

## CHAPTER 3: THE ADJUSTING PROCESS

1. Even though GAAP requires the accrual basis of accounting, some businesses prefer using the cash basis of accounting.
- True
  - False

*ANSWER:* True

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

2. Generally accepted accounting principles require accrual-basis accounting.
- True
  - False

*ANSWER:* True

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

3. The revenue recognition concept states that revenue should be recorded in the same period as the cash is received.
- True
  - False

*ANSWER:* False

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

4. The system of accounting where revenues are recorded when they are earned and expenses are recorded when they are incurred is called the cash basis of accounting.
- True
  - False

**ANSWER:** False

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

5. The matching concept requires expenses be recorded in the same period that the related revenue is recorded.
- True
  - False

**ANSWER:** True

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

6. For most large businesses, the cash basis of accounting will provide accurate financial statements for user needs.
- True
  - False

**ANSWER:** False

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

7. An example of deferred revenue is Unearned Rent.
- True
  - False

**ANSWER:** True

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

8. Accruals are needed when an unrecorded expense has been incurred or an unrecorded revenue has been earned.
- True
  - False

*ANSWER:* True

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

9. If the debit portion of an adjusting entry is to an asset account, then the credit portion must be to a liability account.
- True
  - False

*ANSWER:* False

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.06 - Recording Transactions  
ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

10. Reporting of revenues and expenses in the proper period is due to the accounting period concept.
- True
  - False

*ANSWER:* True

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

11. The revenue recognition concept requires that the reporting of revenue be included in the period when cash for the service is received.
- True
  - False

*ANSWER:* False

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

12. Revenues and expenses should be recorded in the same period to which they relate.
- True
  - False

*ANSWER:* True

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.02 - GAAP  
ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

13. The matching concept supports matching expenses with the related revenues.
- True
  - False

*ANSWER:* True

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

14. The updating of accounts is called the adjusting process.
- True
  - False

**ANSWER:** True  
**DIFFICULTY:** Easy  
Bloom's: Remembering  
**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01  
**ACCREDITING STANDARDS:** ACCT.ACBSAPPC.06 - Recording Transactions  
ACCT.ACBSAPPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

15. Adjusting entries affect balance sheet accounts at the exclusion of income statement accounts.
- True
  - False

**ANSWER:** False  
**DIFFICULTY:** Moderate  
Bloom's: Remembering  
**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01  
**ACCREDITING STANDARDS:** ACCT.ACBSAPPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

16. Adjusting entries affect only expense and asset accounts.
- True
  - False

**ANSWER:** False  
**DIFFICULTY:** Moderate  
Bloom's: Remembering  
**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01  
**ACCREDITING STANDARDS:** ACCT.ACBSAPPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

17. An adjusting entry would adjust revenue so it is reported when earned and not when cash is received.
- True
  - False

**ANSWER:** True  
**DIFFICULTY:** Moderate  
Bloom's: Remembering  
**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01  
**ACCREDITING STANDARDS:** ACCT.ACBSAPPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

18. An adjusting entry would adjust an expense account so the expense is reported when incurred.
- True
  - False

*ANSWER:* True

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

19. An adjusting entry to accrue an incurred expense will affect total liabilities.
- True
  - False

*ANSWER:* True

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

20. The difference between deferred revenue and accrued revenue is that accrued revenue has been recorded and needs adjusting and deferred revenue has never been recorded.
- True
  - False

*ANSWER:* False

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

21. Deferrals are recorded transactions that delay the recognition of an expense or revenue.
- True
  - False

**ANSWER:** True  
**DIFFICULTY:** Easy  
Bloom's: Remembering  
**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01  
**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

22. Adjustments for accruals are needed to record a revenue that has been earned or an expense that has been incurred but not recorded.
- True
  - False

**ANSWER:** True  
**DIFFICULTY:** Moderate  
Bloom's: Remembering  
**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01  
**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

23. Unearned revenue is a liability.
- True
  - False

**ANSWER:** True  
**DIFFICULTY:** Moderate  
Bloom's: Remembering  
**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01  
**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.02 - GAAP  
ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

24. The systematic allocation of land's cost to expense is called depreciation.
- a. True
  - b. False

**ANSWER:** False

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.04 - Cash vs. Accrual  
ACCT.ACBSAPC.13 - Long-term Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

25. The difference between the balance of a fixed asset account and the balance of its related accumulated depreciation account is termed the book value of the asset.
- a. True
  - b. False

**ANSWER:** True

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.13 - Long-term Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

26. The balance in the accumulated depreciation account is the sum of the depreciation expense recorded in past periods.
- a. True
  - b. False

**ANSWER:** True

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.13 - Long-term Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic



## Chapter 3: The Adjusting Process

27. Accumulated depreciation accounts are liability accounts.

- a. True
- b. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.13 - Long-term Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

28. Accumulated depreciation is reported on the income statement.

- a. True
- b. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

29. A contra asset account for Land will normally appear on the balance sheet.

- a. True
- b. False

*ANSWER:* False

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.09 - Financial Statements  
ACCT.ACBSAPC.13 - Long-term Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

30. Depreciation Expense is reported on the balance sheet as an addition to the related asset.
- True
  - False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

31. A company pays \$36,000 for twelve months' rent on October 1, recording the prepayment as an asset. The adjusting entry on December 31 is a debit to Rent Expense, \$9,000, and a credit to Prepaid Rent, \$9,000.
- True
  - False

*ANSWER:* True

*DIFFICULTY:* Challenging

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

32. A company receives \$360 for a 12-month trade magazine subscription on August 1. The adjusting entry on December 31 is a debit to Unearned Subscription Revenue, \$150, and credit to Subscription Revenue, \$150.
- True
  - False

*ANSWER:* True

*DIFFICULTY:* Challenging

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

33. A company depreciates its equipment \$500 a year. The adjusting entry on December 31 is a debit to Depreciation Expense, \$500, and a credit to Equipment, \$500.
- a. True
  - b. False

*ANSWER:* False

*DIFFICULTY:* Challenging  
Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

34. A company pays an employee \$3,000 for a five day work week, Monday–Friday. The adjusting entry on December 31, which is a Wednesday, is a debit to Wages Expense, \$1,800, and a credit to Wages Payable, \$1,800.
- a. True
  - b. False

*ANSWER:* True

*DIFFICULTY:* Challenging  
Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

35. A company receives \$6,500 for two season tickets sold on September 1. If \$2,500 is earned by December 31, the adjusting entry made at that time is a debit to Cash, \$2,500, and a credit to Ticket Revenue, \$2,500.
- a. True
  - b. False

*ANSWER:* False

*DIFFICULTY:* Challenging  
Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

36. A company realizes that the last two days' revenue for the month was billed but not recorded. The adjusting entry on December 31 is a debit to Accounts Receivable and a credit to Fees Earned.
- True
  - False

**ANSWER:** True

**DIFFICULTY:** Challenging  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSAP.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

37. At year-end, the balance in the prepaid insurance account, prior to any adjustments, is \$6,000. The amount of the journal entry required to record insurance expense will be \$4,000 if the amount of unexpired insurance applicable to future periods is \$2,000.
- True
  - False

**ANSWER:** True

**DIFFICULTY:** Challenging  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSAP.APC.07 - Adjusting Entries  
ACCT.ACBSAP.APC.15 - Current Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

38. A fixed asset's market value is reflected on the balance sheet.
- True
  - False

**ANSWER:** False

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSAP.APC.02 - GAAP  
ACCT.ACBSAP.APC.13 - Long-term Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

39. If the adjustment for accrued salaries at the end of the period is inadvertently omitted, both liabilities and stockholders' equity will be understated for the period.
- a. True
  - b. False

*ANSWER:* False

*DIFFICULTY:* Challenging  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-03 - LO: 03-03

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

40. If the adjustment to recognize expired insurance at the end of the period is inadvertently omitted, the assets at the end of the period will be understated.
- a. True
  - b. False

*ANSWER:* False

*DIFFICULTY:* Challenging  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-03 - LO: 03-03

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

41. If the adjustment of the unearned rent account at the end of the period to recognize the amount of rent earned is inadvertently omitted, the net income for the period will be understated.
- a. True
  - b. False

*ANSWER:* True

*DIFFICULTY:* Challenging  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-03 - LO: 03-03

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

42. If the adjustment for depreciation for the year is inadvertently omitted, the assets on the balance sheet at the end of the period will be understated.
- a. True
  - b. False

*ANSWER:* False

*DIFFICULTY:* Challenging  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-03 - LO: 03-03

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

43. Adjusting journal entries are dated on the last day of the period.
- a. True
  - b. False

*ANSWER:* True

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-03 - LO: 03-03

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

44. By ignoring and not posting the adjusting journal entries to the appropriate accounts, net income will always be overstated.
- a. True
  - b. False

*ANSWER:* False

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-03 - LO: 03-03

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

45. The financial statements are prepared from the unadjusted trial balance.
- a. True
  - b. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-04 - LO: 03-04

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

46. The adjustment for accrued fees was debited to Accounts Payable instead of Accounts Receivable. This error will be detected when the adjusted trial balance is prepared.
- a. True
  - b. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-04 - LO: 03-04

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

47. The adjusted trial balance verifies that total debits equals total credits before the adjusting entries are prepared.
- a. True
  - b. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-04 - LO: 03-04

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

48. Vertical analysis compares each item in a financial statement with a total amount from the same statement.
- a. True
  - b. False

*ANSWER:* True

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-05 - LO: 03-05

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.09 - Financial Statements  
ACCT.ACBSAPC.23 - Financial Statement Analysis  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

49. When preparing an income statement vertical analysis, each revenue and expense is expressed as a percent of net income.
- a. True
  - b. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-05 - LO: 03-05

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.09 - Financial Statements  
ACCT.ACBSAPC.23 - Financial Statement Analysis  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

50. Vertical analysis is useful for analyzing financial statement changes over time.
- a. True
  - b. False

*ANSWER:* True

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-05 - LO: 03-05

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.09 - Financial Statements  
ACCT.ACBSAPC.23 - Financial Statement Analysis  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic



## Chapter 3: The Adjusting Process

51. The revenue recognition concept
- is not in conflict with the cash method of accounting
  - determines when revenue is credited to a revenue account
  - states that revenue is not recorded until the cash is received
  - controls all revenue reporting for the cash basis of accounting

*ANSWER:* b

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

52. The matching concept
- addresses the relationship between the journal and the balance sheet
  - determines whether the normal balance of an account is a debit or credit
  - requires that the dollar amount of debits equal the dollar amount of credits on a trial balance
  - states that the revenues and related expenses should be reported in the same period

*ANSWER:* d

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

53. Using accrual accounting, revenue is recorded and reported only
- when cash is received without regard to when the services are rendered
  - when the services are rendered without regard to when cash is received
  - when cash is received at the time services are rendered
  - if cash is received after the services are rendered

*ANSWER:* b

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

54. Using accrual accounting, expenses are recorded and reported only
- when they are incurred, whether or not cash is paid
  - when they are incurred and paid at the same time
  - if they are paid before they are incurred
  - if they are paid after they are incurred

*ANSWER:* a

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

55. The accounting concept upon which deferrals and accruals are based is
- matching
  - cost
  - price-level adjustment
  - conservatism

*ANSWER:* a

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.02 - GAAP  
ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

56. If the effect of the debit portion of an adjusting entry is to increase the balance of an expense account, which of the following describes the effect of the credit portion of the entry?
- decreases the balance of an stockholders' equity account
  - increases the balance of a liability account
  - increases the balance of an asset account
  - decreases the balance of an expense account

*ANSWER:* b

*DIFFICULTY:* Challenging  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

57. If the effect of the credit portion of an adjusting entry is to increase the balance of a liability account, which of the following describes the effect of the debit portion of the entry?
- a. increases the balance of a contra asset account
  - b. increases the balance of an asset account
  - c. decreases the balance of an stockholders' equity account
  - d. increases the balance of an expense account

*ANSWER:* d

*DIFFICULTY:* Challenging  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

58. Prior to the adjusting process, accrued expenses have
- a. not yet been incurred, paid, or recorded
  - b. been incurred, not paid, but have been recorded
  - c. been incurred, not paid, and not recorded
  - d. been paid but have not yet been incurred

*ANSWER:* c

*DIFFICULTY:* Challenging  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

59. Prior to the adjusting process, accrued revenue has
- a. been earned and cash received
  - b. been earned and not recorded as revenue
  - c. not been earned but recorded as revenue
  - d. not been recorded as revenue but cash has been received

*ANSWER:* b

*DIFFICULTY:* Challenging  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

60. Deferred expenses have
- not yet been recorded as expenses but have been paid
  - been recorded as expenses and paid
  - been incurred and paid
  - not yet been recorded as expenses

**ANSWER:** d

**DIFFICULTY:** Challenging  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.ACBSB.APC.16 - Current Liabilities Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

61. Deferred revenue is revenue that is
- earned and the cash has been received
  - earned but the cash has not been received
  - not earned and the cash has not been received
  - not earned but the cash has been received

**ANSWER:** d

**DIFFICULTY:** Challenging  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.ACBSB.APC.15 - Current Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

62. Adjusting entries are
- the same as correcting entries
  - needed to bring accounts up to date and match revenue and expense
  - optional under generally accepted accounting principles
  - rarely needed in large companies

**ANSWER:** b

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

63. Adjusting entries affect at least one
- income statement account and one balance sheet account
  - revenue and the dividends account
  - asset and one stockholders' equity account
  - revenue and one stockholders' equity account

*ANSWER:* a

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

64. The term used to describe an expense that has not been paid and has not yet been recognized in the accounts by a routine entry is
- prepaid
  - deferred
  - accrued
  - matched

*ANSWER:* c

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.ACBSB.APC.16 - Current Liabilities Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

65. Which of the following is **not** a characteristic of the accrual basis of accounting?
- revenues and expenses are reported in the period in which cash is received or paid
  - revenues are reported on the income statement in the period in which they are earned
  - accrual basis of accounting supports the matching concept
  - expenses are reported in the same period as the revenues to which they relate

*ANSWER:* a

*DIFFICULTY:* Challenging  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

66. Generally accepted accounting principles require that companies use the \_\_\_\_\_ of accounting.
- cash basis
  - deferral basis
  - accrual basis
  - account basis

*ANSWER:* c

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

67. The cash basis of accounting records revenues and expenses when the cash is exchanged while the accrual basis of accounting
- records revenues when they are earned and expenses when they are paid
  - records revenues and expenses when they are incurred
  - records revenues when cash is received and expenses when they are incurred
  - records revenues and expenses when the company needs to apply for a loan

*ANSWER:* b

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

68. By matching revenues and expenses in the same period in which they are incurred
- net income or loss will always be underestimated
  - net income or loss will always be overestimated
  - net income or loss will be properly reported on the income statement
  - net income or loss will not be determined

*ANSWER:* c

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

69. Adjusting entries always include
- only income statement accounts
  - only balance sheet accounts
  - the cash account
  - at least one income statement account and one balance sheet account

*ANSWER:* d

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

70. Prepaid expenses are eventually expected to become
- expenses when their future economic value expires
  - revenues when services are performed
  - expenses in the period when they are paid
  - revenues when the liability is no longer owed

*ANSWER:* a

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.ACBSB.APC.13 - Long-term Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

71. Which of the following is considered to be unearned revenue?
- theater tickets sold last month for yesterday's performance
  - theater tickets sold yesterday on credit for yesterday's performance
  - theater tickets that were not sold for the current performance
  - theater tickets sold for next month's performance

*ANSWER:* d

*DIFFICULTY:* Challenging  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.ACBSB.APC.16 - Current Liabilities Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

72. Which of the following is an example of accrued revenue?
- snow removal services that have been paid for three months in advance
  - snow removal services that have been provided but have not been billed or paid
  - an agreement that has been signed for snow removal services for the next three months
  - snow removal services that has been provided and paid on the same day

**ANSWER:** b

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.ACBSB.APC.15 - Current Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

73. Which of the following is considered to be an accrued expense?
- a computer technician has installed the latest software updates and was paid on the same day
  - a computer technician has been paid in advance to install software updates as they become available
  - a computer technician has just signed an agreement with you regarding pricing for future work
  - a computer technician has installed the latest software updates, but you have not received an invoice or made payment

**ANSWER:** d

**DIFFICULTY:** Challenging  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.ACBSB.APC.16 - Current Liabilities Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

74. Which one of the accounts below would likely be included in an accrual adjusting entry?
- Insurance Expense
  - Prepaid Rent
  - Interest Expense
  - Unearned Rent

**ANSWER:** c

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01  
FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic



### Chapter 3: The Adjusting Process

75. Which of the following accounts would likely be included in a deferral adjusting entry?
- a. Interest Revenue
  - b. Unearned Revenue
  - c. Salaries Payable
  - d. Accounts Receivable

**ANSWER:** b

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01  
FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

76. If there is a balance in the prepaid rent account after adjusting entries are made, it represents a(n)
- a. deferral
  - b. accrual
  - c. revenue
  - d. liability

**ANSWER:** a

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

77. If there is a balance in the unearned subscriptions account after adjusting entries are made, it represents a(n)
- a. deferral
  - b. accrual
  - c. dividend
  - d. revenue

**ANSWER:** a

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

78. The unexpired insurance at the end of the fiscal period represents
- an accrued asset
  - an accrued liability
  - an accrued expense
  - a deferred expense

*ANSWER:* d

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.ACBSB.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

79. The general term used to indicate delaying the recognition of an expense already paid or of a revenue already received is
- depreciation
  - deferral
  - accrual
  - inventory

*ANSWER:* b

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.ACBSB.APC.16 - Current Liabilities Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

80. Which account would normally **not** require an adjusting entry?
- Wages Expense
  - Accounts Receivable
  - Accumulated Depreciation
  - Cash

*ANSWER:* d

*DIFFICULTY:* Challenging  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

81. The balance in the prepaid rent account before adjustment at the end of the year is \$32,000, which represents four months' rent paid on December 1. The adjusting entry required on December 31 is
- debit Rent Expense, \$8,000; credit Prepaid Rent, \$8,000
  - debit Prepaid Rent, \$24,000; credit Rent Expense, \$8,000
  - debit Rent Expense, \$24,000; credit Prepaid Rent, \$8,000
  - debit Prepaid Rent, \$8,000; credit Rent Expense, \$8,000

**ANSWER:** a

**DIFFICULTY:** Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

82. The balance in the office supplies account on January 1 was \$7,000, supplies purchased during January were \$3,000, and the supplies on hand at January 30 were \$2,000. The amount to be used for the appropriate adjusting entry is
- \$4,300
  - \$12,000
  - \$5,000
  - \$8,000

**ANSWER:** d

**DIFFICULTY:** Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

83. Which of the following is the proper adjusting entry, based on a prepaid insurance account balance before adjustment of \$14,000 and unexpired insurance of \$3,000, for the fiscal year ending on April 30?
- debit Insurance Expense, \$3,000; credit Prepaid Insurance, \$3,000
  - debit Insurance Expense, \$14,000; credit Prepaid Insurance, \$14,000
  - debit Prepaid Insurance, \$11,000; credit Insurance Expense, \$11,000
  - debit Insurance Expense, \$11,000; credit Prepaid Insurance, \$11,000

**ANSWER:** d

**DIFFICULTY:** Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

84. The entry to adjust for the cost of supplies used during the accounting period is
- debit Supplies Expense; credit Supplies
  - debit Stockholders' Equity; credit Supplies
  - debit Accounts Payable; credit Supplies
  - debit Supplies; credit Stockholders' Equity

*ANSWER:* a

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

85. Buster Industries pays weekly salaries of \$30,000 on Friday for a five-day week ending on that day. The adjusting entry necessary at the end of the fiscal period ending on Tuesday is
- debit Salaries Payable, \$12,000; credit Cash, \$12,000
  - debit Salary Expense, \$12,000; credit Dividends, \$12,000
  - debit Salary Expense, \$12,000; credit Salaries Payable, \$12,000
  - debit Dividends, \$12,000; credit Cash, \$12,000

*ANSWER:* c

*DIFFICULTY:* Challenging  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

86. The difference between the balance of a fixed asset account and the related accumulated depreciation account is termed
- historical cost
  - contra asset
  - book value
  - market value

*ANSWER:* c

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.13 - Long-term Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

87. The adjusting entry to record the depreciation of a building for the fiscal period is
- debit Depreciation Expense; credit Building.
  - debit Depreciation Expense; credit Accumulated Depreciation.
  - debit Accumulated Depreciation; credit Depreciation Expense.
  - debit Building; credit Depreciation Expense.

*ANSWER:* b

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

88. As time passes, fixed assets other than land lose their capacity to provide useful services. To account for this decrease in usefulness, the cost of fixed assets is systematically allocated to expense through a process called
- equipment allocation
  - depreciation
  - accumulation
  - matching

*ANSWER:* b

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.ACBSB.APC.13 - Long-term Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

89. The entry to adjust the accounts for salaries accrued at the end of the accounting period is
- debit Salaries Payable; credit Cash
  - debit Cash; credit Salaries Payable
  - debit Salaries Payable; credit Salaries Expense
  - debit Salaries Expense; credit Salaries Payable

*ANSWER:* d

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

90. The supplies account has a balance of \$4,400 at the beginning of the year and was debited during the year for \$2,400, representing the total of supplies purchased during the year. If \$400 of supplies are on hand at the end of the year, the supplies expense to be reported on the income statement for the year is
- \$400
  - \$2,000
  - \$6,800
  - \$6,400

**ANSWER:** d

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.ACBSAPC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

91. Smokey Company purchases a one-year insurance policy on July 1 for \$3,600. The adjusting entry on December 31 is
- debit Insurance Expense, \$1,800; credit Prepaid Insurance, \$1,800
  - debit Insurance Expense, \$1,500; credit Prepaid Insurance, \$1,500
  - debit Insurance Expense, \$2,100; credit Prepaid Insurance, \$2,100
  - debit Prepaid Insurance, \$1,800; credit Cash, \$1,800

**ANSWER:** a

**DIFFICULTY:** Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

92. Gracie, Inc. made a prepaid rent payment of \$2,800 on January 1. The company's monthly rent is \$700. The amount of prepaid rent that would appear on the January 31 balance sheet after adjustment is
- \$2,100
  - \$700
  - \$2,800
  - \$1,400

**ANSWER:** a

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.ACBSAPC.15 - Current Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

93. Accumulated Depreciation and Depreciation Expense are classified, respectively, as
- expense, contra asset
  - asset, contra liability
  - revenue, asset
  - contra asset, expense

*ANSWER:* d

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

94. The type of account and normal balance of Prepaid Insurance is
- asset, credit
  - asset, debit
  - contra asset, credit
  - contra asset, debit

*ANSWER:* b

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

95. The type of account and normal balance of Unearned Consulting Fees is
- revenue, credit
  - expense, debit
  - liability, credit
  - liability, debit

*ANSWER:* c

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

96. Data for an adjusting entry described as "accrued wages, \$2,020" requires a
- debit to Wages Expense and a credit to Wages Payable
  - debit to Wages Payable and a credit to Wages Expense
  - debit to Accounts Receivable and a credit to Wages Expense
  - debit to Dividends and a credit to Wages Payable

*ANSWER:* a

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

97. Supplies are recorded as assets when purchased. Therefore, the credit to Supplies in the adjusting entry is for the amount of supplies
- still on hand
  - purchased
  - used
  - required for the next accounting period

*ANSWER:* c

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

98. The cost of office supplies to be used in future periods is ordinarily shown on the balance sheet as a(n)
- stockholders' equity
  - asset
  - contra asset
  - liability

*ANSWER:* b

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic



## Chapter 3: The Adjusting Process

99. Which of the following is an example of a prepaid expense?

- a. Supplies
- b. Accounts Receivable
- c. Unearned Subscriptions
- d. Unearned Fees

**ANSWER:** a

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.ACBSB.APC.15 - Current Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

100. Accrued revenues would appear on the balance sheet as

- a. assets
- b. liabilities
- c. stockholders' equity
- d. prepaid expenses

**ANSWER:** a

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.09 - Financial Statements  
ACCT.ACBSB.APC.15 - Current Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

101. Prepaid advertising, representing payment for the next quarter, would be reported on the balance sheet as a(n)

- a. asset
- b. liability
- c. contra asset
- d. stockholders' equity

**ANSWER:** a

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.09 - Financial Statements  
ACCT.ACBSB.APC.15 - Current Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

102. Prepaid rent, representing rent for the next six months' occupancy, would be reported on the tenant's balance sheet as a(n)
- a. asset
  - b. liability
  - c. stockholders' equity account
  - d. contra liability

**ANSWER:** a

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.09 - Financial Statements  
ACCT.ACBSB.APC.16 - Current Liabilities Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

103. Accrued expenses are ordinarily reported on the balance sheet as
- a. assets
  - b. liabilities
  - c. fixed assets
  - d. prepaid expenses

**ANSWER:** b

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.09 - Financial Statements  
ACCT.ACBSB.APC.16 - Current Liabilities Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

104. Fees payable would appear on the balance sheet as a(n)
- a. asset
  - b. liability
  - c. fixed asset
  - d. unearned revenue

**ANSWER:** b

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.09 - Financial Statements  
ACCT.ACBSB.APC.15 - Current Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

105. The adjusting entry for gym memberships earned that were previously recorded in the unearned gym memberships account is
- debit Unearned Gym Memberships; credit Gym Memberships Revenue
  - debit Gym Memberships Revenue; credit Unearned Gym Memberships
  - debit Unearned Gym Memberships; credit Prepaid Gym Memberships
  - debit Gym Memberships Expense; credit Unearned Gym Memberships

*ANSWER:* a

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

106. Which of the following pairs of accounts could **not** appear in the same adjusting entry?
- Service Revenue and Unearned Revenue
  - Interest Income and Interest Expense
  - Rent Expense and Prepaid Rent
  - Salaries Payable and Salaries Expense

*ANSWER:* b

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

107. The unearned rent account has a balance of \$72,000. If \$18,000 of the \$72,000 is unearned at the end of the accounting period, the amount of the adjusting entry is
- \$18,000
  - \$90,000
  - \$54,000
  - \$36,000

*ANSWER:* c

*DIFFICULTY:* Moderate  
Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

Chapter 3: The Adjusting Process

108. The following adjusting journal entry does not include an explanation. Select the best explanation for the entry.

Unearned Revenue	7,500	
Fees Earned		7,500
????????????????		

- a. Record payment of fees earned.
- b. Record fees earned at the end of the month.
- c. Record fees that have not been earned at the end of the month.
- d. Record payment of fees to be earned.

**ANSWER:** b  
**DIFFICULTY:** Moderate  
 Bloom's: Remembering  
**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02  
**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
 ACCT.AICPA.FN.03 - Measurement  
 BUSPROG: Analytic

109. The following adjusting journal entry does not include an explanation. Select the best explanation for the entry.

Supplies Expense	730	
Supplies		730
????????????????		

- a. Adjust supplies inventory to actual.
- b. Record purchase of supplies.
- c. Reduce supplies expense.
- d. Record sale of supplies.

**ANSWER:** a  
**DIFFICULTY:** Moderate  
 Bloom's: Remembering  
**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02  
**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
 ACCT.AICPA.FN.03 - Measurement  
 BUSPROG: Analytic

Chapter 3: The Adjusting Process

110. The following adjusting journal entry found in the journal is missing an explanation. Select the best explanation for the entry.

Wages Expense	4,500	
Wages Payable		4,500
????????????????		

- a. Record payment of wages.
- b. Record wages paid last month.
- c. Record wages paid in advance.
- d. Record wages expense incurred and to be paid next month.

**ANSWER:** d  
**DIFFICULTY:** Moderate  
 Bloom's: Remembering  
**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02  
**ACCREDITING STANDARDS:** ACCT.ACBSAPC.07 - Adjusting Entries  
 ACCT.AICPA.FN.03 - Measurement  
 BUSPROG: Analytic

111. What effect will this adjustment have on the accounting records?

Unearned Revenue	6,375	
Fees Earned		6,375

- a. increase net income
- b. increase revenues reported for the period
- c. decrease liabilities
- d. all of these are true

**ANSWER:** d  
**DIFFICULTY:** Easy  
 Bloom's: Remembering  
**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02  
**ACCREDITING STANDARDS:** ACCT.ACBSAPC.07 - Adjusting Entries  
 ACCT.AICPA.FN.03 - Measurement  
 BUSPROG: Analytic

### Chapter 3: The Adjusting Process

112. What effect will this adjusting journal entry have on the accounting records?

Supplies Expense	760	
Supplies		760

- a. increase income
- b. decrease net income
- c. decrease expenses
- d. increase assets

**ANSWER:**

b

**DIFFICULTY:**

Easy

Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.07 - Adjusting Entries

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

113. What effect will the following adjusting journal entry have on the accounting records?

Depreciation Expense	2,150	
Accumulated Depreciation		2,150

- a. increase net income
- b. increase revenues
- c. decrease expenses
- d. decrease net book value

**ANSWER:**

d

**DIFFICULTY:**

Moderate

Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.07 - Adjusting Entries

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

### Chapter 3: The Adjusting Process

114. How will the following adjusting journal entry affect the accounting equation?

Unearned Subscriptions	11,500	
Subscriptions Earned		11,500

- a. increase assets, increase revenues
- b. increase liabilities, increase revenues
- c. decrease liabilities, increase revenues
- d. decrease liabilities, decrease revenues

*ANSWER:* c

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.06 - Recording Transactions  
ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

115. Which of the following is **not** true regarding depreciation?

- a. depreciation allocates the cost of a fixed asset over its estimated life.
- b. depreciation expense reflects the decrease in market value each year.
- c. depreciation is an allocation not a valuation method.
- d. depreciation expense does not measure changes in market value.

*ANSWER:* b

*DIFFICULTY:* Challenging  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.13 - Long-term Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

116. The account type and normal balance of Prepaid Expense is

- a. revenue, credit
- b. expense, debit
- c. liability, credit
- d. asset, debit

*ANSWER:* d

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.15 - Current Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

117. The account type and normal balance of Unearned Revenue is
- revenue, credit
  - expense, debit
  - liability, credit
  - asset, debit

*ANSWER:* c

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.16 - Current Liabilities Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

118. Which of the following is an example of an accrued expense?
- salary owed but not yet paid
  - fees received but not yet earned
  - supplies on hand
  - a two-year premium paid on a fire insurance policy

*ANSWER:* a

*DIFFICULTY:* Challenging  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.ACBSB.APC.16 - Current Liabilities Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

119. The net book value of a fixed asset is determined by the original cost
- less accumulated depreciation
  - less depreciation expense
  - less accumulated depreciation plus depreciation expense
  - plus accumulated depreciation

*ANSWER:* a

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.13 - Long-term Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic



## Chapter 3: The Adjusting Process

120. The balance in the supplies account before adjustment at the end of the year is \$6,250. The proper adjusting entry if the amount of supplies on hand at the end of the year is \$1,500 would be
- debit Supplies, \$1,500; credit Supplies Expense, \$1,500
  - debit Supplies Expense, \$4,750; credit Supplies, \$4,750
  - debit Supplies Expense, \$1,500; credit Supplies, \$1,500
  - debit Supplies, \$4,750; credit Supplies Expense, \$4,750

**ANSWER:** b

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

121. For the year ending December 31, Orion, Inc. mistakenly omitted adjusting entries for \$1,500 of supplies that were used, (2) unearned revenue of \$4,200 that was earned, and (3) insurance of \$5,000 that expired. For the year ending December 31, what is the effect of these errors on revenues, expenses, and net income?
- revenues are overstated by \$4,200
  - net income is overstated by \$2,300
  - expenses are overstated by \$6,500
  - expenses are understated by \$3,500

**ANSWER:** b

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

122. A business pays biweekly salaries of \$20,000 every other Friday for a ten-day period ending on that day. The adjusting entry necessary at the end of the fiscal period ending on the second Wednesday of the pay period includes a
- debit to salary expense of \$8,000
  - debit to salaries payable of \$8,000
  - credit to salary expense of \$16,000
  - credit to salaries payable of \$16,000

**ANSWER:** d

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

123. A business pays biweekly salaries of \$20,000 every other Friday for a ten-day period ending on that day. The last payday of December is Friday, December 27. Assume the next pay period begins on Monday, December 30 and the proper adjusting entry is journalized at the end of the fiscal period (December 31). The entry for the payment of the payroll on Friday, January 10 includes a
- debit to Salary Expense of \$16,000
  - debit to Salary Expense of \$4,000
  - credit to Salary Payable of \$16,000
  - credit to Salary Payable of \$4,000

*ANSWER:* a

*DIFFICULTY:* Moderate  
Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

124. The net income reported on the income statement is \$58,000. However, adjusting entries have not been made at the end of the period for supplies expense of \$2,200 and accrued salaries of \$1,300. Net income, as corrected, is
- \$56,700
  - \$58,000
  - \$55,800
  - \$54,500

*ANSWER:* d

*DIFFICULTY:* Moderate  
Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-03 - LO: 03-03

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.ACBSB.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

125. At the end of the fiscal year, the usual adjusting entry to prepaid insurance to record expired insurance was omitted. Which of the following statements is **true**?
- total assets at the end of the year will be understated.
  - stockholders' equity at the end of the year will be understated.
  - net income for the year will be overstated.
  - insurance expense will be overstated

*ANSWER:* c

*DIFFICULTY:* Challenging  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-03 - LO: 03-03

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

126. At the end of the fiscal year, the usual adjusting entry for depreciation on equipment was omitted. Which of the following is **true**?
- a. total assets will be understated at the end of the current year
  - b. the balance sheet and income statement will be misstated but the statement of stockholders' equity will be correct for the current year
  - c. net income will be overstated for the current year
  - d. total liabilities and total assets will be understated

*ANSWER:* c

*DIFFICULTY:* Challenging  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-03 - LO: 03-03

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

127. The adjusting entry to adjust supplies was omitted at the end of the year. This would affect the income statement by having
- a. expenses understated and therefore net income overstated
  - b. revenues understated and therefore net income understated
  - c. expenses understated and therefore net income understated
  - d. expenses overstated and therefore net income understated

*ANSWER:* a

*DIFFICULTY:* Challenging  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-03 - LO: 03-03

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

128. Which of the accounts below would most likely appear on an adjusted trial balance but probably would **not** appear on the trial balance?
- a. Fees Earned
  - b. Accounts Receivable
  - c. Unearned Fees
  - d. Depreciation Expense

*ANSWER:* d

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-04 - LO: 03-04

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

129. Which of the accounting steps in the accounting process below would be completed last?
- preparing the adjusted trial balance
  - posting
  - preparing the financial statements
  - journalizing

*ANSWER:* c

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-04 - LO: 03-04

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.05 - Accounting Cycle  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

130. When is the adjusted trial balance prepared?
- before adjusting journal entries are posted
  - after adjusting journal entries are posted
  - after the adjusting journal entries are journalized
  - before the adjusting journal entries are journalized

*ANSWER:* b

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-04 - LO: 03-04

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.05 - Accounting Cycle  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

131. What is the purpose of the adjusted trial balance?
- to verify that all of the adjusting entries have been posted
  - to verify that the net income (loss) is correctly reported
  - to verify that no adjusting journal entry has been omitted
  - to verify that the debits and credits balance

*ANSWER:* d

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-04 - LO: 03-04

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

132. All of the following statements regarding vertical analysis are true **except**
- a. vertical analysis may be prepared for several periods to analyze changes in relationships over time
  - b. in a vertical analysis of a balance sheet, each asset item is stated as a percent of total assets
  - c. in a vertical analysis of an income statement, each item is stated as a percent of total expenses
  - d. major differences between a company's vertical analysis and industry averages should be investigated

ANSWER:

c

DIFFICULTY:

Moderate

Bloom's: Remembering

LEARNING OBJECTIVES:

FNMN.WARD.16.03-05 - LO: 03-05

ACCREDITING STANDARDS:

ACCT.ACBSB.APC.09 - Financial Statements

ACCT.ACBSB.APC.23 - Financial Statement Analysis

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

133. Two income statements for Toby Sam Enterprises are shown below:

Toby Sam Enterprises Income Statement For the Years 2 and 1 Ending December 31		
	<u>Year 2</u>	<u>Year 1</u>
Fees earned	\$674,350	\$520,600
Operating expenses	<u>472,045</u>	<u>338,390</u>
Operating income	<u>\$202,305</u>	<u>\$182,210</u>

Prepare a vertical analysis of Toby Sam Enterprises' income statements. Has operating income increased or decreased as a percentage of revenue?

- a. increased by 5%
- b. increased by 111%
- c. decreased by 5%
- d. decreased by 111%

ANSWER:

c

DIFFICULTY:

Moderate

Bloom's: Applying

LEARNING OBJECTIVES:

FNMN.WARD.16.03-05 - LO: 03-05

ACCREDITING STANDARDS:

ACCT.ACBSB.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

## Chapter 3: The Adjusting Process

134. Explain the difference between accrual basis accounting and cash basis accounting.

**ANSWER:** Accrual basis accounting reports revenues and expenses in the period in which the event happened regardless of when cash was received. Cash basis accounting reports revenues and expenses when cash is received or paid.

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

135. Indicate with a Yes or No whether or not each of the following accounts would, under normal circumstances, require an adjusting entry.

1. Cash
2. Prepaid Expenses
3. Depreciation Expense
4. Accounts Payable
5. Accumulated Depreciation
6. Equipment

**ANSWER:**

1. No
2. Yes
3. Yes
4. Yes
5. Yes
6. No

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-01 - LO: 03-01

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

136. Classify the following items as: (1) prepaid expense, (2) unearned revenue, (3) accrued expense, or (4) accrued revenue.
- a) fees received but not yet earned
  - b) fees earned but not yet received
  - c) paid premium on a one-year insurance policy
  - d) property tax owed to be paid beginning of next year

*ANSWER:*

- a) (2) unearned revenue
- b) (4) accrued revenue
- c) (1) prepaid expense
- d) (3) accrued expense

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.AC BSP.APC.04 - Cash vs. Accrual  
ACCT.AC BSP.APC.13 - Long-term Assets Reporting  
ACCT.AC BSP.APC.16 - Current Liabilities Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

137. List the four basic types of accounts that require adjusting entries and give an example of each.

*ANSWER:*

- 1. Prepaid expenses; example: prepaid insurance
- 2. Unearned revenues; example: an attorney's retainer fee
- 3. Accrued revenues; example: unpaid interest earned on a note receivable
- 4. Accrued expenses; example: unpaid wages owed to employees

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:* ACCT.AC BSP.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

138. Under the accrual basis, some accounts in the ledger require updating at the end of the period. Discuss the three main reasons for this updating and give an example of each.

*ANSWER:*

1. Some expenses are not recorded daily. For example, the daily use of supplies would require many entries with small amounts. Also, managers usually do not need to know the amount of supplies on hand on a day-to-day basis.
2. Some revenues and expenses are incurred as time passes rather than as separate transactions. For example, rent received in advance (unearned rent) expires and becomes revenue with the passage of time. Likewise, prepaid insurance expires and becomes an expense with the passage of time.
3. Some revenues and expenses may be unrecorded. For example, a company may have provided services to customers that it has not billed or recorded at the end of the accounting period. Likewise, a company may not pay its employees until the next accounting period even though the employees have earned their wages in the current period.

*DIFFICULTY:*

Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:*

FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:*

ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

139. Explain the differences between

- (a) Accrued revenues and unearned revenues.
- (b) Accrued expenses and prepaid expenses.
- (c) Give an example of each.

*ANSWER:*

- (a) Accrued revenues are services that have been provided but not yet billed nor payment received. Unearned revenues are payments that have been received for services to be provided in the future.
- (b) Accrued expenses are expenses that have been incurred but have not been paid or recorded in the accounting records. Prepaid expenses are expenses for which payment has been made and for which economic benefits will be enjoyed in future accounting periods.
- (c) Accrued revenues - unbilled services on account  
Unearned revenues - rental payments received by a landlord in advance  
Accrued expenses - unpaid wages due to employees  
Prepaid expenses - insurance policy purchased to cover future periods

*DIFFICULTY:*

Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:*

FNMN.WARD.16.03-01 - LO: 03-01

*ACCREDITING STANDARDS:*

ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic



## Chapter 3: The Adjusting Process

140. For each of the following, journalize the necessary adjusting entry:

- (a) A business pays weekly salaries of \$22,000 on Friday for a five-day week ending on that day. Journalize the necessary adjusting entry at the end of the fiscal period, assuming that the fiscal period ends (1) on Tuesday, (2) on Wednesday.
- (b) The balance in the prepaid insurance account before adjustment at the end of the year is \$18,000. Journalize the adjusting entry required under each of the following alternatives: (1) the amount of insurance expired during the year is \$5,300, (2) the amount of unexpired insurance applicable to a future period is \$2,700.
- (c) On July 1 of the current year, a business pays \$54,000 to the city for license taxes for the coming fiscal year. The same business is also required to pay an annual property tax at the end of the year. The estimated amount of the current year's property tax allocated to July is \$4,800. (1) Journalize the two adjusting entries required to bring the accounts affected by the taxes up to date as of July 31. (2) What is the amount of tax expense for July?
- (d) The estimated depreciation on equipment for the year is \$32,000.

ANSWER:

	(a) (1) Salary Expense ( $\$22,000/5 \times 2$ )	8,800	
	Salaries Payable		8,800
	(2) Salary Expense ( $\$22,000/5 \times 3$ )	13,200	
	Salaries Payable		13,200
	(b) (1) Insurance Expense	5,300	
	Prepaid Insurance		5,300
	(2) Insurance Expense ( $\$18,000 - \$2,700$ )	15,300	
	Prepaid Insurance		15,300
	(c) (1) Taxes Expense ( $\$54,000/12$ )	4,500	
	Prepaid License Taxes		4,500
	Taxes Expense	4,800	
	Property Taxes Payable		4,800
	(2) <u>\$9,300</u> ( $\$4,500 + \$4,800$ )		
	(d) Depreciation Expense	32,000	
	Accumulated Depreciation— Equipment		32,000

**DIFFICULTY:**

Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:**

FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:**

ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

141. Listed below are accounts to use for transactions (a) through (j), each identified by a number. Following this list are the transactions. You are to indicate for each transaction the accounts that should be debited and credited by placing the account number(s) in the appropriate box.

1. Accounts Payable
2. Accounts Receivable
3. Accumulated Depreciation—Office Equipment
4. Building
5. Common Stock
6. Cash
7. Depreciation Expense—Office Equipment
8. Dividends
9. Insurance Expense
10. Insurance Payable
11. Interest Expense
12. Interest Payable
13. Interest Receivable
14. Land
15. Notes Payable
16. Office Supplies
17. Office Supplies Expense
  
18. Prepaid Insurance
19. Service Revenue
20. Unearned Service Revenue
21. Utilities Expense
22. Utilities Payable

Transactions	Account(s) Debited	Account(s) Credited
a. Utility bill is received; payment will be made in 10 days		
b. Paid the utility bill previously recorded in transaction (a)		
c. Bought a three-year insurance policy and paid in full		
d. Made an entry to adjust for the expired portion of the insurance premium		
e. Received \$7,000 from a contract to perform accounting services over the next two years		
f. Made an entry to adjust for half of the services performed in (e)		
g. Purchased office supplies, paying part cash and charging the balance on account		
h. Borrowed money from a bank and signed a note payable due in six months		
i. Recorded one month's accrued interest on the note payable		
j. Depreciation is recorded on office equipment		

### Chapter 3: The Adjusting Process

*ANSWER:*

Transactions	Account(s) Debited	Account(s) Credited
a.	21	22
b.	22	6
c.	18	6
d.	9	18
e.	6	20
f.	20	19
g.	16	6, 1
h.	6	15
i.	11	12
j.	7	3

*DIFFICULTY:*

Challenging  
Bloom's: Applying

*LEARNING OBJECTIVES:*

FNMN.WARD.16.03-02 - LO: 03-02  
FNMN.WARD.16.03-03 - LO: 03-03

*ACCREDITING STANDARDS:*

ACCT.AC BSP.APC.06 - Recording Transactions  
ACCT.AC BSP.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

Chapter 3: The Adjusting Process

142. REM Consulting is completing the accounting information processing at the end of the fiscal year, December 31. The following trial balances are available.

Accounts	Unadjusted Trial Balance		Adjusted Trial Balance	
	Debit	Credit	Debit	Credit
Cash	13,000		13,000	
Accounts Receivable	1,500		1,800	
Prepaid Insurance	600		200	
Supplies	3,800		3,000	
Machines	30,000		30,000	
Accumulated Depreciation—Machines		12,000		17,500
Wages Payable				900
Unearned Revenue		6,700		6,500
Common Stock		24,000		24,000
Dividends	4,800		4,800	
Service Revenue		25,000		25,500
Wages Expense	14,000		14,900	
Insurance Expense			400	
Supplies Expense			800	
Depreciation Expense			5,500	
	<u>67,700</u>	<u>67,700</u>	<u>74,400</u>	<u>74,400</u>

(a) Reconstruct the adjusting entries and give a brief explanation of each.

(b) What is the amount of net income?

<i>ANSWER:</i>	(a)	Accounts Receivable	300	
		Service Revenue		300
		Accrued fees.		
		Insurance Expense	400	
		Prepaid Insurance		400
		Expired insurance.		
		Supplies Expense	800	
		Supplies		800
		Supplies used (\$3,800 – \$3,000).		
		Depreciation Expense	5,500	
		Accumulated Depreciation		5,500
		Depreciation expense.		
		Wages Expense	900	
		Wages Payable		900
		Accrued wages.		
		Unearned Revenue	200	
		Service Revenue		200
		Revenue earned (\$6,700 – \$6,500).		

(b)  $\$25,500 - \$14,900 - \$400 - \$800 - \$5,500 = \underline{\underline{\$3,900}}$

Chapter 3: The Adjusting Process

**DIFFICULTY:** Challenging  
 Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02  
 FNMN.WARD.16.03-03 - LO: 03-03  
 FNMN.WARD.16.03-04 - LO: 03-04

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
 ACCT.AICPA.FN.03 - Measurement  
 BUSPROG: Analytic

143. Zoey Bella Corp. has a payroll of \$10,000 for a five-day workweek. Its employees are paid each Friday for the five-day workweek. Prepare the adjusting entry on December 31 assuming the year ends on Thursday.

Date	Description	Post. Ref.	Debit	Credit

**ANSWER:**  $\$10,000/5 = \$2,000$  per day  $\times 4$  days = \$8,000

Date	Description	Post. Ref.	Debit	Credit
Dec. 31	Wages Expense		8,000	
	Wages Payable			8,000

**DIFFICULTY:** Moderate  
 Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
 ACCT.AICPA.FN.03 - Measurement  
 BUSPROG: Analytic

144. A one-year insurance policy was purchased on June 1 for \$2,400. The adjusting entry on December 31 would be:

Date	Description	Post. Ref.	Debit	Credit

**ANSWER:**  $\$2,400/12 = \$200$  per month  $\times 7$  months = \$1,400

Date	Description	Post. Ref.	Debit	Credit
Dec. 31	Insurance Expense		1,400	
	Prepaid Insurance			1,400

**DIFFICULTY:** Moderate  
 Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
 ACCT.AICPA.FN.03 - Measurement  
 BUSPROG: Analytic

Chapter 3: The Adjusting Process

145. Depreciation on an office building is \$2,800. The adjusting entry on December 31 would be

Date	Description	Post. Ref.	Debit	Credit

ANSWER:

Date	Description	Post. Ref.	Debit	Credit
Dec. 31	Depreciation Expense		2,800	
	Accum. Depr.—Office Building			2,800

DIFFICULTY:

Easy  
Bloom's: Applying

LEARNING OBJECTIVES: FNMN.WARD.16.03-02 - LO: 03-02

ACCREDITING STANDARDS: ACCT.ACBSAPPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

146. Gizmo Inc. purchased a one-year insurance policy on October 1 for \$1,800. The adjusting entry on December 31 would be

Date	Description	Post. Ref.	Debit	Credit

ANSWER:

$$\$1,800/12 = \$150 \text{ per month} \times 3 \text{ months} = \$450$$

Date	Description	Post. Ref.	Debit	Credit
Dec. 31	Insurance Expense		450	
	Prepaid Insurance			450

DIFFICULTY:

Moderate  
Bloom's: Applying

LEARNING OBJECTIVES: FNMN.WARD.16.03-02 - LO: 03-02

ACCREDITING STANDARDS: ACCT.ACBSAPPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

147. The supplies account had a beginning balance of \$1,750. Supplies purchased during the period totaled \$3,500. At the end of the period before adjustment, \$350 of supplies were on hand. Prepare the adjusting entry for supplies.

**ANSWER:**  $\$1,750 + \$3,500 - \$350 = \$4,900$

	Supplies Expense	4,900	
	Supplies		4,900

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

148. On January 1, DogMart Company purchased a two-year liability insurance policy for \$22,800 cash. The purchase was recorded to Prepaid Insurance. Prepare the January 31 adjusting entry.

**ANSWER:**  $\$22,800/24 = \$950$  per month

	Jan. 31 Insurance Expense	950	
	Prepaid Insurance		950

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

149. DogMart Company records depreciation for equipment. Depreciation for the period ending December 31 is \$1,400 for office equipment and \$2,650 for production equipment. Prepare the two entries to record the depreciation.

	Dec. 31 Depreciation Expense—Office Equipment	1,400	
	Accumulated Depreciation—Office Equipment		1,400
	Dec. 31 Depreciation Expense—Production Equipment	2,650	
	Accumulated Depreciation—Production Equipment		2,650

**DIFFICULTY:** Easy  
Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.06 - Recording Transactions  
ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

Chapter 3: The Adjusting Process

150. On March 1, a business paid \$3,600 for a twelve-month liability insurance policy. On April 1, the business entered into a two-year rental contract for equipment at a total cost of \$18,000. Determine the following amounts:
- (a) insurance expense for the month of March
  - (b) prepaid insurance as of March 31
  - (c) equipment rent expense for the month of April
  - (d) prepaid equipment rental as of April 30

**ANSWER:**

- (a) \$300 ( $\$3,600/12 = \$300$ )
- (b) \$3,300 ( $\$3,600 - \$300 = \$3,300$ )
- (c) \$750 ( $\$18,000/24 = \$750$ )
- (d) \$17,250 ( $\$18,000 - \$750 = \$17,250$ )

**DIFFICULTY:** Easy  
 Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.06 - Recording Transactions  
 ACCT.ACBSB.APC.07 - Adjusting Entries  
 ACCT.AICPA.FN.03 - Measurement  
 BUSPROG: Analytic

151. On January 1, the Newman Company estimated its property tax to be \$5,100 for the year.
- (a) How much should the company accrue each month for property taxes?
  - (b) Calculate the balance in Property Tax Payable as of August 31.
  - (c) Prepare the adjusting journal entry for September.

**ANSWER:**

- (a) \$425 ( $\$5,100/12$ )
- (b) \$3,400 ( $\$425 \times 8$ )
- (c)
 

Property Tax Expense	425	
Property Tax Payable		425
Record property tax accrual for September.		

**DIFFICULTY:** Moderate  
 Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
 ACCT.ACBSB.APC.16 - Current Liabilities Reporting  
 ACCT.AICPA.FN.03 - Measurement  
 BUSPROG: Analytic



### Chapter 3: The Adjusting Process

152. On January 1, Power House Co. prepaid the annual rent of \$10,140. Prepare the journal entry to record this transaction.

<i>ANSWER:</i>		Jan. 1	Prepaid Rent	10,140	
			Cash		10,140
			Prepaid annual rent.		

*DIFFICULTY:* Moderate  
Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.ACBSB.APC.15 - Current Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

153. Record journal entries for the following transactions.

- (a) On December 1, \$18,000 was received for a service contract to be performed from December 1 through April 30.  
(b) Assuming the work is performed evenly throughout the contract period, prepare the adjusting journal entry on December 31.

<i>ANSWER:</i>		Dec. 1	Cash	18,000	
			Unearned Fees		18,000
		Dec. 31	Unearned Fees	3,600	
			Fees Earned		3,600
			(\$18,000/5 months = \$3,600)		

*DIFFICULTY:* Moderate  
Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

154. On December 31, the balance in the office supplies account is \$1,385. A physical count shows \$435 worth of supplies on hand. Prepare the adjusting entry for supplies.

<i>ANSWER:</i>			$\$1,385 - \$435 = \$950$		
		Dec. 31	Office Supplies Expense	950	
			Office Supplies		950

*DIFFICULTY:* Easy  
Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

155. Depreciation on equipment for the year is \$6,300.

(a) Record the journal entry if the company prepares adjustments once a year.

(b) Record the journal entry if the company prepares adjustments on a monthly basis.

<i>ANSWER:</i>	(a)			
		Depreciation Expense	6,300	
		Accumulated Depr.—Equipment		6,300
	(b)			
		Depreciation Expense (\$6,300/12)	525	
		Accumulated Depr.—Equipment		525

*DIFFICULTY:* Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

156. The company determines that the interest expense on a note payable for the period ending December 31 is \$775. This amount is payable on January 1. Prepare the journal entries required on December 31 and January 1.

<i>ANSWER:</i>	Dec. 31	Interest Expense	775	
		Interest Payable		775
	Jan. 1	Interest Payable	775	
		Cash		775

*DIFFICULTY:* Easy

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.ACBSP.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

157. On January 2, Dog Mart prepaid \$30,000 rent for the year and recorded the prepayment in an asset account. Prepare the January 31 adjusting entry for rent expense.

<i>ANSWER:</i>	Jan. 31	Rent Expense (\$30,000/12)	2,500	
		Prepaid Rent		2,500

*DIFFICULTY:* Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

158. The prepaid insurance account had a beginning balance of \$6,600 and was debited for \$2,300 for premiums paid during the year. Journalize the adjusting entry required at the end of the year, assuming the amount of unexpired insurance related to future periods is \$4,100.

*ANSWER:*

	Dec. 31	Insurance Expense	4,800	
		Prepaid Insurance		4,800
		$\$6,600 + \$2,300 - \$4,100 = \$4,800$		

*DIFFICULTY:*

Easy  
Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

159. The balance in the unearned fees account, before adjustment at the end of the year, is \$10,250. Journalize the adjusting entry required if the amount of unearned fees at the end of the year is \$3,125.

		Unearned Fees (\$10,250 – \$3,125)	7,125	
		Fees Earned		7,125

*DIFFICULTY:*

Easy  
Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

160. At the end of the current year, \$3,700 fees have been earned but have not been billed to clients. Journalize the adjusting entry to record the accrued fees.

*ANSWER:*

		Accounts Receivable	3,700	
		Fees Earned		3,700

*DIFFICULTY:*

Easy  
Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.ACBSAPC.13 - Long-term Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

161. Ski Master Company pays weekly salaries of \$18,000 on Friday for a five-day week ending on that day. Journalize the necessary adjusting entry at the end of the accounting period, assuming that the period ends on Wednesday.

*ANSWER:*

Salaries Expense [(\$18,000/5) × 3]	10,800	
Salaries Payable		10,800

*DIFFICULTY:*

Easy  
Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSA.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

162. The estimated amount of depreciation on equipment for the current year is \$5,300. Journalize the adjusting entry to record the depreciation.

*ANSWER:*

Depreciation Expense	5,300	
Accumulated Depreciation		5,300

*DIFFICULTY:*

Easy  
Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSA.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

163. On November 1, clients of Great Designs Company prepaid \$4,250 for services to be provided in the future at a rate of \$85 per hour.
- Journalize the receipt of cash.
  - As of November 30, Great Designs shows that 15 hours of services have been provided on this agreement. Prepare the necessary journal entry.
  - Determine the total unearned fees in hours and dollars at November 30.

*ANSWER:*

	(a) Nov. 1    Cash	4,250	
	Unearned Service Fees		4,250
	(b) Nov. 30    Unearned Service Fees (\$85 × 15)	1,275	
	Service Fees		1,275
	(c) Original prepaid fees	\$4,250	/\$85 per hour = 50 hours
	November service fees earned	<u>1,275</u>	<u>15 hours</u>
	Balance of unearned service fees	<u>\$2,975</u>	<u>35 hours</u>

*DIFFICULTY:*

Challenging  
Bloom's: Applying

*LEARNING OBJECTIVES:*

FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:*

ACCT.ACBSB.APC.06 - Recording Transactions  
 ACCT.ACBSB.APC.07 - Adjusting Entries  
 ACCT.ACBSB.APC.15 - Current Assets Reporting  
 ACCT.AICPA.FN.03 - Measurement  
 BUSPROG: Analytic

## Chapter 3: The Adjusting Process

164. Prepare the required entries for the following transactions:

- Austin Company pays daily wages of \$645 (Monday - Friday). Paydays are every other Friday. Prepare the Monday, January 31 adjusting entry, assuming that the previous payday was Friday, January 21.
- Prepare the journal entry to record the Austin Company's payroll on Friday, February 4.
- Annual depreciation expense on the company's fixed assets is \$39,600. Prepare the adjusting entry to recognize depreciation for the month of January.
- The company's office supplies account shows a debit balance of \$3,755. A count of office supplies on hand on January 31 shows \$635 worth of supplies on hand. Prepare the January 31 adjusting entry for Office Supplies.

<i>ANSWER:</i>	<p>(a) Jan. 31 Wages Expense <span style="float: right;">3,870</span></p> <p style="padding-left: 100px;">Wages Payable <span style="float: right;">3,870</span></p> <p style="padding-left: 100px;">(\$645 × 6 days)</p> <p style="padding-left: 100px;">Monday, January 24 through Friday January 28</p> <p style="padding-left: 120px;">5 days × \$645 = \$3,225</p> <p style="padding-left: 100px;">Monday, January 31</p> <p style="padding-left: 120px;">1 day × \$645 = \$645</p> <p style="padding-left: 100px;">Wages Payable for January 24 through January 31</p> <p style="padding-left: 120px;">\$3,225 + \$645 = \$3,870</p>						
	<p>(b) Feb. 4 Wages Expense (4 × \$645) <span style="float: right;">2,580</span></p> <p style="padding-left: 100px;">Wages Payable <span style="float: right;">3,870</span></p> <p style="padding-left: 100px;">Cash <span style="float: right;">6,450</span></p> <p style="padding-left: 100px;">Payment of Feb. 4 payroll.</p>						
	<p>(c) Jan. 31 Depreciation Expense (\$39,600/12) <span style="float: right;">3,300</span></p> <p style="padding-left: 100px;">Accumulated Depreciation <span style="float: right;">3,300</span></p> <p style="padding-left: 100px;">January depreciation.</p>						
	<p>(d) Jan. 31 Office Supplies Expense <span style="float: right;">3,120</span></p> <p style="padding-left: 100px;">Office Supplies <span style="float: right;">3,120</span></p> <p style="padding-left: 100px;">Office supplies used.</p>						
	<table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="padding-right: 20px;">Account balance</td> <td style="text-align: right;">\$3,755</td> </tr> <tr> <td>Less supplies on hand</td> <td style="text-align: right;"><u>635</u></td> </tr> <tr> <td>January expense</td> <td style="text-align: right;"><u>\$3,120</u></td> </tr> </table>	Account balance	\$3,755	Less supplies on hand	<u>635</u>	January expense	<u>\$3,120</u>
Account balance	\$3,755						
Less supplies on hand	<u>635</u>						
January expense	<u>\$3,120</u>						

*DIFFICULTY:* Challenging  
Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.06 - Recording Transactions

ACCT.ACBSB.APC.07 - Adjusting Entries

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

### Chapter 3: The Adjusting Process

165. On December 15, Great Designs Company hired an independent contractor for a project. The contractor completed the project on December 29 and submitted an invoice for \$2,425 which was due on January 15. The amount was duly paid on January 15.
- Prepare the journal entry or entries necessary to record these transactions.
  - Explain why you prepared this/these journal entries.

**ANSWER:**

	(a)	Dec. 29	Professional Services Expense	2,425	
			Accounts Payable		2,425
		Jan. 15	Accounts Payable	2,425	
			Cash		2,425

- The first journal entry is required to record the expense of the independent contractor in the period in which the services were received. This journal entry created an expense in December's income statement and a liability on December's balance sheet. The second entry was to pay the contractor when the payment was due. This removed the liability by resolving it with a cash payment. This journal entry did not affect January's income statement.

**DIFFICULTY:** Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.ACBSB.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

166. On November 15, Great Designs Company purchased an advertising campaign for the month of December. Great Designs paid cash of \$2,700 in advance. The advertising campaign ran in December.
- Prepare all necessary journal entries for the advertising campaign for November and December.
  - Explain why you prepared this/these journal entries.

**ANSWER:**

	(a)	Nov. 15	Prepaid Advertising	2,700	
			Cash		2,700
		Dec. 31	Advertising Expense	2,700	
			Prepaid Advertising		2,700

- Under the matching concept, the expense should be recorded in the month of December when the advertising campaign ran, even though the cash was paid in November. Thus, the November journal entry creates an asset, prepaid advertising. The December 31 entry recognizes the advertising expense in December and eliminates the prepaid asset.

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.04 - Cash vs. Accrual  
ACCT.ACBSB.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic





Chapter 3: The Adjusting Process

ANSWER:

Date	Description	Post. Ref.	Debit	Credit
Dec. 31	Accounts Receivable		6,300	
	Revenues			6,300
31	Supplies Expense (\$4,750 – \$960)		3,790	
	Supplies			3,790
31	Wages Expense		2,700	
	Wages Payable			2,700
31	Depreciation Expense		1,650	
	Accumulated Depreciation			1,650
31	Rent Expense		10,800	
	Prepaid Rent			10,800

DIFFICULTY:

Easy  
Bloom's: Applying

LEARNING OBJECTIVES:

FNMN.WARD.16.03-02 - LO: 03-02

ACCREDITING STANDARDS:

ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

169. Prepare adjusting entries for the following transactions:

- The beginning balance of the supplies account was \$245. During the month the company bought additional supplies in the amount of \$735. At the end of the month a physical inventory showed \$343 of unused supplies.
- The company has a 12% note payable in the amount of \$17,000 due in 6 months. The interest expense for the month has not been recorded.
- The company has two employees. The manager is paid on the 15th of every month for work performed during the first half of the month and on the 1st of the following month for the work performed during the second half of the month. His monthly salary is \$5,500. The other employee is paid \$650 for each 5-day work week (Monday - Friday). The last day of the month fell on Thursday.
- The unearned revenue account shows a balance of \$46,000. According to the manager 60% of that amount has been earned.
- At the end of the month \$5,700 of services had been performed but not yet billed.

**ANSWER:**

(a)	Supplies Expense ( $\$245 + \$735 - \$343$ )	637	
	Supplies		637
(b)	Interest Expense [ $(\$17,000 \times 12\%) / 12$ ]	170	
	Interest Payable		170
(c)	Wages and Salary Expense	3,270	
	Wages and Salary Payable		3,270
	{ $(\$5,500 / 2) + [(\$650 / 5) \times 4]$ }		
(d)	Unearned Revenues	27,600	
	Fees Earned		27,600
	( $\$46,000 \times 60\%$ )		
(e)	Accounts Receivable	5,700	
	Fees Earned		5,700

**DIFFICULTY:**

Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:**

FNMN.WARD.16.03-02 - LO: 03-02

**ACCREDITING STANDARDS:**

ACCT.ACBSB.APC.07 - Adjusting Entries

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 3: The Adjusting Process

170. Journalize the six entries to adjust the accounts at December 31. (Hint: One of the accounts was affected by two different adjusting entries).

	Unadjusted Trial Balance		Adjusted Trial Balance	
	Debit Balances	Credit Balances	Debit Balances	Credit Balances
Cash	5,000		5,000	
Accounts Receivable	32,000		32,600	
Supplies	3,600		100	
Prepaid Insurance	4,000		1,400	
Equipment	11,000		11,000	
Accumulated Depreciation				1,700
Wages Payable				2,000
Unearned Fees		8,900		3,500
Common Stock		22,000		22,000
Fees Earned		69,000		75,000
Wages Expense	44,300		46,300	
Supplies Expense			3,500	
Insurance Expense			2,600	
Depreciation Expense			1,700	
Totals	<u>99,900</u>	<u>99,900</u>	<u>104,200</u>	<u>104,200</u>

*ANSWER:*

Accounts Receivable	600	
Fees Earned		600
Supplies Expense	3,500	
Supplies		3,500
Insurance Expense	2,600	
Prepaid Insurance		2,600
Depreciation Expense	1,700	
Accumulated Depreciation		1,700
Unearned Fees	5,400	
Fees Earned		5,400
Wages Expense	2,000	
Wages Payable		2,000

*DIFFICULTY:*

Challenging  
Bloom's: Applying

*LEARNING OBJECTIVES:*

FNMN.WARD.16.03-02 - LO: 03-02  
FNMN.WARD.16.03-04 - LO: 03-04

*ACCREDITING STANDARDS:*

ACCT.ACBSP.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

Chapter 3: The Adjusting Process

171. Bloom's Company pays biweekly salaries of \$40,000 every other Friday for a ten-day period ending on that day. The last payday of December is Friday, December 27. Assuming the next pay period begins on Monday, December 30, journalize the adjusting entry necessary at the end of the fiscal period (December 31).

Date	Description	Post. Ref.	Debit	Credit

ANSWER:  $\$40,000/10 \text{ days} = \$4,000 \text{ per day} \times 2 \text{ days} = \$8,000$

Date	Description	Post. Ref.	Debit	Credit
Dec. 31	Salary Expense		8,000	
	Salary Payable			8,000

DIFFICULTY: Moderate  
Bloom's: Applying

LEARNING OBJECTIVES: FNMN.WARD.16.03-02 - LO: 03-02

ACCREDITING STANDARDS: ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

172. A business pays biweekly salaries of \$20,000 every other Friday for a ten-day period ending on that day. The last payday of December is Friday, December 27. Assume the next pay period begins on Monday, December 30 and the proper adjusting entry is journalized at the end of the fiscal period (December 31). Journalize the entry for the payment of the payroll on Friday, January 10.

Date	Description	Post. Ref.	Debit	Credit

ANSWER:  $\text{Accrued salaries for December} = \$20,000/10 \text{ days} = \$2,000 \text{ per day} \times 2 \text{ days} = \$4,000$   
 $\text{Salary expense for January } \$20,000 - \$4,000 = \$16,000$

Date	Description	Post. Ref.	Debit	Credit
Jan. 10	Salary Expense		16,000	
	Salary Payable		4,000	
	Cash			20,000

DIFFICULTY: Moderate  
Bloom's: Applying

LEARNING OBJECTIVES: FNMN.WARD.16.03-02 - LO: 03-02

ACCREDITING STANDARDS: ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

173. At January 31, the end of the first *month* of the year, the usual adjusting entry transferring expired insurance to an expense account is omitted. Which items will be incorrectly stated, because of the error, on (a) the income statement for January and (b) the balance sheet as of January 31? Also indicate whether the items in error will be overstated or understated.

**ANSWER:**

- (a) Insurance expense (or expenses) will be understated. Net income will be overstated.
- (b) Prepaid insurance (or assets) will be overstated. Shareholders' equity will be overstated.

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-03 - LO: 03-03

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

174. At the end of April, the first month of the year, the usual adjusting entry transferring rent earned to a revenue account from the unearned rent account was omitted. Indicate which items will be incorrectly stated, because of the error, on (a) the income statement for April and (b) the balance sheet as of April 30. Also indicate whether the items in error will be overstated or understated.

- ANSWER:**
- (a) Rent revenue (or revenues) will be understated. Net income will be understated.
  - (b) Shareholders' equity at the end of the period will be understated. Unearned rent (or liabilities) will be overstated.

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-03 - LO: 03-03

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

175. Salaries of \$6,400 are paid for a five-day week on Friday. Prepare the adjusting journal entry that is required if the month ends on Thursday.

**ANSWER:**

Salaries Expense $[(\$6,400/5) \times 4]$	5,120	
Salaries Payable		5,120

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-03 - LO: 03-03

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

176. Accrued salaries of \$600 owed to employees for December 29, 30, and 31 are **not** taken into consideration in preparing the financial statements for the year ended December 31. Indicate which items will be erroneously stated, because of the error, on (a) the income statement for the year and (b) the balance sheet as of December 31. Also indicate whether the items in error will be overstated or understated.

*ANSWER:*

- (a) Salary expense (or expenses) will be understated. Net income will be overstated.
- (b) Salaries payable (or liabilities) will be understated. Shareholders' equity will be overstated.

*DIFFICULTY:*

Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:*

FNMN.WARD.16.03-03 - LO: 03-03

*ACCREDITING STANDARDS:*

ACCT.ACBSB.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

177. For the year ending December 31, Beard Clinical Supplies Co. mistakenly omitted adjusting entries for (1) \$9,800 of unearned revenue that was earned, (2) earned revenue that was not billed of \$10,200, and (3) accrued wages of \$7,000. Indicate the combined effect of the errors on (a) revenues, (b) expenses, and (c) net income.

*ANSWER:*

- (a) Revenues were understated by \$20,000 ( $\$9,800 + \$10,200$ ).
- (b) Expenses were understated by \$7,000.
- (c) Net income was understated by \$13,000 ( $\$20,000 - \$7,000$ ).

*DIFFICULTY:*

Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:*

FNMN.WARD.16.03-03 - LO: 03-03

*ACCREDITING STANDARDS:*

ACCT.ACBSB.APC.07 - Adjusting Entries

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

### Chapter 3: The Adjusting Process

178. On January 1, Great Designs Company had a debit balance of \$1,450 in the office supplies account. During the month, Great Designs purchased \$115 and \$160 of office supplies and journalized them to the asset account upon purchasing. On January 31, an inspection of the office supplies cabinet shows that only \$350 of office supplies remains. Prepare the January 31 adjusting entry for office supplies.

*ANSWER:*

	Jan. 31	Office Supplies Expense	1,375	
		Office Supplies		1,375

Beginning balance		\$1,450	
Plus purchases	\$115		
	<u>160</u>	<u>275</u>	
Available		\$1,725	
Less ending balance		<u>350</u>	
Period expense		<u>\$1,375</u>	

*DIFFICULTY:*

Challenging  
Bloom's: Applying

*LEARNING OBJECTIVES:*

FNMN.WARD.16.03-03 - LO: 03-03

*ACCREDITING STANDARDS:*

ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

179. For the year ending June 30, Island Clinical Services mistakenly omitted adjusting entries for (1) \$1,500 of supplies that were used, (2) unearned revenue of \$4,200 that was earned, and (3) insurance of \$5,000 that expired. What is the combined effect of these errors on (a) revenues, (b) expenses, and (c) net income for the year ending June 30?

*ANSWER:*

(a) Revenues were understated by \$4,200  
(b) Expenses were understated by \$6,500 (\$1,500 + \$5,000)  
(c) Net income was overstated by \$2,300 (\$6,500 – \$4,200)

*DIFFICULTY:*

Easy  
Bloom's: Applying

*LEARNING OBJECTIVES:*

FNMN.WARD.16.03-03 - LO: 03-03

*ACCREDITING STANDARDS:*

ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 3: The Adjusting Process

180. On December 31, a business estimates depreciation on equipment used during the first year of operations to be \$2,900. (a) Journalize the adjusting entry required on December 31. (b) If the adjusting entry in (a) were omitted, which items would be erroneously stated on (1) the income statement for the year and (2) the balance sheet as of December 31?

*ANSWER:*

(a)	Depreciation Expense	2,900	
	Accumulated Depreciation—Equipment		2,900

(b) (1) Depreciation expense would be understated. Net income would be overstated.

(2) Accumulated depreciation would be understated, and total assets would be overstated. Shareholders' equity would be overstated.

*DIFFICULTY:* Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-03 - LO: 03-03

*ACCREDITING STANDARDS:* ACCT.ACBSB.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic



### Chapter 3: The Adjusting Process

181. At the end of the fiscal year, the following adjusting entries were omitted:

- (a) No adjusting entry was made to transfer the \$1,750 of prepaid insurance from the asset account to the expense account.
- (b) No adjusting entry was made to record accrued fees of \$525 for services provided to customers.

Assuming that financial statements are prepared before the errors are discovered, indicate the effect of each error, considered individually, by inserting the dollar amount in the appropriate spaces. Insert "0" if the error does not affect the item.

		<u>Error (a)</u>		<u>Error (b)</u>	
		<u>Over-stated</u>	<u>Under-stated</u>	<u>Over-stated</u>	<u>Under-stated</u>
(1)	Assets at December 31 would be	\$	\$	\$	\$
(2)	Liabilities at Dec. 31 would be	\$	\$	\$	\$
(3)	Net income for the year would be	\$	\$	\$	\$
(4)	Owner's equity at Dec. 31 would be	\$	\$	\$	\$

**ANSWER:**

		<u>Error (a)</u>		<u>Error (b)</u>	
		<u>Over-stated</u>	<u>Under-stated</u>	<u>Over-stated</u>	<u>Under-stated</u>
(1)	Assets at December 31 would be	\$1,750	\$ -0-	\$ -0-	\$525
(2)	Liabilities at Dec. 31 would be	\$ -0-	\$ -0-	\$ -0-	\$ -0-
(3)	Net income for the year would be	\$1,750	\$ -0-	\$ -0-	\$525
(4)	Owner's equity at Dec. 31 would be	\$1,750	\$ -0-	\$ -0-	\$525

**DIFFICULTY:**

Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:**

FNMN.WARD.16.03-03 - LO: 03-03

**ACCREDITING STANDARDS:**

ACCT.AC BSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

### Chapter 3: The Adjusting Process

182. Jordon James started JJJ Consulting on January 1. The following are the account balances at the end of the first month of business, before adjusting entries were recorded:

Accounts Payable	\$ 300
Accounts Receivable	750
Cash	6,300
Consulting Revenue	4,925
Equipment	7,000
Common Stock	15,000
Dividends	1,375
Prepaid Rent	4,000
Supplies	800

Adjustment data:

Supplies on hand at the end of the month, \$200

Unbilled consulting revenue, \$700

Rent expense for the month, \$1,000

Depreciation on equipment, \$90

- (a) Prepare the required adjusting entries, adding accounts as needed.
- (b) Prepare an adjusted trial balance for JJJ Consulting as of January 31.

Chapter 3: The Adjusting Process

ANSWER:

(a)			
Supplies Expense	600		
Supplies			600
Accounts Receivable	700		
Consulting Revenue			700
Rent Expense	1,000		
Prepaid Rent			1,000
Depreciation Expense	90		
Accum. Depr.—Equipment			90

(b)		
<b>JJJ Consulting Adjusted Trial Balance January 31</b>		
Accounts	Debit Balances	Credit Balances
Cash	6,300	
Accounts Receivable	1,450	
Supplies	200	
Prepaid Rent	3,000	
Equipment	7,000	
Accumulated Depreciation— Equipment		90
Accounts Payable		300
Common Stock		15,000
Dividends	1,375	
Consulting Revenue		5,625
Depreciation Expense	90	
Rent Expense	1,000	
Supplies Expense	600	
Totals	<u>21,015</u>	<u>21,015</u>

**DIFFICULTY:** Challenging

Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-03 - LO: 03-03

FNMN.WARD.16.03-04 - LO: 03-04

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.07 - Adjusting Entries

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 3: The Adjusting Process

183. Complete the missing items in the Summary of Adjustments chart:

<b>Prepaid Expenses</b>		
<b>Examples</b>	<b>Adjusting Entry</b>	<b>Financial Statement Impact if Adjusting Entry is Omitted</b>
Supplies, (a)	Dr. Expense Cr. Asset	Income Statement: Revenues: No effect Expenses: Understated Net income: (b) Balance Sheet: Assets: (c) Liabilities: (d) Stockholders' equity: Overstated
<b>Unearned Revenues</b>		
<b>Examples</b>	<b>Adjusting Entry</b>	<b>Financial Statement Impact if Adjusting Entry is Omitted</b>
Unearned Rent, (e)	(f)	Income Statement: Revenues: (g) Expenses: No effect Net income: (h) Balance Sheet: Assets: (i) Liabilities: Overstated Stockholders' equity: (j)
<b>Accrued Revenues</b>		
<b>Examples</b>	<b>Adjusting Entry</b>	<b>Financial Statement Impact if Adjusting Entry is Omitted</b>
Interest income due on a note, (k)	Dr. Asset Cr. Revenue	Income Statement: Revenues: (l) Expenses: (m) Net income: Understated Balance Sheet: Assets: (n) Liabilities: (o) Stockholders' equity: Understated
<b>Accrued Expenses</b>		
<b>Examples</b>	<b>Adjusting Entry</b>	<b>Financial Statement Impact if Adjusting Entry is Omitted</b>
Interest due on a note payable, (p)	(q)	Income Statement: Revenues: No effect Expenses: (r) Net income: (s) Balance Sheet: Assets: (t) Liabilities: Understated Stockholders' equity: (u)

### Chapter 3: The Adjusting Process

ANSWER:

(a)	Prepaid rent or Prepaid insurance
(b)	Overstated
(c)	Overstated
(d)	No effect
(e)	Retainer fee or Magazine subscription
(f)	Dr. Liability, Cr. Revenue
(g)	Understated
(h)	Understated
(i)	No effect
(j)	Understated
(k)	Services performed but not yet billed
(l)	Understated
(m)	No effect
(n)	Understated
(o)	No effect
(p)	Unpaid wages
(q)	Dr. Expense, Cr. Liability
(r)	Understated
(s)	Overstated
(t)	No effect
(u)	Overstated

DIFFICULTY:

Challenging

Bloom's: Applying

LEARNING OBJECTIVES:

FNMN.WARD.16.03-03 - LO: 03-03

ACCREDITING STANDARDS:

ACCT.ACBSAP.APC.07 - Adjusting Entries

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

184. For each of the following errors, considered individually, indicate whether the error would cause the adjusted trial balance totals to be unequal. If the error would cause the adjusted trial balance total to be unequal, indicate whether the debit or credit total is higher and by how much.

- The adjustment for unearned fees of \$3,260 was journalized as a debit to Accounts Payable for \$3,260 and a credit to Fees Earned of \$3,260.
- The adjustment for supplies expense of \$425 was journalized as a debit to Supplies Expense for \$542 and a credit to Supplies for \$425.

ANSWER:

a) The trial balance totals will still be equal, but the balances of Unearned Fees and Accounts Payable will be incorrect as the debit should have been made to Unearned Fees instead of Accounts Payable.

b) The debit total exceeds the credit total by \$117.

DIFFICULTY:

Easy

Bloom's: Applying

LEARNING OBJECTIVES:

FNMN.WARD.16.03-04 - LO: 03-04

ACCREDITING STANDARDS:

ACCT.ACBSAP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 3: The Adjusting Process

185. Using the following account balances for Garry's Tree Service, prepare a trial balance.

Cash	\$25,000
Supplies	1,000
Accounts Payable	7,000
Common Stock	32,910
Wage Expense	2,000
Machinery	18,350
Wages Payable	3,600
Service Revenue	21,000
Rent Expense	11,500
Unearned Revenue	1,500
Accumulated Depreciation—Machinery	7,340
Prepaid Rent	12,200
Dividends	3,300

ANSWER:

Accounts	Debit	Credit
Cash	25,000	
Supplies	1,000	
Prepaid Rent	12,200	
Machinery	18,350	
Accumulated Depreciation—Machinery		7,340
Accounts Payable		7,000
Wages Payable		3,600
Unearned Revenue		1,500
Common Stock		32,910
Dividends	3,300	
Service Revenue		21,000
Wage Expense	2,000	
Rent Expense	11,500	
	<u>73,350</u>	<u>73,350</u>

DIFFICULTY:

Moderate

Bloom's: Applying

LEARNING OBJECTIVES:

FNMN.WARD.16.03-04 - LO: 03-04

ACCREDITING STANDARDS:

ACCT.ACBSAP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

## Chapter 3: The Adjusting Process

186. Indicate whether the following error would cause the adjusted trial balance totals to be unequal. If the error would cause the adjusted trial balance totals to be unequal, indicate whether the debit or credit total is higher and by how much.

The entry for \$975 of supplies used during the period was journalized as a debit to Supplies Expense for \$795 and credit to Supplies for \$975.

**ANSWER:** The total will be unequal with a credit total higher by \$180 (\$975 – \$795).

**DIFFICULTY:** Easy  
Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-04 - LO: 03-04

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

187. Indicate whether the following error would cause the adjusted trial balance totals to be unequal. If the error would cause the adjusted trial balance totals to be unequal, indicate whether the debit or credit total is higher and by how much.

The adjustment for accrued fees of \$1,170 was journalized as a debit to Accounts Receivable for \$1,170 and a credit to Fees Earned for \$1,107.

**ANSWER:** The total will be unequal with a debit total higher by \$63 (\$1,170 – \$1,107).

**DIFFICULTY:** Easy  
Bloom's: Applying

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-04 - LO: 03-04

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

188. What is the purpose of an adjusted trial balance? What type(s) of error does it detect? What type(s) of error does it not detect?

**ANSWER:** The purpose of an adjusted trial balance is to make sure that debits equal credits before financial statements are prepared. If a debit is incorrectly posted as a credit or vice versa, the error will be detected. Likewise, if the debit(s) and credit(s) for a posted transaction do not equal, that error will be detected. Errors that will not be detected include omitting a required adjusting entry or posting a debit or credit for the correct amount to the wrong account.

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-04 - LO: 03-04

**ACCREDITING STANDARDS:** ACCT.ACBSB.APC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

Chapter 3: The Adjusting Process

189. Two income statements for Midnight Enterprises are shown below:

**Midnight Enterprises**  
**Income Statement**  
**For Year 1 and Year 2, Ended December 31**

	<u>Year 2</u>	<u>Year 1</u>
Fees earned	\$674,350	\$520,600
Operating expenses	<u>472,045</u>	<u>338,390</u>
Operating income	<u>\$202,305</u>	<u>\$182,210</u>

- (a) Prepare a vertical analysis of Midnight Enterprises' income statements.  
 (b) Does the vertical analysis indicate a favorable or unfavorable trend?

ANSWER:

(a)

**Midnight Enterprises**  
**Income Statement**  
**For Year 1 and Year 2 Ended December 31**

	<u>Year 2</u>		<u>Year 1</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Fees earned	\$674,350	100%	\$520,600	100%
Operating expenses	<u>472,045</u>	<u>70%</u>	<u>338,390</u>	<u>65%</u>
Operating income	<u>\$202,305</u>	<u>30%</u>	<u>\$182,210</u>	<u>35%</u>

- (b) The vertical analysis is indicating an unfavorable trend from Year 1 to Year 2 as the operating expenses of the company as a percent of revenues have increased and operating income has decreased.

*DIFFICULTY:*

Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:*

FNMN.WARD.16.03-05 - LO: 03-05

*ACCREDITING STANDARDS:*

ACCT.AC BSP.APC.09 - Financial Statements

ACCT.AC BSP.APC.23 - Financial Statement Analysis

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic



### Chapter 3: The Adjusting Process

190. Two income statements for Danielle's Design Services are shown below:

<b>Danielle's Design Services</b>		
<b>Income Statements</b>		
<b>For Years 1 and 2 Ending December 31</b>		
	<u><b>Year 2</b></u>	<u><b>Year 1</b></u>
Fees earned	<u>\$765,340</u>	<u>\$696,520</u>
Operating expenses:		
Wages expense	\$254,000	\$214,600
Rent expense	120,000	108,000
Supplies expense	76,500	98,715
Miscellaneous expense	<u>11,680</u>	<u>16,420</u>
Total operating expenses	<u>\$462,180</u>	<u>\$437,735</u>
Net income	<u>\$303,160</u>	<u>\$258,785</u>

- Prepare a vertical analysis of Danielle's Design Services income statements.
- What types of trends are indicated: favorable or unfavorable?
- What other information would enhance the analysis?

Chapter 3: The Adjusting Process

ANSWER:

(a)

**Danielle's Design Services**  
**Income Statements**  
**For Years 1 and 2 Ending December 31**

	<u>Year 2</u>		<u>Year 1</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Fees earned	\$765,340	100.0%	\$696,520	100.0%
Operating expenses:				
Wages expense	\$254,000	33.2%	\$214,600	30.8%
Rent expense	120,000	15.7%	108,000	15.5%
Supplies expense	76,500	10.0%	98,715	14.2%
Miscellaneous expense	<u>11,680</u>	<u>1.5%</u>	<u>16,420</u>	<u>2.4%</u>
Total operating expenses	<u>\$462,180</u>	<u>60.4%</u>	<u>\$437,735</u>	<u>62.8%</u>
Net income	<u>\$303,160</u>	<u>39.6%</u>	<u>\$258,785</u>	<u>37.2%</u>

(b) The vertical analysis shows both favorable and unfavorable trends. The increase in wages expense of 2.4% (33.2% – 30.8%) is unfavorable. The decrease in supplies expense of 4.2% (14.2% – 10.0%) and miscellaneous expense of 0.9% (2.4% – 1.5%) are both favorable. Rent as a percentage of fees earned stayed relatively constant. The net result is favorable—an increase in net income as a percentage of fees earned from 37.2% to 39.6%.

(c) The analysis could be enhanced by comparisons with industry averages.

**DIFFICULTY:**

Moderate

Bloom's: Applying

**LEARNING OBJECTIVES:**

FNMN.WARD.16.03-05 - LO: 03-05

**ACCREDITING STANDARDS:**

ACCT.AC BSP.APC.09 - Financial Statements

ACCT.AC BSP.APC.23 - Financial Statement Analysis

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

## Chapter 3: The Adjusting Process

Match the type of account (a–e) with the business transactions that follow.

- a. Prepaid expense
- b. Accrued expense
- c. Unearned revenue
- d. Accrued revenue
- e. None of these

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.03-02 - LO: 03-02

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.05 - Accounting Cycle  
ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.ACBSAPC.15 - Current Assets Reporting  
ACCT.ACBSAPC.16 - Current Liabilities Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

191. Services provided that have not been recorded.

*ANSWER:* d

192. Paid for one year's insurance policy.

*ANSWER:* a

193. Retainer fee received from a client for future legal representation.

*ANSWER:* c

194. Annual property taxes that are paid at the end of the year.

*ANSWER:* b

195. Electric bill to be paid next month.

*ANSWER:* b

196. Paid for a 6-month magazine subscription.

*ANSWER:* a

197. Received payment covering a 6-month magazine subscription.

*ANSWER:* c

### Chapter 3: The Adjusting Process

198. Provided tutoring for a student that will be invoiced next month.

ANSWER: d

199. Received 6 months of rental payments from a tenant.

ANSWER: c

200. Paid 6 months of rental payments to the landlord.

ANSWER: a

201. Annual depreciation on equipment, recorded on a monthly basis.

ANSWER: a

202. A contract to provide tutoring services beginning next month was signed.

ANSWER: e

*Identify the effect (a–h) that omitting each of the following items would have on the balance sheet.*

- a. Assets and stockholders' equity overstated
- b. Assets and stockholders' equity understated
- c. Assets overstated and stockholders' equity understated
- d. Assets understated and stockholders' equity overstated
- e. Liabilities and stockholders' equity overstated
- f. Liabilities and stockholders' equity understated
- g. Liabilities overstated and stockholders' equity understated
- h. Liabilities understated and stockholders' equity overstated

**DIFFICULTY:** Bloom's:  
Remembering  
Moderate

**LEARNING OBJECTIVES:** FNMN.WARD.16.03-03 - LO: 03-03

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.07 - Adjusting Entries  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

203. No adjustment was made for supplies used up during the month.

ANSWER: a

204. Wages are paid every Friday for the 5-day work week. The month ended on Monday and no adjustment was recorded.

ANSWER: h

Chapter 3: The Adjusting Process

205. Interest earned on a note receivable was not recorded.

*ANSWER:* b

206. Services provided to customers on the last day of the month were not billed.

*ANSWER:* b

207. An attorney has earned 1/2 of a retainer fee that was received and recorded last month. No adjustment was recorded for the amount earned.

*ANSWER:* g

208. Property taxes are paid annually. The estimated monthly amount for the taxes was not recorded.

*ANSWER:* h

209. Depreciation on equipment was not recorded.

*ANSWER:* a

210. A tenant paid 6 months' rent in advance when he moved in on the first day of the month. No entry was made on the last day of the month.

*ANSWER:* g