goods Sold	620	
Inventory		620
C. Inventory	620	
Gain on Sale	340	
Sales Revenue		960
D. Accounts Receivable	960	
Sales Revenue		620
Gain on Sale		340

merchandise costing \$620 for \$960 on account?

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

232. Ace Bonding Company purchased merchandise inventory on account. The inventory costs \$2,000 and is

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

expected to sell for \$3,000. How should Ace record the purchase?

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

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

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

234. An example of a contra account is:

- A. Amortization expense.
- B. Accounts receivable.
- C. Sales revenue.
- D. Accumulated amortization.

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

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

236. Recording revenue earned, but not yet collected, from a customer is an example of:
- A. A prepaid expense transaction.
  - B. An unearned revenue transaction.
  - C. An accrued liability transaction.
  - D. An accrued receivable transaction.
237. When a magazine sells subscriptions to customers, it is an example of:
- A. An accrued liability transaction.
  - B. An accrued receivable transaction.
  - C. A prepaid expense transaction.
  - D. An unearned revenue transaction.
238. On December 31, 2009, Coolwear, Inc. had balances in its accounts receivable and allowance for uncollectible accounts of \$48,400 and \$0, respectively. No receivables were written off during the year. At the end of 2009, Coolwear estimated that \$2,100 in receivables would not be collected. Bad debt expense for 2009 would be:
- A. \$ 0.
  - B. \$46,300.
  - C. \$ 1,050.
  - D. \$ 2,100.
239. Adjusting entries are primarily needed for:
- A. Cash basis accounting.
  - B. Accrual accounting.
  - C. Current value accounting.
  - D. Manual accounting systems.
240. 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.
241. 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.
242. On December 31, 2009, 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 2009 balance sheet will be valued at:
- A. \$53,600.
  - B. \$54,800.
  - C. \$52,400.
  - D. \$ 1,200.
243. 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.

244. Which of the following would not be an adjusting entry?
- A. Prepaid Rent  
    Rent expense
  - B. Cash  
    Unearned revenue
  - C. Interest expense  
    Interest payable
  - D. Bad debt expense  
    Allowance for uncollectible  
    accounts
245. The adjusting entry required when amounts previously recorded as unearned revenues are earned includes:
- A. A debit to a liability.
  - B. A debit to an asset.
  - C. A credit to a liability.
  - D. A credit to an asset.
246. When a tenant makes an end-of-period adjusting entry credit to the "Prepaid rent" account:
- A. (S) he usually debits cash.
  - B. (S) he usually debits an expense account.
  - C. (S) he debits a liability account.
  - D. (S) he does none of these.
247. When an employer 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.
248. 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.
249. 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.

250. Yummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2009, and charged the \$4,200 premium to Insurance expense. At its December 31, 2009, year-end, Yummy Foods

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

would record which of the following adjusting entries?

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

251. 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

A. Salaries expense	22,400
Prepaid salaries	9,600
Salaries payable	32,400
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

to record accrued salaries at the end of June?

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

252. On September 1, 2009, Fortune Magazine sold 600 one-year subscriptions for \$81 each. The total amount received was credited to unearned subscriptions revenue. What would be the required adjusting entry at

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

December 31, 2009?

- A. Option A
- B. Option B
- C. Option C
- D. Option D
- E. Entry on 9/1: Cash 48,600  
Unearned subscription revenue 48,600

253. Mama's Pizza Shoppe borrowed \$8,000 at 9% interest on May 1, 2009, with principal and interest due on October 31, 2010. The company's fiscal year ends June 30, 2009. What adjusting entry would the

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

company record on June 30, 2009?

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

254. On September 15, 2009, Oliver's Mortuary received a \$6,000, nine-month note bearing interest at an annual rate of 10% from the estate of Jay Hendrix for services rendered. Oliver's has a December 31 year-end. What adjusting entry would the company record on December 31, 2009?

A. Interest receivable	175
Interest revenue	175
B. Interest receivable	230
Interest revenue	230
C. Interest receivable	175
Notes receivable	175
D. Interest receivable	600
Interest revenue	175
Cash	425

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

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

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

256. Eve's Apples opened business on January 1, 2009, and paid for two insurance policies effective that date. The liability policy was \$36,000 for eighteen-months, and the crop damage policy was \$12,000 for a two-year term. What was the balance in Eve's prepaid insurance as of December 31, 2009?

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

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

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

258. On November 1, 2009, Tim's Toys borrows \$30,000,000 at 9% to finance the holiday sales season. The note is for a six-month term and both principal and interest are payable at maturity. What should be the balance of interest payable for the loan as of December 31, 2009?
- A. \$ 112,500.
  - B. \$ 225,000.
  - C. \$ 450,000.
  - D. \$1,350,000.
259. A future economic benefit owned or controlled by an entity is:
- A. A revenue.
  - B. An asset.
  - C. A liability.
  - D. A contra asset until used.
260. Cost of goods sold is:
- A. An asset account.
  - B. A revenue account.
  - C. An expense account.
  - D. A permanent equity account.
261. 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.
262. 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
263. Dave's Duds reported cost of goods sold of \$2,000,000 this year. The inventory account increased by \$200,000 during the year to an ending balance of \$400,000. What was the cost of merchandise that Dave purchased during the year?
- A. \$1,600,000.
  - B. \$1,800,000.
  - C. \$2,200,000.
  - D. \$2,400,000.
264. Permanent accounts would not include:
- A. Interest expense.
  - B. Wages payable.
  - C. Prepaid rent.
  - D. Unearned revenues.
265. Permanent accounts would not include:
- A. Cost of goods sold.
  - B. Inventory.
  - C. Current liabilities.
  - D. Accumulated amortization.

266. 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.
267. Temporary accounts would not include:
- A. Salaries payable.
  - B. Amortization expense.
  - C. Supplies expense.
  - D. Cost of goods sold.
268. 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.
269. 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.
270. When converting an income statement from a cash basis to an accrual basis, which of the following is incorrect?
- A. An adjustment for amortization reduces the net income.
  - B. An adjustment for bad debts increases the net income.
  - C. A reduction in prepaid expenses decreases net income.
  - D. An increase in accrued payables decreases net income.
271. Molly's Auto Detailers maintains its records on the cash basis. During 2009, Molly's collected \$72,000 from customers and paid \$21,000 in expenses. Amortization expense of \$5,000 would have been recorded on the accrual basis. Over the course of the year, accounts receivable increased \$4,000, prepaid expenses decreased \$2,000, and accrued liabilities decreased \$1,000. Molly's accrual basis net income would be:
- A. \$38,000.
  - B. \$54,000.
  - C. \$49,000.
  - D. \$42,000.
272. 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. Amortization expense totaled \$2,000. Accounts receivable increased \$1,500, supplies increased \$4,000, and accrued liabilities increased \$2,500. Pat's accrual basis net income would be:
- A. \$18,000.
  - B. \$34,000.
  - C. \$23,000.
  - D. \$29,000.
273. The Hamada Company sales for 2009 totaled \$150,000 and purchases totaled \$95,000. Selected January 1, 2009, balances were: accounts receivable, \$18,000; inventory, \$14,000; and accounts payable, \$12,000. December 31, 2009, 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.



274. When the amount of interest receivable decreases during an accounting period:
- Accrual-basis interest revenues exceed cash collections from borrowers.
  - Accrual-basis net income exceeds cash-basis net income.
  - Accrual-basis interest revenues are less than cash collections from borrowers.
  - Accrual-basis net income is less than cash-basis net income.
275. When converting an income statement from a cash basis to an accrual basis, cash received for services:
- Exceed service revenue.
  - May exceed or be less than service revenue.
  - Is less than service revenue.
  - Equals service revenue.

276. 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

Accounts Receivable	Accrued Liabilities
---------------------	---------------------

- |        |     |
|--------|-----|
| A. Yes | No  |
| B. No  | Yes |
| C. Yes | Yes |
| D. No  | No  |

- of
- Option A
  - Option B
  - Option C
  - Option D

277. 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

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

278. 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

Prepaid insurance at January 1	\$52,200
Insurance expense recognized during the year	218,750
Prepaid insurance at December 31	61,250

follows:

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

- \$218,750
- \$166,250
- \$210,000
- \$227,500

279. Buildings and equipment (B&E)

280. Short-term notes payable

281. Cost of goods sold

282. Accounts receivable

283. Inventory

284. Unearned revenues

285. Property taxes payable

286. Retained earnings

287. Interest revenue

288. Supplies expense

289. Allowance for uncollectible accounts

290. Share capital

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

	Accounts Debited	Accounts credited	Transaction type
Transaction: Purchased building and equipment for \$10,000,000, paying 20% cash and Issuing a 30 year note for balance	1321	1111, 2211	1

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

	Accounts Debited	Accounts credited	Transaction type
Transaction: Invested idle cash in short term money Market funds	1121	1111	1

293. Purchased inventory on account.

	Accounts Debited	Accounts credited	Transaction type
Transaction: Purchased inventory on account	1141	2121	1

294. Sold inventory on account.

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

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

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

298. Collected cash on account from customers.

299. Sold inventory for cash.

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

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

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

303. Paid property taxes that have already been accrued.

304. Declared cash dividends on common shares

305. Paid rent for the next three months.

306. 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."

Purchased \$8,200 of inventory on account.

Paid weekly salaries, \$920.

Recorded sales for the first week: Cash: \$7,100; On account: \$5,300.

Paid for inventory purchased in event (a.)

Placed an order for \$6,200 of inventory.

307. Prepare journal entries to record the following transactions of Daisy King Ice Cream Company. If an entry is not required, state "No Entry."
- Started business by issuing 10,000 shares of share capital for \$20,000.
  - Signed a franchise agreement to pay royalties of 5% of sales.
  - Leased a building for three years at \$500 per month and paid six months' rent in advance.
  - Purchased equipment for \$5,400, paying \$1,000 down and signing a two-year, 10% note for the balance.
  - Purchased \$1,800 of supplies on account.
  - Recorded cash sales of \$800 for the first week.
  - Paid weekly wages, \$320.
  - Paid for supplies purchased in item (e).
  - Paid royalties due on first week's sales.
  - Recorded amortization on equipment, \$50.

308. Flint Hills, Inc. has prepared a year-end 2009 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.

The Supplies account shows a balance of \$540, but a count of supplies reveals only \$210 on hand.

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.

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.

On December 31, 2009, Flint Hills received a utility bill for December electricity usage of \$190 that will be paid in early January.

309. The following is selected financial information for Osmond Dental Laboratories for 2008 and

	2008	2009
Retained earnings January 1	\$53,500	?
Net income	37,000	42,000
Dividends declared and paid	15,000	18,000
2009: Share capital	70,000	?

Osmond issued 2,000 shares of additional share capital in 2009 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, 2009.

310. 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,

	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

2009:

Additional information:

The company borrowed \$30,000 on June 30, 2009. Principal and interest are due on June 30, 2010. This note is the company's only interest-bearing debt.

Insurance for the year on the company's office buildings is \$90,000. The insurance is paid in advance.

On August 31, 2009, 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:

What is the interest rate on the company's note payable?

The 2009 insurance payment was made at the beginning of which month?

How much did Yankel lend its customer on August 31?

311. Additional Information: \$2,000 interest on loan was not yet paid or recorded

Assets:

Liabilities:

Owners' Equity:

Net income:

312. Additional Information: The estimated uncollectible accounts receivable is now zero but should be \$25,000

Assets:

Liabilities:

Owners' Equity:

Net income



313. Additional Information: \$10,000 of the paid and recorded rent expense pertains to 2010

Assets:

Liabilities:

Owners' Equity:

Net income

314. Additional Information: \$20,000 in amortization on some equipment was unrecorded

Assets:

Liabilities:

Owners' Equity:

Net income

315. Additional Information: \$4,000 in cash dividends were declared and paid in December of 2009 but not recorded

Assets:

Liabilities:

Owners' Equity:

Net income

316. Additional Information: Uncollectible accounts of \$7,000 are estimated at the end of the year and recorded as a debit to Bad debts expense and a credit to Accounts receivable. This entry has not been made

Assets:

Liabilities:

Owners' Equity

Net income:

317. Additional Information: The journal entry for amortization on equipment for 2009 was recorded for \$48,000. It should have been \$66,000

Assets:

Liabilities:

Owners' Equity

Net income:

318. Additional Information: Cash Dividends declared and paid in December 2009 were unrecorded

Assets:

Liabilities:

Owners' Equity

Net income:

319. Additional Information: \$10,000 of the rent revenue collected and recorded as earned this year pertains to 2010

Assets:

Liabilities:

Owners' Equity

Net income:

320. Additional Information: Interest earned during the year on a note receivable was not yet collected or recorded

Assets:

Liabilities:

Owners' Equity

Net income

321. Additional Information: Supplies purchased during the year for \$1,000 were recorded by a debit to supplies expense and a credit to cash. Only \$200 of supplies remain at the end of the year, but no further entries have been made
- Assets:
  - Liabilities:
  - Owners' Equity
  - Net income
322. Prepare the closing entries for China Tea Company for the year ended December 31, 2009.
323. Prepare an income statement for China Tea Company for the year ended December 31, 2009.
324. Prepare a classified balance sheet for China Tea Company as of December 31, 2009.
325. Based on the information presented above, prepare the 2009 Income Statement for Krafty Foods.
326. Based on the information presented above, prepare the 12/31/09 Balance Sheet for Krafty Foods.

327.Kline's 2009 net income (or loss):

328.Kline's 12/31/09 total current assets:

329.Kline's 12/31/09 total shareholders' equity:

330.Presented below is income statement information of the Nebraska Corporation for the year ended

	Sales revenue	620,000	Cost of goods sold	355,000
	Salaries expense	90,000	Insurance expense	20,000
	Dividend revenue	3,000	Amortization expense	18,000
	Miscellaneous expense	12,000	Income tax expense	35,000
December 31, 2009.	Loss on sale of investments	8,000	Rent expense	10,000

**Required:** Prepare the necessary closing entries at December 31, 2009.

331. Prepare an accrual basis income statement for 2009 (ignore income taxes).

Determine the following balance sheet amounts on December 31, 2009:

- a. Interest receivable
- b. Prepaid insurance
- c. Prepaid rent

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,

Cash receipts:

From customers	450,000
Interest on note	3,000
Issue of common shares	<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 paid	<u>12,000</u>
Total cash disbursements	<u>427,000</u>

2009:

Selected balance sheet information:

	12/31/08	12/31/09
Cash	25,000	101,000
Accounts receivable	42,000	70,000
Inventory	60,000	?
Prepaid insurance	2,000	?
Prepaid rent	7,000	?
Note receivable	50,000	50,000
Equipment	150,000	150,000
Accumulated amortization	(40,000)	(55,000)
Accounts payable (inventory)	50,000	62,000
Salaries payable	20,000	28,000
Common shares	200,000	250,000

Additional information:

On June 30, 2008, Raintree lent a customer \$50,000. Interest at 6% is payable annually on each June 30. Principal is due in 2012.

The annual insurance payment is made in advance on March 31.

Annual rent on the company's facilities is paid in advance on September 30.

**Required:**

332. Prepare an adjusting entry to record accrued salaries, a reversing entry on January 1, 2010, and an entry to record the payment of wages on January 7, 2010.  
Prepare journal entries to record the accrued salaries on December 31 and the payment of salaries on January 7 assuming a reversing entry is not made.  
Silicon Chip Company's fiscal year-end is December 31. At the end of 2009, it owed employees \$22,000 in wages that will be paid on January 7, 2010.  
**Required:**
333. Describe the difference between external events and internal events and give two examples of each.
334. Describe what is meant by unearned revenues and give two examples.
335. What is an accrued liability?
336. What is the purpose of the Cash flow statement? List the three major categories of cash flows and give an example of a cash transaction for each category.

337. What is the purpose of the closing process?

## 02 Key