

Chapter 02 Review of the Accounting Process Answer Key

True / False Questions

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

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Accounting equation

2. Debits increase asset accounts and decrease liability accounts.

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Account relationships and records

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Account relationships and records

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Accounting processing cycle steps

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

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Analyze updating-Record adjusting entry

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Analyze updating-Identify type of adjustment

7. The adjusted trial balance contains only permanent accounts.

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Trial balance—Adjusted

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Financial statement—Income Statement

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Financial statement—Balance sheet

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

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

*Topic Area: **Financial statement—Cash flow***

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 2 Medium

*Topic Area: **Financial statement—Shareholders equity***

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

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 1 Easy

*Topic Area: **The closing process***

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

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 1 Easy

*Topic Area: **The closing process***

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

Learning Objective: 02-Appendix 2B Reversing Entries.

Level of Difficulty: 2 Medium

*Topic Area: **Reversing entries–Appendix B***

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

TRUE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

*Topic Area: **Subsidiary ledger-Special journal–App C***

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

FALSE

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Subsidiary ledger-Special journal–App C

Multiple Choice Questions

17. The accounting equation can be stated as:

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

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

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 2 Medium

Topic Area: Accounting equation

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

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

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Analyze updating-Record adjusting entry

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

22. A sale on account would be recorded by:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Analyze transaction-Record journal entry

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

| | | | |
|-----------|------------------|--------|--------|
| A. | Prepaid rent | 12,000 | |
| | Rent expense | | 12,000 |
| <u>B.</u> | Cash | 12,000 | |
| | Deferred revenue | | 12,000 |
| C. | Interest expense | 12,000 | |
| | Interest payable | | 12,000 |
| D. | Salaries expense | 12,000 | |
| | Salaries payable | | 12,000 |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

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

- | | | | |
|-----------|---------------------|-----|-----|
| A. | Inventory | 620 | |
| | Accounts receivable | | 620 |
| | Sales | 960 | |
| | Revenue from sales | | 960 |
| B. | Accounts receivable | 960 | |
| | Sales revenue | | 960 |
| | Cost of goods sold | 620 | |
| | Inventory | | 620 |
| C. | Inventory | 620 | |
| | Gain on sale | 340 | |
| | Sales revenue | | 960 |
| D. | Accounts receivable | 960 | |
| | Sales revenue | | 620 |
| | Gain on sale | | 340 |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Analyze transaction-Record journal entry

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

- | | | | |
|-----------|--------------------|-------|-------|
| <u>A.</u> | Inventory | 2,000 | |
| | Accounts payable | | 2,000 |
| B. | Cost of goods sold | 2,000 | |
| | Deferred revenue | 1,000 | |
| | Sales in advance | | 3,000 |
| C. | Cost of goods sold | 2,000 | |
| | Inventory payable | | 2,000 |
| D. | Cost of goods sold | 2,000 | |
| | Profit | 1,000 | |
| | Sales payable | | 3,000 |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Analyze transaction-Record journal entry

28. Which of the following accounts has a balance whereby debits normally exceed credits?

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

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

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

Level of Difficulty: 1 Easy

Topic Area: Account relationships and records

Topic Area: Determine account balance-Analyze entries

29. An example of a contra account is:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Analyze updating-Identify type of adjustment

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

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

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

Level of Difficulty: 1 Easy

Topic Area: Analyze transaction-Record journal entry

Topic Area: Analyze updating-Identify type of adjustment

31. Recording revenue before it is collected is an example of:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

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

Level of Difficulty: 1 Easy

Topic Area: Analyze updating-Identify type of adjustment

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

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

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

Level of Difficulty: 1 Easy

Topic Area: Analyze transaction-Record journal entry

Topic Area: Analyze updating-Identify type of adjustment

33. On December 31, 2017, Coolwear, Inc. had a balance in its prepaid insurance account of \$48,400. During 2018, \$86,000 was paid for insurance. At the end of 2018, after adjusting entries were recorded, the balance in the prepaid insurance account was 42,000. Insurance expense for 2018 would be:

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

Feedback: Insurance expense = \$48,400 + 86,000 – 42,000 = \$92,400

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

Topic Area: Determine account balance-Analyze entries

34. Adjusting entries are primarily needed for:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Analyze updating-Identify type of adjustment

35. Prepayments occur when:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Identify type of adjustment

36. Accruals occur when cash flows:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Identify type of adjustment

37. On December 31, 2018, the end of Larry's Used Cars' first year of operations, the accounts receivable was \$53,600. The company estimates that \$1,200 of the year-end receivables will not be collected. Accounts receivable in the 2018 balance sheet will be valued at:

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

Feedback: Accounts receivable = $\$53,600 - 1,200 = \underline{\$52,400}$

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Identify type of adjustment

Topic Area: Trial balance—Adjusted

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

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

Feedback:

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Determine account balance-Analyze entries

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

- A. Prepaid rent
 Rent expense
- B.** Cash
 Deferred revenue
- C. Interest expense
 Interest payable
- D. Salaries expense
 Salaries payable

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

41. Which of the following accounts has a balance whereby credits normally exceed debits?
- A. Salary expense.
 - B. Accrued income taxes payable.**
 - C. Land.
 - D. Prepaid rent.

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

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

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

Level of Difficulty: 1 Easy

Topic Area: Account relationships and records

Topic Area: Determine account balance—Analyze entries

42. When a tenant makes an end-of-period adjusting entry credit to the "Prepaid rent" account:
- A. (S)he usually debits cash.
 - B. (S)he usually debits an expense account.**
 - C. (S)he debits a liability account.
 - D. (S)he credits an owners' equity account.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 1 Easy

Topic Area: Analyze updating-Record adjusting entry

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

45. Carolina Mills purchased \$270,000 in supplies this year. The supplies account increased by \$10,000 during the year to an ending balance of \$66,000. What was supplies expense for Carolina Mills during the year?
- A. \$300,000.
 - B. \$280,000.
 - C. \$260,000.
 - D. \$240,000.

Feedback:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

*Topic Area: **Determine account balance-Analyze entries***

Topic Area: Convert cash basis to accrual basis

46. Yummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2018, and charged the \$4,200 premium to Insurance expense. At its December 31, 2018, year-end, Yummy Foods would record which of the following adjusting entries?

- | | | | |
|-----------|-------------------|-------|-------|
| A. | Insurance expense | 875 | |
| | Prepaid insurance | | 875 |
| B. | Prepaid insurance | 875 | |
| | Insurance expense | | 875 |
| C. | Insurance expense | 875 | |
| | Prepaid insurance | 3,325 | |
| | Insurance payable | | 4,200 |
| <u>D.</u> | Prepaid insurance | 3,325 | |
| | Insurance expense | | 3,325 |

Feedback:

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

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

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

Topic Area: Convert cash basis to accrual basis

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

- | | | | |
|-----------|------------------|--------|--------|
| A. | Salaries expense | 22,400 | |
| | Prepaid salaries | 9,600 | |
| | Salaries payable | | 32,000 |
| B. | Salaries expense | 6,400 | |
| | Salaries payable | | 6,400 |
| C. | Prepaid salaries | 9,600 | |
| | Salaries payable | | 9,600 |
| <u>D.</u> | Salaries expense | 22,400 | |
| | Salaries payable | | 22,400 |

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

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

48. On September 1, 2018, Fortune Magazine sold 600 one-year subscriptions for \$81 each. The total amount received was credited to deferred subscriptions revenue. What is the required adjusting entry at December 31, 2018?

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

Feedback:

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

Amount recorded as revenue: $\$48,600 \times 4/12 = \$16,200$

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

49. Mama's Pizza Shoppe borrowed \$8,000 at 9% interest on May 1, 2018, with principal and interest due on October 31, 2019. The company's fiscal year ends June 30, 2018. What adjusting entry is necessary on June 30, 2018?

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

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

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

50. On September 15, 2018, Oliver's Mortuary received a \$6,000, nine-month note bearing interest at an annual rate of 10% from the estate of Jay Hendrix for services rendered. Oliver's has a December 31 year-end. What adjusting entry will the company record on December 31, 2018?

| | | | |
|-----------|---------------------|-----|-----|
| <u>A.</u> | Interest receivable | 175 | |
| | Interest revenue | | 175 |
| B. | Interest receivable | 230 | |
| | Interest revenue | | 230 |
| C. | Interest receivable | 175 | |
| | Notes receivable | | 175 |
| D. | Interest receivable | 600 | |
| | Interest revenue | | 175 |
| | Cash | | 425 |

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

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

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

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

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

Level of Difficulty: 3 Hard

Topic Area: Analyze updating-Record adjusting entry

Topic Area: Convert cash basis to accrual basis

Topic Area: Determine account balance-Analyze entries

52. Eve's Apples opened its business on January 1, 2018, and paid for two insurance policies effective that date. The liability policy was \$36,000 for 18 months, and the crop damage policy was \$12,000 for a two-year term. What is the balance in Eve's prepaid insurance as of December 31, 2018?

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

Feedback:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

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

Level of Difficulty: 3 Hard

Topic Area: Determine account balance-Analyze entries

Topic Area: Convert cash basis to accrual basis

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

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

Feedback:

| | |
|--------------------------------------|----------------------------|
| Cash collections | \$18,000,000 |
| Deduct increase in deferred premiums | <u>(2,000,000)</u> |
| Insurance premium revenue | <u><u>\$16,000,000</u></u> |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Determine account balance-Analyze entries

Topic Area: Convert cash basis to accrual basis

54. On November 1, 2018, Tim's Toys borrows \$30,000,000 at 9% to finance the holiday sales season. The note is for a six-month term and both principal and interest are payable at maturity. What is the balance of interest payable for the loan as of December 31, 2018?
- A. \$112,500.
 - B. \$225,000.
 - C. \$450,000.**
 - D. \$1,350,000.

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

Topic Area: Determine account balance-Analyze entries

55. An economic resource of an entity is:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Account relationships and records

56. Cost of goods sold is:

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

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

Level of Difficulty: 1 Easy

Topic Area: Analyze transaction-Record journal entry

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

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

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

Level of Difficulty: 1 Easy

Topic Area: Accounting equation

Topic Area: Financial statement—Shareholders equity

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

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

Feedback: $\text{Income before tax } \$500,000 - (40\% \times \$500,000) = \$300,000$

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: **Financial statement—Income Statement**

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

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

Feedback:

Inventory

| | | | |
|-------------|----------------|-----------|-----------------------|
| | | | |
| Ending Bal. | 200,000 | 2,000,000 | To cost of goods sold |
| Purchases | ? | | |
| Bal. | <u>400,000</u> | | |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Determine account balance—Analyze entries

60. Permanent accounts would **not** include:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: Account relationships and records

Topic Area: The closing process

61. Permanent accounts would **not** include:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: Account relationships and records

Topic Area: The closing process

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: The closing process

63. Temporary accounts would **not** include:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

*Topic Area: **Account relationships and records***

Topic Area: The closing process

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Convert cash basis to accrual basis

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Convert cash basis to accrual basis

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Convert cash basis to accrual basis

67. Molly's Auto Detailers maintains its records on the cash basis. During 2018, Molly's collected \$72,000 from customers and paid \$21,000 in expenses. Depreciation expense of \$5,000 would have been recorded on the accrual basis. Over the course of the year, accounts receivable increased \$4,000, prepaid expenses decreased \$2,000, and accrued liabilities decreased \$1,000. Molly's accrual basis net income was:

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

Feedback:

| | |
|---|-----------------|
| Collections | \$72,000 |
| Payments for expenses | (21,000) |
| Add: Increase in assets (accounts receivable) | 4,000 |
| Deduct: Decrease in assets (accumulated depreciation) | (5,000) |
| Decrease in assets (prepaid expenses) | (2,000) |
| Add: Decrease in liabilities (accrued liabilities) | <u>1,000</u> |
| Accrual basis net income | <u>\$49,000</u> |

AACSB: Knowledge Application

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Convert cash basis to accrual basis

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

A. \$18,000.

B. \$34,000.

C. \$23,000.

D. \$29,000.

Feedback:

| | |
|---|-----------------|
| Collections | \$42,000 |
| Payments for expenses | (14,000) |
| Add: Increase in assets (accounts receivable) | 1,500 |
| Increase in assets (supplies) | 4,000 |
| Deduct: Decrease in assets (accumulated depreciation) | (2,000) |
| Deduct: Increase in liabilities (accrued liabilities) | <u>(2,500)</u> |
| Accrual basis net income | <u>\$29,000</u> |

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Convert cash basis to accrual basis

69. The Hamada Company sales for 2018 totaled \$150,000 and purchases totaled \$95,000. Selected January 1, 2018, balances were: accounts receivable, \$18,000; inventory, \$14,000; and accounts payable, \$12,000. December 31, 2018, balances were: accounts receivable, \$16,000; inventory, \$15,000; and accounts payable, \$13,000. Net cash flows from these activities were:

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

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Blooms: Apply

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

Level of Difficulty: 3 Hard

Topic Area: Convert cash basis to accrual basis

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

- A. Accrual-basis interest revenue exceeds cash collection from borrowers.
- B. Accrual-basis net income exceeds cash-basis net income.
- C. Accrual-basis interest revenue is less than cash collection from borrowers.
- D. Accrual-basis net income is less than cash-basis net income.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Convert cash basis to accrual basis

71. When converting an income statement from a cash basis to an accrual basis, cash received for services:
- A. Exceeds service revenue.
 - B.** May exceed or be less than service revenue.
 - C. Is less than service revenue.
 - D. Equals service revenue.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Convert cash basis to accrual basis

72.

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

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

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Convert cash basis to accrual basis

73.

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

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

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

Feedback:

| | |
|--------------------------------|---------------------------------|
| Collections | \$6,400,000 (Cash basis income) |
| Expenses incurred but not paid | <u>(3,000,000)</u> |
| Accrual basis net income | <u>\$3,400,000</u> |

Investment by shareholders and dividends to shareholders do not affect net income for either basis of accounting.

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Convert cash basis to accrual basis

74.

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

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

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

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

Prepaid Insurance

Beg. Bal. 52,500 218,750 Insurance expense
Cash paid ?
Bal. 61,250

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Determine account balance-Analyze entries

Matching Questions

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 1 Easy

Topic Area: Analyze updating—Identify type of adjustment

Topic Area: Trial balance—Adjusted

Topic Area: Trial balance—Unadjusted

Topic Area: The closing process

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 1 Easy

Topic Area: Analyze updating-Identify type of adjustment

Topic Area: Financial statement—Cash flow

Topic Area: Financial statement—Balance sheet

Topic Area: Accounting equation

Topic Area: The closing process

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

Level of Difficulty: 2 Medium

Topic Area: Accounting equation

Topic Area: Analyze transaction-Record journal entry

Topic Area: Analyze updating-Identify type of adjustment

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 1 Easy

Topic Area: Account relationships and records

Topic Area: Accounting processing cycle steps

Topic Area: The closing process

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

Level of Difficulty: 1 Easy

Topic Area: Accounting processing cycle steps

Topic Area: Subsidiary ledger-Special journal-App C

Topic Area: Accounting equation

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

Level of Difficulty: 1 Easy

Topic Area: Accounting processing cycle steps

Topic Area: Subsidiary ledger-Special journal—App C

Topic Area: Account relationships and records

Topic Area: Accounting equation

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

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

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Identify type of adjustment

Topic Area: Trial balance—Unadjusted

Topic Area: Accounting equation

Topic Area: Account relationships and records

Topic Area: The closing process

Short Answer Questions

Use the following to answer questions 82 – 93:

The account titles to be responded to are provided in no particular order. Assume that all accounts have normal balances according to whether the account is increased by a debit or increased by a credit.

Required:

In column A, indicate whether a debit will:

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

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

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

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

82. Buildings and equipment (B&E)

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

83. Short-term notes payable

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

84.

Cost of goods sold

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

85.

Accounts receivable

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

86.

Inventory

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

87.

Deferred revenue

Answer:

| | Effect | Classification |
|------------------|--------|----------------|
| Deferred revenue | 2 | 3 |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

88.

Property taxes payable

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

89.

Retained earnings

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

90.

Interest revenue

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

91.

Supplies expense

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

92.

Prepaid rent

Answer:

| | Effect | Classification |
|--------------|--------|----------------|
| Prepaid rent | 1 | 1 |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

93.

Common stock

Answer:

| | Effect | Classification |
|--------------|--------|----------------|
| Common stock | 2 | 5 |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-01

Learning Objective: 02-06

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Accounting equation

Topic Area: Distinguish among financial statements

Use the following to answer questions 94 – 108:

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

Required:

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

94.

| TRANSACTION | Account(s) debited | Account(s) credited | Transaction type |
|---------------------------------------|-------------------------------|--------------------------------|-----------------------------|
| EXAMPLE: Sold \$110,000,000 in common | 1100 | 3100 | 1 |

| | | | |
|-----------------|--|--|--|
| stock for cash. | | | |
|-----------------|--|--|--|

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

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

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

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Purchased inventory on account.

- 96.

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: **Analyze transaction-Record journal entry**

Sold inventory on account.

97.

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: **Analyze transaction-Record journal entry**

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

98. Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Accrued the interest recognized but not collected on notes receivable.

99.

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

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

100.

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Collected cash on account from customers.

101. Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

102. Sold inventory for cash.

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Received payment for services to be performed next year.

103. Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

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

104.

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Record adjusting entry

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

105.

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: The closing process

Accrued property taxes were paid.

106.

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: **Analyze transaction-Record journal entry**

107. Declared cash dividends on common stock that will be paid in the next month.

Answer:

| TRANSACTION | Account(s) debited | Account(s) credited | Transaction type |
|--|-----------------------|------------------------|---------------------|
| Declared cash dividends on common stock that will be paid in the next month. | 3200 | 2160 | 1 |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: **Analyze transaction-Record journal entry**

Paid rent for the next three months.

108.

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

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

Required:

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

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

Answer:

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

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 1 Easy

Topic Area: Analyze transaction-Record journal entry

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

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

Answer:

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

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: **Analyze transaction-Record journal entry**

111. Flint Hills, Inc. has prepared a year-end 2018 trial balance. Certain accounts in the trial balance do not reflect all activities that have occurred.

Required:

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

1. The Supplies account shows a balance of \$540, but a count of supplies reveals only \$210 on hand.
2. Flint Hills initially records the payments of all insurance premiums as expenses. The trial balance shows a balance of \$420 in Insurance expense. A review of insurance policies reveals that \$125 of insurance is unexpired.
3. Flint Hills employees work Monday through Friday, and salaries of \$2,400 per week are paid each Friday. Flint Hills' year-end falls on Tuesday.
4. On December 31, 2018, Flint Hills received a utility bill for December electricity usage of \$190 that will be paid in early January of 2019.

Answer:

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

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

Level of Difficulty: 2 Medium

*Topic Area: **Analyze updating-Record adjusting entry***

112.

The following is selected financial information for D. Kay Dental Laboratories for 2017 and 2018:

| | <u>2017</u> | <u>2018</u> |
|------------------------------|-------------|-------------|
| Retained earnings, January 1 | \$53,000 | ? |
| Net income | 37,000 | 42,000 |
| Dividends declared and paid | 15,000 | 18,000 |
| Common stock | 70,000 | ? |

Kay issued 2,000 shares of additional common stock in 2018 for \$20,000. There were no other shareholder transactions.

Required:

Prepare a statement of shareholders' equity for D. Kay Dental Laboratories for the year ended December 31, 2018.

Answer:

D. Kay Dental Laboratories
Statement of Shareholders' Equity
For the Year Ended December 31, 2018

| | Common | Retained | Total |
|----------------------------|------------------|------------------|---------------------------------------|
| | <u>Stock</u> | <u>Earnings</u> | <u>Shareholders'</u> <u>Equity</u> |
| Balance, January 1, 2018 | \$70,000 | \$75,000* | \$145,000 |
| Issue of common stock | 20,000 | | 20,000 |
| Net income for 2018 | | 42,000 | 42,000 |
| Less: Dividends | _____ | – 18,000 | – 18,000 |
| Balance, December 31, 2018 | <u>\$ 90,000</u> | <u>\$ 99,000</u> | <u>\$189,000</u> |

* Beginning balance, Retained Earnings = Ending balance at December 31, 2017:

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

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 3 Hard

*Topic Area: **Financial statement—Shareholders equity***

113.

The Yankel Corporation's controller prepares adjusting entries only at the end of the fiscal year. The following adjusting entries were prepared on December 31, 2018:

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

Additional information:

1. The company borrowed \$30,000 on June 30, 2018. Principal and interest are due on June 30, 2019. This note is the company's only interest-bearing debt.
2. Insurance for the year on the company's office buildings is \$90,000. The insurance is paid in advance.
3. On August 31, 2018, Yankel lent money to a customer. The customer signed a note with principal and interest at 9% due in one year.

Required:

Determine the following:

1. What is the interest rate on the company's note payable?
2. The 2018 insurance payment was made at the beginning of which month?
3. How much did Yankel lend its customer on August 31?

Answer: 1. \$1,800 represents six months of interest on a \$30,000 note, or 50% of annual interest.

$\$1,800 \div .50 = \$3,600$ in annual interest

$\$3,600 \div \$30,000 = \mathbf{12\% \text{ interest rate}}$

Or,

Principal \times Rate \times Time = Interest

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

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

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

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

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

3. Principal \times Rate \times Time = Interest

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

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

Principal = \$100,000

Or

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

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

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

Principal = $\$9,000 \div .09 = \mathbf{\$100,000 \text{ note}}$

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

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

Level of Difficulty: 3 Hard

Topic Area: Analyze updating-Record adjusting entry

Topic Area: Determine account balance-Analyze entries

Use the following to answer questions 114 – 118:

Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item of information, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2018 Income Statement and 12/31/18 Balance Sheet. Assume no income taxes.

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

N = No Effect

O = Overstated

U = Understated

114.

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|---|-----------------|----------------------|-------------------------|-----------------|
| \$2,000 interest on a loan was not yet paid or recorded | | | | |

Answer:

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|---|-----------------|----------------------|-------------------------|-----------------|
| \$2,000 interest on a loan was not yet paid or recorded | N | U 2,000 | O 2,000 | O2,000 |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: **Determine account balance-Analyze entries**

Topic Area: **Distinguish among financial statements**

115.

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|---|--------------------|-------------------------|----------------------------|--------------------|
| The estimated uncollectible accounts receivable is now zero and should be \$25,000. | | | | |

Answer:

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|---|--------------------|-------------------------|----------------------------|--------------------|
| The estimated uncollectible accounts receivable is now zero and should be \$25,000. | 025,000 | N | 025,000 | 025,000 |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

balance.

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

Level of Difficulty: 2 Medium

Topic Area: Distinguish among financial statements

Topic Area: Determine account balance-Analyze entries

116.

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|---|-----------------|----------------------|-------------------------|-----------------|
| \$10,000 of the paid and recorded rent expense pertains to the year 2019. | | | | |

Answer:

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|---|-----------------|----------------------|-------------------------|-----------------|
| \$10,000 of the paid and recorded rent expense pertains to the year 2019. | U10,000 | N | U10,000 | U10,000 |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Determine account balance-Analyze entries

Topic Area: Distinguish among financial statements

117.

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|--|--------------------|-------------------------|----------------------------|--------------------|
| \$20,000 in depreciation on some equipment was still unrecorded. | | | | |

Answer:

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|--|--------------------|-------------------------|----------------------------|--------------------|
| \$20,000 in depreciation on some equipment was still unrecorded. | 020,000 | N | 020,000 | 020,000 |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Distinguish among financial statements

Topic Area: Determine account balance-Analyze entries

118.

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|---|--------------------|-------------------------|----------------------------|--------------------|
| \$4,000 in cash dividends declared and paid in December 2018 were unrecorded. | | | | |

Answer:

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|---|--------------------|-------------------------|----------------------------|--------------------|
| \$4,000 in cash dividends declared and paid in December 2018 were unrecorded. | 04,000 | N | 04,000 | N |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Determine account balance-Analyze entries

Topic Area: Distinguish among financial statements

Use the following to answer questions 119 – 124:

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/18. You notice several omissions and incorrect items during your review, some of which are noted below. For each one, you are to determine what effect, if any, these items would have on the stated components of O'Brian Co.'s 2018 Income Statement and 12/31/18 Balance Sheet if they are not corrected or updated. Assume no income taxes.

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

N = No Effect

O = Overstated

U = Understated

119.

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|---|--------------------|-------------------------|-------------------------------|-----------------------|
| Uncollectible accounts of \$7,000, as a percentage of sales, are estimated at the end of the year. The entry has not been recorded. | | | | |

Answer:

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|---|--------------------|-------------------------|-------------------------------|-----------------------|
| Uncollectible accounts of \$7,000, as a percentage of sales, are estimated at the end of the year. The entry has not been recorded. | O | N | O | O |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

*Topic Area: **Determine account balance-Analyze entries***

*Topic Area: **Distinguish among financial statements***

120.

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|---|--------------------|-------------------------|-------------------------------|-----------------------|
| The journal entry for depreciation on equipment for 2018 was recorded for \$48,000. The amount should have been \$66,000. | | | | |

Answer:

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|---|--------------------|-------------------------|-------------------------------|-----------------------|
| The journal entry for depreciation on equipment for 2018 was recorded for \$48,000. The amount should have been \$66,000. | ○ | N | ○ | ○ |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Distinguish among financial statements

Topic Area: Determine account balance-Analyze entries

121.

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|---|--------------------|-------------------------|-------------------------------|-----------------------|
| Cash dividends declared and paid on December 15, 2018, were not recorded. | | | | |

Answer:

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|---|--------------------|-------------------------|-------------------------------|-----------------------|
| Cash dividends declared and paid on December 15, 2018, were not recorded. | O | N | O | N |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 3 Hard

Topic Area: Determine account balance-Analyze entries

Topic Area: Distinguish among financial statements

122.

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|--|--------------------|-------------------------|-------------------------------|-----------------------|
| \$10,000 of the rent revenue collected and recorded as revenue this year pertains to 2019. | | | | |

Answer:

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|--|--------------------|-------------------------|-------------------------------|-----------------------|
| \$10,000 of the rent revenue collected and recorded as revenue this year pertains to 2019. | N | U | O | O |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: **Determine account balance-Analyze entries**

Topic Area: **Distinguish among financial statements**

123.

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|--|--------------------|-------------------------|-------------------------------|-----------------------|
| Interest recognized during the year on a note receivable was not yet collected or recorded | | | | |

Answer:

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|--|--------------------|-------------------------|-------------------------------|-----------------------|
| Interest recognized during the year on a note receivable was not yet collected or recorded | U | N | U | U |

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 2 Medium

Topic Area: Determine account balance-Analyze entries

Topic Area: Distinguish among financial statements

124.

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|---|--------------------|-------------------------|-------------------------------|-----------------------|
| Supplies purchased during the year for \$1,000 cash were recorded by a debit to Supplies Expense and a credit to Cash. Only \$200 of supplies remain at the end of the year, but no further entries have been recorded. | | | | |

Answer:

| Additional Information | 12/31/18 Assets | 12/31/18 Liabilities | 12/31/18 Owners' Equity | 2018 Net Income |
|---|--------------------|-------------------------|-------------------------------|-----------------------|
| Supplies purchased during the year for \$1,000 cash were recorded by a debit to Supplies Expense and a credit to Cash. Only \$200 of supplies remain at the end of the year, but no further entries have been recorded. | U | N | U | U |

AICPA: BB Critical Thinking

Blooms: Analyze

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

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

Level of Difficulty: 3 Hard

*Topic Area: **Determine account balance-Analyze entries***

*Topic Area: **Distinguish among financial statements***

Use the following to answer questions 125 – 127:

The adjusted trial balance for China Tea Company at December 31, 2018, is presented below:

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

125.

Prepare the closing entries for China Tea Company for the year ended December 31, 2018.

Answer:

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

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: The closing process

126.

Prepare an income statement for China Tea Company for the year ended December 31, 2018.

Answer:

| China Tea Company Income Statement For the Year Ended December 31, 2018 | | |
|---|--------------|-------------------------|
| Sales revenue | | \$400,000 |
| Cost of goods sold | | <u>180,000</u> |
| Gross profit | | 220,000 |
| Other expenses: | | |
| Salaries expense | \$120,000 | |
| Rent expense | 15,000 | |
| Depreciation expense | 30,000 | |
| Interest expense | 2,000 | |
| Advertising expense | <u>2,500</u> | |
| Total other expenses | | <u>169,500</u> |
| Net income | | <u><u>\$ 50,500</u></u> |

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: Financial statement—Income Statement

127. Prepare a classified balance sheet for China Tea Company as of December 31, 2018.

Answer:

| China Tea Company Balance Sheet At December 31, 2018 | | |
|--|----------------|------------------|
| Assets | | |
| Current assets: | | |
| Cash | | \$ 10,500 |
| Accounts receivable | | 150,000 |
| Inventory | | 25,000 |
| Prepaid rent | | <u>5,000</u> |
| Total current assets | | 190,500 |
| Property and equipment: | | |
| Equipment | 300,000 | |
| Less: Accumulated depreciation | <u>125,000</u> | <u>175,000</u> |
| Total assets | | <u>\$365,500</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | | \$ 30,000 |
| Notes payable | | 30,000 |
| Salaries payable | | 4,000 |
| Interest payable | | <u>1,000</u> |
| Total current liabilities | | 65,000 |
| Shareholders' equity: | | |
| Common stock | \$200,000 | |
| Retained earnings | <u>100,500</u> | |
| Total shareholders' equity | | <u>300,500</u> |
| Total liabilities and shareholders' equity | | <u>\$365,500</u> |

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

*Topic Area: **Financial statement—Balance sheet***

Use the following to answer questions 128 and 129:

The following information, based on the 12/31/18 Annual Report to Shareholders of Krafty Foods (\$ in millions):

| | |
|--|---------|
| Accounts payable | 1,897 |
| Accounts receivable (net) | 3,131 |
| Accrued liabilities and taxes | 4,105 |
| Cash and cash equivalents | 162 |
| Cost of sales | 17,531 |
| Current payables to parent and affiliates | 1,652 |
| Current portion of long-term debt | 540 |
| Deferred income taxes and other liabilities | 10,311 |
| Retained earnings as of 12/31/18 | 2,391 |
| Goodwill and other intangible assets (net) | 35,957 |
| Income tax expense | 1,565 |
| Interest and other debt expense, net | 1,437 |
| Inventories | 3,026 |
| Long-term debt | 8,134 |
| Long-term notes payable to parent and affiliates | 5,000 |
| Marketing, general and administration expenses | 11,460 |
| Operating revenues | 33,875 |
| Other current assets | 687 |
| Other noncurrent assets | 3,726 |
| Other stockholders' equity | (2,568) |
| Paid-in capital for common and preferred stock | 23,655 |
| Property, plant and equipment (net) | 9,109 |
| Short-term borrowings | 681 |

128. Based on the information presented above, prepare the Income Statement for Krafty Foods for the year ended December 31, 2018.

Answer:

| Krafty Foods Income Statement For the Year Ended December 31, 2018 | |
|--|-----------------|
| (\$ in millions) | |
| Operating revenues | \$33,875 |
| Cost of sales | <u>17,531</u> |
| Gross profit | 16,344 |
| Marketing, general and administration Expenses | <u>11,460</u> |
| Operating income | 4,884 |
| Interest and other debt expense, net | <u>1,437</u> |
| Income before taxes | 3,447 |
| Income tax expense | <u>1,565</u> |
| Net income | <u>\$ 1,882</u> |

AACSB: Knowledge Application

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

*Topic Area: **Financial statement—Income Statement***

129.

Based on the information presented above, prepare the 12/31/18 Balance Sheet for Krafty Foods.

Answer:

| Krafty Foods Balance Sheet At December 31, 2018 | | |
|--|----------|------------------------|
| (\$ in millions) | | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | | \$ 162 |
| Accounts receivable (net) | | 3,131 |
| Inventories | | 3,026 |
| Other current assets | | <u>687</u> |
| Total current assets | | 7,006 |
| Property, plant and equipment (net) | | 9,109 |
| Goodwill and other intangible assets (net) | | 35,957 |
| Other noncurrent assets | | <u>3,726</u> |
| Total assets | | <u><u>\$55,798</u></u> |
| | | |
| Liabilities and Shareholders' Equity | | |
| Accounts payable | | \$ 1,897 |
| Accrued liabilities and taxes | | 4,105 |
| Short-term borrowings | | 681 |
| Current payables to parent and affiliates | | 1,652 |
| Current portion of long-term debt | | <u>540</u> |
| Total current liabilities | | 8,875 |
| Long-term debt | | 8,134 |
| Deferred income taxes and other liabilities | | 10,311 |
| Long-term notes payable to parent and affiliates | | <u>5,000</u> |
| Total liabilities | | 32,320 |
| Paid-in capital for common and preferred stock | \$23,655 | |
| Retained earnings | 2,391 | |

| | | |
|--|---------|-----------------|
| Other stockholders' equity | (2,568) | |
| Total stockholders' equity | | <u>23,478</u> |
| Total liabilities and stockholders' equity | | <u>\$55,798</u> |

AACSB: Knowledge Application

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 3 Hard

*Topic Area: **Financial statement—Balance sheet***

Use the following to answer questions 130 – 133:

The December 31, 2018 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

| Account Title | Debits | Credits |
|--------------------------------------|------------------|------------------|
| Accounts payable | | 90,000 |
| Accounts receivable | 170,000 | |
| Accumulated depreciation – equipment | | 260,000 |
| Common stock | | 490,000 |
| Cash | 26,000 | |
| Cost of goods sold | 480,000 | |
| Depreciation expense | 60,000 | |
| Equipment | 700,000 | |
| Interest expense | 4,000 | |
| Inventory | 150,000 | |
| Note payable (due in six months) | | 60,000 |
| Rent expense | 30,000 | |
| Retained earnings | | 62,000 |
| Salaries and wages payable | | 8,000 |
| Sales revenue | | <u>770,000</u> |
| Salaries expense | <u>120,000</u> | |
| TOTALS | <u>1,740,000</u> | <u>1,740,000</u> |

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

Kline's 2018 net income (or loss):

Answer: Kline's 2018 net income (or loss) = \$76,000

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

AACSB: Knowledge Application

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: **Financial statement—Income Statement**

131.

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

Kline's 12/31/18 total current assets:

Answer: Kline's 12/31/18 total current assets = \$346,000

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

AACSB: Knowledge Application

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: **Financial statement—Balance sheet**

132.

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

Kline's 12/31/18 total current liabilities:

Answer: Kline's 12/31/18 total current liabilities = \$158,000

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

AACSB: Knowledge Application

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area: **Financial statement—Balance sheet**

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

Kline's 12/31/18 total shareholders' equity:

Answer: Kline's 12/31/18 total owners' equity = \$628,000

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

AACSB: Knowledge Application

AICPA: FN Measurement

Blooms: Apply

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

Level of Difficulty: 2 Medium

Topic Area **Financial statement—Shareholders equity**

Topic Area: **Financial statement—Balance sheet**

134.

Presented below is income statement information of the Nebraska Corporation for the year ended December 31, 2018.

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

Required:

Prepare the necessary closing entries at December 31, 2018.

Answer:

December 31, 2018

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

| | | |
|-------------------|--|--------|
| Retained earnings | | 75,000 |
|-------------------|--|--------|

AACSB: Knowledge Application

AICPA: FN Measurement

Blooms: Apply

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: The closing process

135.

Raintree Corporation maintains its records on a cash basis. At the end of each year the company's accountant obtains the necessary information to prepare accrual basis financial statements. The following cash flows occurred during the year ended December 31, 2018:

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

Selected balance sheet information:

| | 12/31/17 | 12/31/18 |
|--|----------|-----------|
| Cash | \$25,000 | \$101,000 |
| Accounts receivable | 42,000 | 70,000 |
| Inventory | 60,000 | 82,000 |
| Prepaid insurance | 2,000 | ? |
| Prepaid rent | 7,000 | ? |
| Interest receivable | 1,500 | ? |
| Note receivable | 50,000 | 50,000 |
| Equipment | 150,000 | 150,000 |
| Accumulated depreciation— equipment | (40,000) | (55,000) |

| | | |
|------------------------------------|---------|---------|
| Accounts payable (for merchandise) | 50,000 | 62,000 |
| Salaries payable | 20,000 | 28,000 |
| Common stock | 200,000 | 250,000 |

Additional information:

1. On June 30, 2017, Raintree lent a customer \$50,000. Interest at 6% is payable annually on each June 30. Principal is due in 2021.
2. The annual insurance payment is made in advance on March 31.
3. Annual rent on the company's facilities is paid in advance on September 30.

Required:

1. Prepare an accrual basis income statement for 2018 (ignore income taxes).
2. Determine the following balance sheet amounts on December 31, 2018:
 - a. Interest receivable
 - b. Prepaid insurance
 - c. Prepaid rent

Answer:

| | | |
|--|------------------|-----|
| 1. Sales revenue: | | |
| Cash collected from customers | \$450,000 | |
| Add: Increase in accounts receivable | <u>28,000</u> | |
| Sales revenue | <u>\$478,000</u> | |
| Interest revenue: | | |
| Cash received | \$3,000 | |
| Add: Amount accrued at the end of 2018 ($\$50,000 \times .06 \times 6/12$) | 1,500 | (a) |
| Deduct: Amount accrued at the end of 2017 | <u>(1,500)</u> | |
| Interest revenue | <u>\$3,000</u> | |
| Cost of goods sold: | | |
| Cash paid for merchandise | \$220,000 | |
| Add: Increase in accounts payable | <u>12,000</u> | |

| | | |
|--|------------------|-----|
| Purchases during 2018 | 232,000 | |
| Deduct: Increase in inventory | <u>(22,000)</u> | |
| Cost of goods sold | <u>\$210,000</u> | |
| Insurance expense: | | |
| Cash paid | \$9,000 | |
| Add: Prepaid insurance expired during 2018 | 2,000 | |
| Deduct: Prepaid insurance on 12/31/18 (\$9,000 x 3/12) | <u>(2,250)</u> | (b) |
| Insurance expense | <u>\$8,750</u> | |
| Salaries expense: | | |
| Cash paid | \$180,000 | |
| Add: Increase in salaries payable | <u>8,000</u> | |
| Salaries expense | <u>\$188,000</u> | |
| Rent expense: | | |
| Amount paid | \$12,000 | |
| Add: Prepaid rent on 12/31/17 expired during 2018 | 7,000 | |
| Deduct: Prepaid rent on 12/31/18 (\$12,000 x 9/12) | <u>(9,000)</u> | (c) |
| Rent expense | <u>\$10,000</u> | |
| Depreciation expense: Increase in accumulated depreciation | <u>\$15,000</u> | |

| Raintree Corporation Income statement For the Year Ended December 31, 2018 | | |
|---|---------------|----------------|
| Sales revenue | | \$478,000 |
| Cost of goods sold | | <u>210,000</u> |
| Gross profit | | 268,000 |
| Operating expenses: | | |
| Insurance | \$ 8,750 | |
| Salaries | 188,000 | |
| Rent | 10,000 | |
| Depreciation | <u>15,000</u> | |
| Total operating expenses | | <u>221,750</u> |

| | | |
|-------------------------|--|-----------------|
| Operating income | | 46,250 |
| Other income (expense): | | |
| Interest revenue | | <u>3,000</u> |
| Net income | | <u>\$49,250</u> |

2.

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

AACSB: Analytical Thinking

AACSB: Knowledge Application

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Apply

Blooms: Analyze

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

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

Level of Difficulty: 3 Hard

Topic Area: Convert cash basis to accrual basis

Topic Area: Determine account balance—Analyze entries

Topic Area: Financial statement—Income Statement

136. Silicon Chip Company's fiscal year-end is December 31. At the end of 2018, it owed employees \$22,000 in salaries and wages that will be paid on January 7, 2019.

Required:

1. Prepare an adjusting entry to record accrued salaries and wages, a reversing entry on January 1, 2019, and an entry to record the payment of salaries and wages on January 7, 2019.
2. Prepare journal entries to record the accrued salaries and wages on December 31, 2018 and the payment of salaries and wages on January 7, 2019, assuming a reversing entry is not recorded.

Answer:

1.

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

2.

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

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

AACSB: Analytical Thinking

AICPA: FN Measurement

Blooms: Analyze

Learning Objective: 02-Appendix 2B Reversing Entries.

Level of Difficulty: 3 Hard

Topic Area: Reversing entries—Appendix B

Essay Questions

137.

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

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

AACSB: Communication

AICPA: BB Critical Thinking

Blooms: Understand

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

Level of Difficulty: 2 Medium

Topic Area: Account relationships and records

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

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

AACSB: Communication

AICPA: BB Critical Thinking

Blooms: Understand

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

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Identify type of adjustment

Topic Area: Analyze transaction-Record journal entry

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

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Understand

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

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

Level of Difficulty: 2 Medium

Topic Area: Analyze transaction-Record journal entry

Topic Area: Analyze updating-Identify type of adjustment

140. What is an accrued liability?

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

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Blooms: Remember

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

Level of Difficulty: 2 Medium

Topic Area: Analyze updating-Identify type of adjustment

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

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

AACSB: Communication

AICPA: BB Critical Thinking

Blooms: Understand

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

Level of Difficulty: 2 Medium

Topic Area: Account relationships and records

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

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

AACSB: Communication

AICPA: BB Critical Thinking

Blooms: Understand

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

Level of Difficulty: 3 Hard

Topic Area: Financial statement—Cash flow

143. What is the purpose of the closing process?

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

AACSB: Communication

AICPA: BB Critical Thinking

Blooms: Understand

Learning Objective: 02-07 Explain the closing process.

Level of Difficulty: 2 Medium

Topic Area: The closing process

144.

Claymore Corporation maintains its book on a cash basis. During 2018, the company collected \$825,000 in fees from its clients and paid \$512,000 in expenses. You are able to determine the following information about accounts receivable, supplies, prepaid rent, salaries payable, and interest payable:

| | January 1, 2018 | December 31, 2018 |
|----------------------------|-----------------|-------------------|
| Accounts receivable | \$110,000 | \$120,000 |
| Supplies | 15,000 | 18,000 |
| Prepaid rent | 12,000 | 11,000 |
| Salaries and wages payable | 16,500 | 14,200 |
| Interest payable | 4,000 | 5,500 |

In addition, 2018 depreciation expense on office equipment and furniture is \$55,000.

Required:

Determine accrual basis net income for 2018.

Answer:

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

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

Level of Difficulty: 3 Hard

Topic Area: Convert cash basis to accrual basis

145.

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

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

Answer:

| Transaction | Journal |
|--|---------|
| 1. Received interest on a loan. | CR |
| 2. Received cash for services to be provided next month. | CR |
| 3. Purchased equipment for cash. | CD |
| 4. Purchased merchandise on account. | PJ |

| | |
|--|----|
| 5. Sold merchandise on credit (the sale only, not the cost of the merchandise). | SJ |
| 6. Sold merchandise for cash (the sale only, not the cost of the merchandise). | CR |
| 7. Paid advertising bill. | CD |
| 8. Recorded accrued salaries and wages payable. | GJ |
| 9. Paid utility bill. | CD |
| 10. Recorded depreciation expense. | GJ |
| 11. Sold equipment for cash. | CR |
| 12. Collected cash from customers on account. | CR |
| 13. Paid employee salaries and wages. | CD |
| 14. Paid interest on a loan. | CD |

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Understand

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

Level of Difficulty: 2 Medium

Topic Area: Subsidiary ledgers—Special journals—Appendix C

146. The accounting processing cycle:

- A. Is a three-wheeled vehicle used to deliver audit papers to clients.
- B. deals only with *internal transactions*.
- C. Is the process of bringing the company's financial information up to date before preparing the financial statements.
- D. Is the process used to identify, analyze, record, and summarize transactions and prepare financial statements.

Answer: D

AACSB: Reflective Thinking

AICPA: FN Measurement

Blooms: Remember

Learning Objective: 02-01

Level of Difficulty: 1 Easy

Topic Area: Accounting processing cycle steps