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CHAPTER 2

THE ACCOUNTING INFORMATION SYSTEM

IFRS questions are available at the end of this chapter.

TRUE/FALSE

1. All liability accounts and stockholders' equity accounts are increased on the credit side and decreased on the debit side.

Ans: F, LO: 1, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

2. In general, debits refer to increases in account balances, and credits refer to decreases.

Ans: F, LO: 1, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

3. A ledger is where a company first records transactions and other selected events.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

4. An example of an internal transaction would be a flood that destroyed a portion of a company's inventory.

Ans: F, LO: 2, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

5. The first step in the accounting cycle is the journalizing of transactions and other selected events.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

6. One purpose of a trial balance is to prove that debits and credits are equal in the general ledger.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

7. A general journal chronologically lists transactions and other events, expressed in terms of debits and credits to accounts.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: FinancialRecord Keeping, IFRS: None

8. If a company fails to post one of its journal entries to its general ledger, the trial balance will **not** show an equal amount of debit and credit balance accounts.

Ans: F, LO: 2, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

9. Adjusting entries for prepayments record the portion of the prepayment that represents the expense incurred or the revenue to be recognized in the current accounting period.

Ans: T, LO: 3, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

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10. An adjustment for salaries and wages expense, earned but unpaid at year-end, is an example of an accrued expense.

Ans: T, LO: 3, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

11. The book value of any depreciable asset is the difference between its cost and its salvage value.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

12. An accrued expense is an expense that has been incurred but not yet paid or recorded.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

13. An accrued revenue is recorded with a debit to a deferred revenue account and a credit to a revenue account.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

14. Nominal (temporary) accounts are revenue, expense, and dividend accounts and are periodically closed.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

15. Real (permanent) accounts are revenue, expense, and dividend accounts and are periodically closed.

Ans: F, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

16. The ending retained earnings balance is reported on both the retained earnings statement and the balance sheet.

Ans: T, LO: 4, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

17. The post-closing trial balance consists of asset, liability, stockholders' equity, revenue, and expense accounts.

Ans: F, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

18. It is **not** necessary to post the closing entries to the ledger accounts because new revenue and expense accounts will be opened in the subsequent accounting period.

Ans: F, LO: 4, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

19. The retained earnings balance reported on the balance sheet has been updated for the current period's earnings and dividends.

Ans: T, LO: 4, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

20. Financial statements are prepared from the adjusted trial balance.

Ans: T, LO: 4, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

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21. An income statement for a merchandising company classifies amounts into categories including gross profit on sales, income from operations, and income before taxes.

Ans: T, LO: 4, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

22. Gross profit on sales is computed by subtracting operating expenses from sales revenue.

Ans: F, LO: 4, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

23. The Cost of Goods Sold account is closed with a debit to Cost of Goods Sold and a credit to Income Summary

Ans: F, LO: 4, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

*24. The accrual-basis of accounting recognizes revenue when the performance obligation is satisfied and expenses when cash is paid.

Ans: F, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

*25. Reversing entries are made at the end of the accounting cycle to correct errors in the original recording of transactions.

Ans: F, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

*26. An adjusted trial balance that shows that the equality of debit and credit columnar totals proves the accuracy of the adjusting entries.

Ans: F, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

MULTIPLE CHOICE—Conceptual

27. Factors that shape an accounting information system include the
    a. nature of the business.
    b. size of the firm.
    c. volume of data to be handled.
    d. All of these answer choices are correct.

Ans: d, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Technology & Analytics: Information Systems, IFRS: None

28. The double-entry accounting system means that
    a. each transaction is recorded with two journal entries.
    b. each item is recorded in a journal entry, then in a general ledger account.
    c. the dual effect of each transaction is recorded with a debit and a credit.
    d. revenue is recorded when the performance obligation is satisfed and when the cash is collected.

Ans: c, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

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29. Debit **always** means
    a. the right side of an account.
    b. an increase.
    c. a decrease.
    d. the left side of an account.

Ans: d, LO: 1, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

30. Stockholders' equity is **not** affected by all
    a. cash receipts.
    b. dividends.
    c. revenues.
    d. expenses.

Ans: a, LO: 1, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

31. The accounting equation must remain in balance
    a. throughout each step in the accounting cycle.
    b. only when journal entries are recorded.
    c. only at the time the trial balance is prepared.
    d. only when formal financial statements are prepared.

Ans: a, LO: 1, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

32. The difference between the accounting process and the accounting cycle is that
    a. the accounting process results in the preparation of financial statements, while the accounting cycle is concerned with recording business transactions.
    b. the accounting cycle represents the steps taken to accomplish the accounting process.
    c. the accounting process represents the steps taken to accomplish the accounting cycle.
    d. merely semantic, because both concepts refer to the same thing.

Ans: b, LO: 1, Bloom: C, Difficulty: Difficult, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

33. The process of transferring figures from the book of original entry to the ledger accounts is called
    a. adjusting.
    b. balancing.
    c. ledgering.
    d. posting.

Ans: d, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

34. When a corporation pays a note payable and interest,
    a. the account notes payable will be increased.
    b. the account interest expense will be decreased.
    c. notes payable and interest expense will be debited.
    d. cash will be debited.

Ans: c, LO: 1, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

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35. The debit and credit analysis of a transaction normally takes place
    a. before an entry is recorded in a journal.
    b. when the entry is posted to the ledger.
    c. when the trial balance is prepared.
    d. at the end of the accounting cycle.

Ans: a, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

36. Which of the following is a recordable event or item?
    a. Changes in managerial policy
    b. The value of human resources
    c. Changes in personnel
    d. Payment of monthly payroll

Ans: d, LO: 2, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

37. Which of the following is **not** an internal transaction?
    a. Depreciation
    b. Using raw materials in the production process
    c. Dividend declaration and subsequent payment
    d. All of these are internal transactions.

Ans: c, LO: 2, Bloom: K, Difficulty: Difficult, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

38. External events do **not** include
    a. interaction between an entity and its environment.
    b. a change in the price of a good or service that an entity buys or sells.
    c. improvement in technology by a competitor.
    d. using buildings and machinery in operations.

Ans: d, LO: 2, Bloom: C, Difficulty: Difficult, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

39. A trial balance may prove that debits and credits are equal, but
    a. an amount could be entered in the wrong account.
    b. a transaction could have been entered twice.
    c. a transaction could have been omitted.
    d. All of these answer choices are correct.

Ans: d, LO: 2, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

40. The general journal
    a. chronologically lists transactions and other events, expressed in terms of debits and credits.
    b. contains one record for each of the asset, liability, stockholders' equity, revenue, and expense accounts.
    c. lists all the increases and decreases in each account in one place.
    d. contains only adjusting entries.

Ans: a, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

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41. The journal entry to record the sale of inventory on account will include a
    a. debit to Inventory.
    b. debit to Accounts Receivable.
    c. debit to Sales Revenue.
    d. credit to Cost of Goods Sold.

Ans: b, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

42. The journal entry to record a payment on account will include a
    a. debit to Accounts Receivable.
    b. credit to Accounts Receivable.
    c. debit to Accounts Payable.
    d. credit to Accounts Payable.

Ans: c, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

43. A journal entry to record a receipt of rent in advance will include a
    a. debit to Rent Revenue.
    b. credit to Rent Revenue.
    c. credit to Cash.
    d. credit to Unearned Revenue.

Ans: d, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

44. Which of the following errors will cause an imbalance in the trial balance?
    a. Omission of a transaction in the journal
    b. Posting an entire journal entry twice to the ledger
    c. Posting a credit of $720 to Accounts Payable as a credit of $720 to Accounts Receivable
    d. Listing the balance of an account with a debit balance in the credit column of the trial balance

Ans: d, LO: 2, Bloom: C, Difficulty: Difficult, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

45. Which of the following is **not** a principal purpose of an unadjusted trial balance?
    a. It proves that debits and credits of equal amounts are in the ledger.
    b. It is the basis for any adjustments to the account balances.
    c. It supplies a listing of open accounts and their balances.
    d. It proves that debits and credits were properly entered in the ledger accounts.

Ans: d, LO: 2, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

46. An accounting record into which the essential facts and figures in connection with all transactions are first recorded is called the
    a. ledger.
    b. account.
    c. trial balance.
    d. journal.

Ans: d, LO: 2, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

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47. A trial balance
    a. proves that debits and credits are equal in the ledger.
    b. supplies a listing of open accounts and their balances that are used in preparing financial statements.
    c. is normally prepared three times in the accounting cycle.
    d. All of these answer choices are correct.

Ans: d, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Record Keeping, IFRS: None

48. An adjusting entry would **not** include
    a. a debit to an expense account and a credit to a liability account.
    b. a debit to an expense account and a credit to a revenue account.
    c. a debit to a liability account and a credit to revenue account.
    d. a debit to a revenue account and a credit to a liability account.

Ans: b, LO: 3, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

49. Which of the following is an example of an accrued expense?
    a. Office supplies purchased at the beginning of the year and debited to an expense account
    b. Property taxes incurred during the year, to be paid in the first quarter of the subsequent year
    c. Depreciation expense
    d. Rent recognized during the period, to be received at the end of the year

Ans: b, LO: 3, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

50. An adjusting entry to record an accrued expense involves a debit to a(an)
    a. expense account and a credit to a prepaid account.
    b. expense account and a credit to Cash.
    c. expense account and a credit to a liability account.
    d. liability account and a credit to an expense account.

Ans: c, LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

51. The failure to properly record an adjusting entry to accrue an expense will result in an
    a. understatement of expenses and an understatement of liabilities.
    b. understatement of expenses and an overstatement of liabilities.
    c. understatement of expenses and an overstatement of assets.
    d. overstatement of expenses and an understatement of assets.

Ans: a, LO: 3, Bloom: AN, Difficulty: Difficult, Min: 2, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

52. Which of the following describes a deferral?
    a. Cash is received after revenue is recognized.
    b. Cash is received before revenue is recognized.
    c. Cash is paid after the expense is incurred.
    d. Cash is paid in the same time period that an expense is incurred.

Ans: b, LO: 3, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

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53. The failure to properly record an adjusting entry to accrue a revenue item will result in an
    a. understatement of revenues and an understatement of liabilities.
    b. overstatement of revenues and an overstatement of liabilities.
    c. overstatement of revenues and an overstatement of assets.
    d. understatement of revenues and an understatement of assets.

Ans: d, LO: 3, Bloom: AN, Difficulty: Difficult, Min: 2, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

54 The omission of the adjusting entry to record depreciation expense will result in an
    a. overstatement of assets and an overstatement of stockholders' equity.
    b. understatement of assets and an understatement of stockholders' equity.
    c. overstatement of assets and an overstatement of liabilities.
    d. overstatement of liabilities and an understatement of stockholders' equity.

Ans: a, LO: 3, Bloom: AN, Difficulty: Difficult, Min: 2, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

55. Adjustments are often prepared
    a. after the balance sheet date, but dated as of the balance sheet date.
    b. after the balance sheet date, and dated after the balance sheet date.
    c. before the balance sheet date, and dated before the balance sheet date.
    d. before the balance sheet date, and dated after the balance sheet date.

Ans: a, LO: 3, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

56. If a company prepays an expense
    a. it debits an asset account to show the service or benefit it will receive in the future.
    b. it debits an expense account to match the expense against revenues recognized.
    c. it credits a liability account to show the obligation to pay for the service in the future.
    d. it credits an asset account and debits an expense account.

Ans: a, LO: 3, Bloom: C, Difficulty: Difficult, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

57. How do these prepaid expenses expire?

	Rent	**Supplies**
a.	With the passage of time	Through use and consumption
b.	With the passage of time	With the passage of time
c.	Through use and consumption	Through use and consumption
d.	Through use and consumption	With the passage of time

Ans: a, LO: 3, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

58. Recording the adjusting entry for depreciation has the same effect as recording the adjusting entry for
    a. an unearned revenue.
    b. a prepaid expense.
    c. an accrued revenue.
    d. an accrued expense.

Ans: b, LO: 3, Bloom: C, Difficulty: Difficult, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

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59. Unearned revenue on the books of one company is likely to be
    a. a prepaid expense on the books of the company that made the advance payment.
    b. an unearned revenue on the books of the company that made the advance payment.
    c. an accrued expense on the books of the company that made the advance payment.
    d. an accrued revenue on the books of the company that made the advance payment.

Ans: a, LO: 3, Bloom: C, Difficulty: Difficult, Min: 2, AACSB: None, AICPA BC: None, AICPA AAC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

60. To compute interest expense on a note for an adjusting entry, the formula is (principal × annual rate × a fraction). The numerator and denominator of the fraction are:

	Numerator	**Denominator**
a.	Length of time the note has been outstanding	12 months
b.	Total length of the note	12 months
c.	Length of time until the note matures	Total term of the note
d.	Length of time the note has been outstanding	Total term of the note

Ans: a, LO: 3, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

61. Adjusting entries are necessary to
    1. obtain a proper matching of revenue and expense.
    2. achieve an accurate statement of assets and equities.
    3. adjust assets and liabilities to their fair market value.

    a. 1
    b. 2
    c. 3
    d. 1 and 2

Ans: d, LO: 3, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

62. Why are certain costs of doing business capitalized when incurred and then depreciated or amortized over subsequent accounting cycles?
    a. To reduce the federal income tax liability
    b. To aid management in the cash-flow analysis
    c. To match the costs of production with revenues as recognized
    d. To adhere to the accounting constraint of conservatism

Ans: c, LO: 3, Bloom: C, Difficulty: Difficult, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

63. When an expense is paid in cash before it is used, it is called a(n)
    a. prepaid expense.
    b. accrued expense.
    c. estimated expense.
    d. cash expense.

Ans: a, LO: 3, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

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64. When revenue or expense has been recognized or incurred but **not** yet collected or paid, it is normally called a(n) _____ revenue or expense.
    a. deferred
    b. adjusted
    c. estimated
    d. accrued

Ans: d, LO: 3, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

65. When a revenue is collected and recorded in advance, it is normally accounted for as a(n) _____ revenue.
    a. accrued
    b. prepaid
    c. unearned
    d. cash

Ans: c, LO: 3, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

66. An accrued expense can best be described as an amount
    a. paid and currently matched with earnings.
    b. paid and not currently matched with earnings.
    c. not paid and not currently matched with earnings.
    d. not paid and currently matched with earnings.

Ans: d, LO: 3, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

67. During an accounting period, if an expense has been incurred and consumed but **not** yet paid for or recorded, then the end-of-period adjusting entry would involve
    a. a liability account and an asset account.
    b. an asset or contra asset account and an expense account.
    c. a liability account and an expense account.
    d. a receivable account and a revenue account.

Ans: c, LO: 3, Bloom: C, Difficulty: Difficult, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

68. Which of the following must be considered in estimating depreciation on an asset for an accounting period?
    a. The original cost of the asset
    b. Its useful life
    c. The decline of its fair value
    d. Both the original cost of the asset and its useful life

Ans: d, LO: 3, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

69. Which of the following would **not** be a correct form for an adjusting entry?
    a. A debit to an expense and a credit to an asset
    b. A debit to an expense and a credit to a liability
    c. A debit to a liability and a credit to a revenue
    d. A debit to an asset and a credit to a liability

Ans: d, LO: 3, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

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70. Year-end net assets would be overstated and current expenses would be understated as a result of failure to record which of the following adjusting entries?
    a. Expiration of prepaid insurance
    b. Depreciation of fixed assets
    c. Use of supplies
    d. All of these answer choices are correct.

Ans: d, LO: 3, Bloom: AN, Difficulty: Difficult, Min: 2, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

71. A prepaid expense can best be described as an amount
    a. paid and currently matched with revenues.
    b. paid and not currently matched with revenues.
    c. not paid and currently matched with revenues.
    d. not paid and not currently matched with revenues.

Ans: b, LO: 3, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

72. An accrued revenue can best be described as an amount
    a. collected and currently matched with expenses.
    b. collected and not currently matched with expenses.
    c. not collected and currently matched with expenses.
    d. not collected and not currently matched with expenses.

Ans: c, LO: 3, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

73. An unearned revenue can best be described as an amount
    a. collected and currently matched with expenses.
    b. collected and not currently matched with expenses.
    c. not collected and currently matched with expenses.
    d. not collected and not currently matched with expenses.

Ans: b, LO: 3, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

74. An adjusted trial balance
    a. is prepared after the financial statements are completed.
    b. proves the equality of the debit balances and credit balances of ledger accounts after all adjustments have been made.
    c. is a required financial statement under generally accepted accounting principles.
    d. cannot be used to prepare financial statements.

Ans: b, LO: 3, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

75. Which of the following is a real (permanent) account?
    a. Goodwill
    b. Service Revenue
    c. Accounts Receivable
    d. Both Goodwill and Accounts Receivable

Ans: d, LO: 4 Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

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76. Which of the following is a nominal (temporary) account?
    a. Unearned Service Revenue
    b. Salaries and Wages Expense
    c. Inventory
    d. Retained Earnings

Ans: b, LO: 4 Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

77. Nominal accounts are also called
    a. temporary accounts.
    b. permanent accounts.
    c. real accounts.
    d. None of these answer choices are correct.

Ans: a, LO: 4, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

78. An optional step in the accounting cycle is the preparation of
    a. adjusting entries.
    b. closing entries.
    c. a statement of cash flows.
    d. reversing entries.

Ans: d, LO: 4, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

79. Which type of account is always debited during the closing process?
    a. Dividends
    b. Expense
    c. Revenue
    d. Retained earnings

Ans: c, LO: 4, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

80. Which of the following statements best describes the purpose of closing entries?
    a. To facilitate the preparation of a trial balance.
    b. To determine the amount of net income or net loss for the following period.
    c. To reduce the balances of revenue and expense accounts to zero so that they may be used to accumulate the revenues and expenses of the next period.
    d. To complete the record of various transactions that were started in a prior period.

Ans: c, LO: 4, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

81. Which of the following accounts would **not** be reported as an administrative expense on the income statement of a merchandising company?
    a. Depreciation expense
    b. Property tax expense
    c. Cost of goods sold
    d. Insurance expense

Ans: c, LO: 5, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

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82. Gross profit is equal to
    a. Net sales minus cost of goods sold
    b. Net sales minus administrative expenses
    c. Income before tax minus income tax expense
    d. Income from operations minus income tax expense

Ans: a, LO: 5, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

83. Which of the following is **not** reported in the retained earnings statement?
    a. Net income (loss)
    b. Dividends
    c. Common stock
    d. Retained earnings at the beginning of the period

Ans: c, LO: 5, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

84. Net sales revenue less cost of goods sold equals
    a. net income (loss).
    b. gross margin.
    c. operating income.
    d. retained earnings at the end of the period.

Ans: b, LO: 5, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

85. How is the allowance for doubtful accounts reported in the financial statements?
    a. as an administrative expense on the income statement
    b. as a deduction from sales revenue on the income statement
    c. as a deduction from accounts receivable in current assets on the balance sheet
    d. as an addition to accounts payable in current liabilities on the balance sheet

Ans: c, LO: 5, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

86. If the merchandising enterprise earns a profit during the period, the closing entries will include
    a. a credit to Cost of Goods Sold for the amount of gross margin.
    b. a debit to Income Summary for the total of sales revenue.
    c. a debit to Retained Earnings for the amount of the profit.
    d. a credit to Retained Earnings for the amount of the profit.

Ans: d, LO: 5, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

87. Which of the following is not part of the closing process?
    a. close Income Summary to Retained Earnings.
    b. close dividends account to Income Summary.
    c. close expense accounts to Income Summary.
    d. close revenue accounts to Income Summary.

Ans: b, LO: 5, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

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*88. Which of the following statements is true about the accrual basis of accounting?
a. The timing of cash receipts and disbursements is emphasized.
b. A minimal amount of record-keeping is required in the accrual basis accounting compared to the cash basis.
c. This method is used less frequently by businesses than the cash method of accounting.
d. Revenues are recognized in the period the performance obligation is satisfied, regardless of the time period the cash is received.

Ans: d, LO: 6, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

*89. If ending accounts receivable exceeds the beginning accounts receivable
a. cash collections during the period exceed the amount of revenue recognized.
b. net income for the period is less than the amount of cash-basis income.
c. no cash was collected during the period.
d. cash collections during the year are less than the amount of revenue recognized.

Ans: d, LO: 6, Bloom: AN, Difficulty: Difficult, Min: 2, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

*90. When converting from cash-basis to accrual-basis accounting, which of the following adjustments should be made to cash receipts from customers to determine accrual-basis service revenue?
a. Subtract ending accounts receivable.
b. Subtract beginning unearned service revenue.
c. Add ending accounts receivable.
d. Add cash sales.

Ans: c, LO: 6, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

*91. When converting from cash-basis to accrual-basis accounting, which of the following adjustments should be made to cash paid for operating expenses to determine accrual-basis operating expenses?
a. Add beginning accrued liabilities.
b. Subtract beginning prepaid expense.
c. Subtract ending prepaid expense.
d. Subtract interest expense.

Ans: c, LO: 6, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

*92. Reversing entries are
1. normally prepared for prepaid, accrued, and estimated items.
2. necessary to achieve a proper matching of revenue and expense.
3. useful in simplifying the recording of transactions in the next accounting period.

a. 1
b. 2
c. 3
d. 1 and 2

Ans: c, LO: 7, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

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*93. Adjusting entries that should be reversed include those for prepaid or unearned items that
a. create an asset or a liability account.
b. were originally entered in a revenue or expense account.
c. were originally entered in an asset or liability account.
d. create an asset or a liability account and were originally entered in a revenue or expense account.

Ans: d, LO: 7, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

*94. Adjusting entries that should be reversed include
a. all accrued revenues.
b. all accrued expenses.
c. those that debit an asset or credit a liability.
d. All of these answer choices are correct.

Ans: d, LO: 7, Bloom: C, Difficulty: Easy, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

*95. A reversing entry should **never** be made for an adjusting entry that
a. accrues unrecorded revenue.
b. adjusts expired costs from an asset account to an expense account.
c. accrues unrecorded expenses.
d. adjusts unexpired costs from an expense account to an asset account.

Ans: b, LO: 7, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

*96. The worksheet for Sharko Co. consisted of five pairs of debit and credit columns. The dollar amount of one item appeared in both the credit column of the income statement section and the debit column of the balance sheet section. That item is
a. net income for the period.
b. beginning inventory.
c. cost of goods sold.
d. net loss for the period.

Ans: d, LO: 8, Bloom: C, Difficulty: Difficult, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

MULTIPLE CHOICE—Computational

97. Maso Company recorded journal entries for the issuance of common stock for $200,000, the payment of $65,000 on accounts payable, and the payment of salaries expense of $105,000. What is the net effect of these entries on stockholders' equity?
a. increase of $200,000
b. increase of $135,000
c. increase of $95,000
d. increase of $30,000

Ans: c, LO: 1, Bloom: AN, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $200,000 - $105,000 = $95,000.

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98. Mune Company recorded journal entries for the declaration of $250,000 of dividends, a $160,000 increase in accounts receivable for services rendered, and the purchase of equipment for $105,000. What is the net effect of these entries on stockholders' equity?
a. decrease of $355,000
b. decrease of $195,000
c. decrease of $90,000
d. increase of $55,000

Ans: c, LO: 1, Bloom: AN, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $250,000 - $160,000 = $90,000.

99. PDJ Incorporated acquired additional assets of $250,000 during the 2025 fiscal year. Total revenues for PDJ were $860,000 and expenses were $620,000. PDJ's board of directors declared $23,000 in dividends for the 2025 fiscal year. If no other equity transactions were made during the year, what was the change in PDJ's stockholders' equity during 2025?
a. increase of $240,000
b. increase of $263,000
c. decrease of $240,000
d. increase of $217,000

Ans: d, LO: 1, Bloom: AN, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $860,000 - $620,000 - $23,000 = $217,000

100. PDJ Incorporated acquired additional assets of $370,000 during the 2025 fiscal year. Total revenues for PDJ were $760,000 and expenses were $580,000. PDJ's board of directors declared and paid $12,000 in dividends for the 2025 fiscal year. If no other equity transactions were made, what was the change in PDJ's liabilities during 2025?
a. increase of $202,000
b. increase of $168,000
c. decrease of $180,000
d. increase of $370,000

Ans: a, LO: 1, Bloom: AN, Difficulty: Moderate, Min: 4, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: Change in equity $760,000 – $580,000 - $12,000 = $168,000; change in liabilities $370,000 - $168,000 = $202,000

101. Miriam Company made an error in booking journal entries this month. The receipt of cash for services was recorded as a debit to Cash for $42 and a credit to Service Revenue for $425. How will Miriam detect this error when preparing the trial balance?
a. This type of error is not caught by a trial balance.
b. Debits in the trial balance will be $383 higher than credits which will signal an error.
c. Credits in the trial balance will be $383 higher than debits which will signal an error.
d. Account balances will be too high which will signal an error.

Ans: c, LO: 2, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $425 - $42 = $383

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102. Pappy Corporation received cash of $36,000 on September 1, 2025 for one year's rent in advance and recorded the transaction with a credit to Unearned Rent Revenue. The December 31, 2025 adjusting entry is
    a. debit Rent Revenue and credit Unearned Rent Revenue, $12,000.
    b. debit Rent Revenue and credit Unearned Rent Revenue, $24,000.
    c. debit Unearned Rent Revenue and credit Rent Revenue, $12,000.
    d. debit Cash and credit Unearned Rent Revenue, $24,000.

Ans: c, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $36,000 x 4/12 = $12,000.

103. Panda Corporation paid cash of $120,000 on June 1, 2025 for one year's rent in advance and recorded the transaction with a debit to Prepaid Rent. The December 31, 2025 adjusting entry is
    a. debit Prepaid Rent and credit Rent Expense, $50,000.
    b. debit Prepaid Rent and credit Rent Expense, $70,000.
    c. debit Rent Expense and credit Prepaid Rent, $70,000.
    d. debit Prepaid Rent and credit Cash, $50,000.

Ans: c, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $120,000 x 7/12 = $70,000.

104. Tate Company purchased equipment on November 1, 2025 and gave a 3-month, 9% note with a face value of $80,000. The December 31, 2025 adjusting entry to accrue interest on the note is
    a. debit Interest Expense and credit Interest Payable, $7,200.
    b. debit Interest Expense and credit Interest Payable, $1,800.
    c. debit Interest Expense and credit Cash, $1,200.
    d. debit Interest Expense and credit Interest Payable, $1,200.

Ans: d, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: 2/12 x 9% x $80,000 = $1,200.

105. Brown Company's account balances at December 31, 2025 for Accounts Receivable and the related Allowance for Doubtful Accounts are $920,000 debit and $2,100 credit, respectively. From an aging of accounts receivable, it is estimated that $39,000 of the December 31 receivables will be uncollectible. The adjusting entry to record bad debt expense would include a credit to the allowance account for
    a. $39,000.
    b. $41,100.
    c. $36,900.
    d. $2,100.

Ans: c, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $39,000 – $2,100 = $36,900.

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106. Chen Company's account balances at December 31, 2025 for Accounts Receivable and the Allowance for Doubtful Accounts are $725,000 debit and $1,500 credit. Credit sales during 2025 were $2,750,000. It is estimated that 4% of accounts receivable will be uncollectible. The adjusting entry to record bad debt expense for 2025 would include a credit to the allowance account for
a. $29,000.
b. $27,500.
c. $26,000.
d. $8,000.

Ans: b, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: ($725,000 x 4%) – 1,500 = $27,500

107. Starr Corporation loaned $600,000 to another corporation on December 1, 2025 and received a 3-month, 8% interest-bearing note with a face value of $600,000. What adjusting entry should Starr make on December 31, 2025 to accrue interest on the note?
a. Debit Interest Receivable and credit Interest Revenue, $12,000.
b. Debit Cash and credit Interest Revenue, $4,000.
c. Debit Interest Receivable and credit Interest Revenue, $4,000.
d. Debit Cash and credit Interest Receivable, $12,000.

Ans: c, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: 1/12 x 8% x $600,000 = $4,000.

108. A company receives interest on a $90,000, 8%, 5-year note receivable each April 1. At December 31, 2025, the following adjusting entry was made to accrue interest revenue:

Interest Receivable		5,400	
	Interest Revenue		5,400

Assuming that the company does **not** use reversing entries, what entry should be made on April 1, 2026 when the annual interest payment is received?

a. Cash		1,800	
	Interest Revenue		1,800
b. Cash		5,400	
	Interest Receivable		5,400
c. Cash		7,200	
	Interest Receivable		5,400
	Interest Revenue		1,800
d. Cash		7,200	
	Interest Revenue		7,200

Ans: c, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $90,000 x 8% = $7,200; $7,200 - $5,400 = $1,800 int. rev.

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109. Murphy Company sublet a portion of its warehouse for five years at an annual rental of $75,000, beginning on May 1, 2025. The tenant, Sheri Charter, paid one year's rent in advance, which Murphy recorded with a credit to Unearned Rent Revenue. Murphy reports on a calendar-year basis. The adjusting entry on December 31, 2025 for Murphy should be

a. No entry

b.

Unearned Rent Revenue	25,000	
Rent Revenue		25,000

c.

Rent Revenue	25,000	
Unearned Rent Revenue		25,000

d.

Unearned Rent Revenue	50,000	
Revenue Revenue		50,000

Ans: d, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $75,000 x 8/12 = $50,000.

110. During the first year of Wilkinson Co.'s operations, all purchases were recorded as assets. Supplies of $28,800 were purchased. Actual year-end supplies on hand totaled $6,600. The adjusting entry for supplies will

a. increase net income by $22,200.
b. increase expenses by $22,200.
c. decrease supplies by $6,600.
d. debit Accounts Payable for $6,600.

Ans: b, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $28,800 – $6,600 = $22,200.

111. Jellies Company took out a loan on August 1, 2025 and issued a 9-month note at 4% interest with a face value of $300,000. If Jellies accrues interest at its December 31, 2025 year-end, what adjusting entry should Jellies make to accrue interest on the note?

a. Debit Interest Payable and credit Interest Expense for, $9,000.
b. Debit Interest Expense and credit Cash for, $5,000.
c. Debit Interest Expense and credit Interest Payable for, $5,000.
d. Debit Interest Revenue and credit Interest Expense for, $9,000.

Ans: c, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $300,000 x 4% x 5/12 = $5,000

112. Wellington Airways Corporation began the month with a balance in the Unearned Ticket Revenue account of $1,675,000. During the month, customers accounting for one-half of that amount were safely provided their flights. What adjusting journal entry is needed to recognize this activity for Wellington?

a. debit Unearned Ticket Revenue and credit Ticket Revenue, $1,675,000
b. no entry is required
c. debit Unearned Ticket Revenue and credit Ticket Revenue, $837,500
d. debit Unearned Ticket Revenue and credit Cash, $837,500

Ans: c, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $1,675,000 x 1/2 = $837,500

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113. Hackey Company's account balances at December 31, 2025 for Accounts Receivable and the related Allowance for Doubtful Accounts are $1,070,000 debit and $1,500 credit, respectively. Net credit sales during 2025 were $5,340,000. Hackey's sales manager and controller agree that 5% of the Accounts Receivable will ultimately be uncollectable. The adjusting entry at December 31, 2025 to record bad debts expense would include a credit to the allowance account for
    a. $52,000.
    b. $53,500.
    c. $267,000.
    d. $55,000.

Ans: a, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $1,070,000 x 5% = $53,500 $53,500 - $1,500 = $52,000

114. Hackey Company's account balances at December 31, 2025 for Accounts Receivable and the related Allowance for Doubtful Accounts are $1,235,000 debit and $2,800 debit, respectively. Net credit sales during 2025 were $6,220,000. Hackey's sales manager and controller agree that 4% of the Accounts Receivable will ultimately be uncollectable. The adjusting entry at December 31, 225 to record bad debts expense would include a credit to the allowance account for
    a. $46,600.
    b. $49,400.
    c. $248,800.
    d. $52,200.

Ans: d, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $1,235,000 x 4% = $49,400 $49,400 + $2,800 = $52,200

115. Eben Company's account balances at December 31, 2025 for Accounts Receivable and the Allowance for Doubtful Accounts are $1,092,000 debit and $3,500 credit. Credit sales during 2025 were $3,640,000. Eben's sales manager and controller agree that 5% of credit sales will be uncollectible. The adjusting entry to record bad debt expense for 2025 would include a credit to the allowance account for
    a. $58,100.
    b. $51,100.
    c. $54,600.
    d. $13,800.

Ans: b, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: ($1,092,000 x 5%) - $3,500 = $51,100

116. Dana Incorporated has ten employees who work Monday – Friday each week and they are paid every other Friday. Each employee is paid 800 a week for a 40 hour work week. All ten employees worked 3 days (Monday – Wednesday) which were not yet paid at the end of the month which ended on Wednesday. In preparing the adjusting entries for month-end, Dana should make what journal entry?
    a. debit Salaries and Wages Payable and credit Salaries and Wages Expense, $2,400
    b. debit Salaries and Wages Expense and credit Salaries and Wages Payable, $4,800
    c. debit Salaries and Wages Payable and credit Salaries and Wages Expense, $4,800
    d. no entry should be made for salaries and wages not paid

Ans: b, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $800/5 = $160 a day per person x 10 employees = $1,600 x 3 days = $4,800

Intermediate Accounting 18th edition Kieso Test Bank

117. Sherlock Inc. began operations on October 1, 2025. The company acquired a building on that date for $420,000. The useful life of the building is 25 years and the salvage value is $50,000. This is Sherlock's only building. If the company uses straight-line depreciations, the adjusting journal entry to record depreciation on the building at December 31, 2025 is
a. debit Depreciation Expense and credit Accumulated Depreciation – Building, $14,800.
b. debit Depreciation Expense and credit Accumulated Depreciation – Building, $3,700.
c. debit Accumulated Depreciation – Building and credit Depreciation Expense, $14,800.
d. debit Building and credit Cash, $420,000.

Ans: b, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: ($420,000 – $50,000) / 25 = $14,800 annual depreciation x 3/12 = $3,700.

118. Sherlock Inc. began operations on October 1, 2025. The company acquired a building on that date for $560,000. The useful life of the building is 25 years and the salvage value is $60,000. This is Sherlock's only building. If the company uses straight-line depreciation, the balance in the Accumulated Depreciation – Building account after adjusting entries at December 31, 2026 should be
a. $5,000.
b. $20,000.
c. $25,000.
d. $40,000.

Ans: c, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: ($560,000 – $60,000) / 25 = $20,000 annual depreciation x 3/12 = $5,000; (2025) $5,000 + $20,000 = $25,000 Accumulated Dep – Building.

119. Sherlock Inc. began operations on October 1st, 2025. The company acquired a building for $660,000. The useful life of the building is 25 years and the salvage value is $40,000. This is Sherlock's only building. If the company uses straight-line depreciation, the book value of the Building on the December 31, 2026 balance sheet should be
a. $629,000.
b. $610,400.
c. $660,000.
d. $620,000.

Ans: a, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 4, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: ($660,000 – $40,000) / 25 = $24,800 annual depreciation x 3/12 = $6,200; (2025) $6,200 + $24,800 = $31,000 Accumulated Dep – Building; $660,000 - $31,000 = $629,000 book value.

120. Muchachi Company began the year with a balance in the Supplies account of $3,200. During the year, Muchachi purchased supplies for $25,800. An inventory of the Supplies at year-end showed supplies on hand of $4,100. Supplies Expense reported on Muchachi's income statement for the year is
a. $25,800.
b. $29,000.
c. $33,100.
d. $24,900

Ans: d, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $25,800 + $3,200 - $4,100 = $24,900.

Intermediate Accounting 18th edition Kieso Test Bank

121. Murdock Corporation earned revenues of $225,000, incurred expenses of $232,000, and paid dividends of $4,000 during the current year. When Income Summary is closed to Retained Earnings, the debit or credit to Retained Earnings is a
   a. debit of $7,000.
   b. debit of $3,000.
   c. credit of $7,000.
   d. credit of $11,000.

Ans: a, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $225,000 – $232,000 = $7,000 (credit Income Summary and debit RE).

122. Murdock Corporation earned revenues of $225,000, incurred expenses of $232,000, and paid dividends of $4,000 during the current year. After all closing entries have been posted to the Retained Earnings account, the balance will
   a. increase by $3,000.
   b. increase by $11,000.
   c. decrease by $7,000.
   d. decrease by $11,000.

Ans: b, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $225,000 – $232,000 = $7,000 + $4,000 = $11,000.

123. BMF Corporation earned revenues of $330,000, incurred expenses of $200,000, and Paid dividends of $45,000. When Income Summary is closed to Retained Earnings, the amount of the debit or credit to Retained Earnings is a
   a. debit of $85,000.
   b. debit of $130,000.
   c. credit of $85,000.
   d. credit of $130,000.

Ans: d, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $330,000 - $200,000 = $130,000.

124. In 2025, Dollar Time Corporation earned sales revenues of $1,330,000 with related cost of goods sold of $720,000. The company incurred administrative expenses of $310,000 and had other revenues and gains of $22,000. Income tax expense was $31,000. Based on this information, the company will report gross profit for the year of
   a. $291,000.
   b. $322,000.
   c. $610,000.
   d. $632,000.

Ans: c, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $1,330,000 - $720,000 = $610,000.

Intermediate Accounting 18th edition Kieso Test Bank

125. In 2025, Dollar Time Corporation earned sales revenues of $1,330,000 with related cost of goods sold of $720,000. The company incurred administrative expenses of $310,000 and had other revenues and gains of $22,000. Income tax expense was $31,000. Based on this information, the company will report operating income for the year of
    a. $291,000.
    b. $300,000.
    c. $322,000.
    d. $269,000.

Ans: b, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $1,330,000 - $720,000 - $310,000 = .$300,000.

126. In 2025, Dollar Time Corporation earned sales revenues of $1,330,000 with related cost of goods sold of $720,000. The company incurred administrative expenses of $310,000, and had other revenues and gains of $22,000. Income tax expense was $31,000. Based on this information, the company will report net income for the year of
    a. $391,000.
    b. $269,000.
    c. $291,000.
    d. $322,000.

Ans: c, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $1,330,000 - $720,000 - $310,000 + $22,000 - $31,000 = $291,000.

127. Buck Town Corporation began operations in 2025. During the year, the company earned sales revenues of $1,690,000 with related cost of goods sold of $860,000. The company incurred administrative expenses of $510,000 and had other expenses and losses of $5,000. Income tax expense was $37,000 and dividends of $40,000 were paid. The company will report gross profit for 2025 of
    a. $860,000.
    b. $830,000.
    c. $790,000.
    d. $320,000.

Ans: b, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $1,690,000 – $860,000 = $830,000; $720,000 - $310,000 + $22,000 - $31,000 = $291,000.

128. Buck Town Corporation began operations in 2025. During the year, the company earned sales revenues of $1,690,000 with related cost of goods sold of $860,000. The company incurred administrative expenses of $510,000 and had other expenses and losses of $5,000. Income tax expense was $37,000 and dividends of $40,000 were paid. After the closing process is complete, the Retained Earnings account will have a balance of
    a. $238,000.
    b. $278,000.
    c. $315,000.
    d. $320,000.

Ans: a, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $1,690,000 – $860,000 - $510,000 - $5,000 - $37,000 - $40,000 = $238,000.

Intermediate Accounting 18th edition Kieso Test Bank

*129. The income statement of Dolan Corporation for 2025 included the following items:

Interest revenue	$141,000
Salaries and wages expense	210,000
Insurance expense	21,200

The following balances have been excerpted from Dolan Corporation's balance sheets:

	December 31, 2025	December 31, 2024
Interest receivable	$18,200	$15,000
Salaries and wages payable	17,800	8,400
Prepaid insurance	2,200	3,000

Cash received for interest during 2025 was
a. $122,800.
b. $137,800.
c. $141,000.
d. $144,200.

Ans: b, LO: 6, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $15,000 + $141,000 - $18,200 = $137,800.

*130. The income statement of Dolan Corporation for 2025 included the following items:

Interest revenue	$141,000
Salaries and wages expense	210,000
Insurance expense	21,200

The following balances have been excerpted from Dolan Corporation's balance sheets:

	December 31, 2025	December 31, 2024
Interest receivable	$18,200	$15,000
Salaries and wages payable	17,800	8,400
Prepaid insurance	2,200	3,000

Cash paid for salaries and wages during 2025 was
a. $219,400.
b. $200,600.
c. $201,600.
d. $227,800.

Ans: b, LO: 6, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $8,400 + $210,000 - $17,800 = $200,600.

Intermediate Accounting 18th edition Kieso Test Bank

*131. The income statement of Dolan Corporation for 2025 included the following items:

Interest revenue	$141,000
Salaries and wages expense	210,000
Insurance expense	21,200

The following balances have been excerpted from Dolan Corporation's balance sheets:

	December 31, 2025	December 31, 2024
Interest receivable	$18,200	$15,000
Salaries and wages payable	17,800	8,400
Prepaid insurance	2,200	3,000

The cash paid for insurance premiums during 2025 was
a. $19,000.
b. $18,200.
c. $22,000.
d. $20,400.

Ans: d, LO: 6, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $21,200 – $3,000 + $2,200 = $20,400.

*132. Olsen Company paid or collected during 2025 the following items:

Insurance premiums paid	$ 30,800
Interest collected	69,800
Salaries paid	280,400

The following balances have been excerpted from Olsen's balance sheets:

	December 31, 2025	December 31, 2024
Prepaid insurance	$ 2,400	$ 3,000
Interest receivable	7,400	5,800
Salaries and wages payable	24,600	21,200

The insurance expense reported on the income statement for 2025 was
a. $25,400.
b. $30,200.
c. $31,400.
d. $36,200.

Ans: c, LO: 6, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $30,800 + $3,000 - $2,400 = $31,400.

Intermediate Accounting 18th edition Kieso Test Bank

*133. Olsen Company paid or collected during 2025 the following items:

Insurance premiums paid	$ 30,800
Interest collected	69,800
Salaries paid	280,400

The following balances have been excerpted from Olsen's balance sheets:

	December 31, 2025	December 31, 2024
Prepaid insurance	$ 2,400	$ 3,000
Interest receivable	7,400	5,800
Salaries and wages payable	24,600	21,200

The interest revenue reported on the income statement for 2025 was
a. $56,600.
b. $68,200.
c. $71,400.
d. $83,000.

Ans: c, LO: 6, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $69,800 – $5,800 + $7,400 = $71,400.

*134. Olsen Company paid or collected during 2025 the following items:

Insurance premiums paid	$ 30,800
Interest collected	69,800
Salaries and wages paid	280,400

The following balances have been excerpted from Olsen's balance sheets:

	December 31, 2025	December 31, 2024
Prepaid insurance	$ 2,400	$ 3,000
Interest receivable	7,400	5,800
Salaries and wages payable	24,600	21,200

Salaries and wages expense reported on the income statement for 2025 was
a. $234,600.
b. $277,000.
c. $283,800.
d. $326,200.

Ans: c, LO: 6, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $280,400 – $21,200 + $24,600 = $283,800.

Intermediate Accounting 18th edition Kieso Test Bank

*135. The 2025 income statement of Dickens Corporation included the following items:

Service Revenue	$315,000
Interest Expense	4,200

All of Dickens' revenue is received in cash (no Accounts Receivable).

The following items were taken from Dickens' balance sheets:

	December 31, 2025	December 31, 2024
Unearned Service Revenue	$26,500	$22,200
Interest payable	1,300	1,600

The cash received for Services during the year is
a. $315,000.
b. $319,300.
c. $310,700.
d. $341,500.

Ans: b, LO: 6, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $315,000 + $26,500 – $22,200 = $319,300

*136. The 2025 income statement of Dickens Corporation included the following items:

Service Revenue	$315,000
Interest Expense	4,200

All of Dickens' revenue is received in cash (no Accounts Receivable).

The following items were taken from Dickens' balance sheets:

	December 31, 2025	December 31, 2024
Unearned Service Revenue	$26,500	$22,200
Interest payable	1,300	1,600

The cash paid for interest during the year is
a. $4,200
b. $4,500
c. $3,900
d. $5,500

Ans: b, LO: 6, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $4,200 - $1,300 + $1,600 = $4,500

Intermediate Accounting 18th edition Kieso Test Bank

*137. A company receives interest on a $90,000, 8%, 5-year note receivable each April 1. At December 31, 2025, the following adjusting entry was made to accrue interest receivable:

Interest Receivable	5,400	
Interest Revenue		5,400

Assuming that the company **does** use reversing entries, what entry should be made on April 1, 2026 when the annual interest payment is received?

a.	Cash	1,800	
	Interest Revenue		1,800
b.	Cash	5,400	
	Interest Receivable		5,400
c.	Cash	7,200	
	Interest Receivable		5,400
	Interest Revenue		1,800
d.	Cash	7,200	
	Interest Revenue		7,200

Ans: d, LO: 7, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $90,000 x 8% = $7,200

*138. The Supplies account had a balance at the beginning of the year of $8,000 (before the reversing entry). Payments for purchases of supplies during the year amounted to $50,000 and were recorded as an expense. A physical count at the end of the year revealed supplies costing $14,500 on hand. Reversing entries are used by this company. The required adjusting entry at the end of the year will include a debit to:

a. Supplies Expense for $6,500.
b. Supplies for $6,500.
c. Supplies Expense for $43,500.
d. Supplies for $14,500.

Ans: d, LO: 7, Bloom: AP, Difficulty: Difficult, Min: 4, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $14,500 + $8,000 – $8,000 = $14,500.

*139. At the end of 2025, Drew Company made adjusting entries for the following items:

1. Depreciation expense, $25,000.
2. Expired insurance, $2,200 (originally recorded as prepaid insurance.)
3. Interest payable, $6,000.
4. Rent receivable, $10,000.

In the normal situation, to facilitate subsequent entries, the adjusting entry or entries that may be reversed is (are)

a. Entry No. 3 only.
b. Entry No. 4 only.
c. Entry No. 3 and No. 4.
d. Entry No. 2, No. 3, and No. 4.

Ans: c, LO: 7, Bloom: C, Difficulty: Difficult, Min: 4, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Intermediate Accounting 18th edition Kieso Test Bank

*140. Garcia Corporation received cash of $60,000 on August 1, 2025 for one year's rent in advance and recorded the transaction with a credit to Rent Revenue. The December 31, 2025 adjusting entry is
a. debit Rent Revenue and credit Unearned Rent Revenue, $25,000.
b. debit Rent Revenue and credit Unearned Rent Revenue, $35,000.
c. debit Unearned Rent Revenue and credit Rent Revenue, $25,000.
d. debit Cash and credit Unearned Rent Revenue, $35,000.

Ans: b, LO: 7, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: 7/12 x $60,000 = $35,000.

*141. Lopez Company received $18,000 on April 1, 2025 for one year's rent in advance and recorded the transaction with a credit to a nominal account. The December 31, 2025 adjusting entry is
a. debit Rent Revenue and credit Unearned Rent Revenue, $4,500.
b. debit Rent Revenue and credit Unearned Rent Revenue, $13,500.
c. debit Unearned Rent Revenue and credit Rent Revenue, $4,500.
d. debit Unearned Rent Revenue and credit Rent Revenue, $13,500.

Ans: a, LO: 7, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: 3/12 x $18,000 = $4,500.

*142. Gibson Company paid $24,000 on June 1, 2025 for a two-year insurance policy and recorded the entire amount as Insurance Expense. The December 31, 2025 adjusting entry is
a. debit Insurance Expense and credit Prepaid Insurance, $7,000.
b. debit Insurance Expense and credit Prepaid Insurance, $17,000.
c. debit Prepaid Insurance and credit Insurance Expense, $7,000
d. debit Prepaid Insurance and credit Insurance Expense, $17,000.

Ans: d, LO: 7, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: 17/24 x $24,000 = $17,000.

MULTIPLE CHOICE—CPA Adapted

143. On September 1, 2025, Lowe Co. issued a note payable to National Bank in the amount of $1,500,000, bearing interest at 9%, and payable in three equal annual principal payments of $500,000. On this date, the bank's prime rate was 8%. The first payment for interest and principal was made on September 1, 2026. At December 31, 2026, Lowe should record accrued interest payable of
a. $45,000.
b. $40,000.
c. $30,000.
d. $25,000.

Ans: c, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: ($1,500,000 – $500,000) × 9% × 4/12 = $30,000.

Intermediate Accounting 18th edition Kieso Test Bank

144. Eaton Co. sells major household appliance service contracts for cash. The service contracts are for a one-year, two-year, or three-year period. Cash receipts from contracts are credited to Unearned Service Revenue. This account had a balance of $5,700,000 at December 31, 2025 before the year-end adjustment. Service contract costs are charged as incurred to the Service Contract Expense account, which had a balance of $1,350,000 at December 31, 2025.

Service contracts still outstanding at December 31, 2025 expire as follows:

During 2026	$1,440,000
During 2027	1,710,000
During 2028	1,050,000

What amount should be reported as Unearned Service Revenue in Eaton's December 31, 2025 balance sheet?

a. $4,350,000
b. $4,200,000
c. $2,850,000
d. $1,500,000

Ans: b, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 4, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $1,440,000 + $1,710,000 + $1,050,000 = $4,200,000.

145. In November and December 2025, Lane Co., a newly organized magazine publisher, received $75,000 for 1,000 three-year subscriptions at $25 per year, starting with the January 2026 issue. Lane included the entire $75,000 in its 2025 income tax return. What amount should Lane report in its 2025 income statement for subscriptions revenue?

a. $0
b. $4,166
c. $25,000
d. $75,000

Ans: a, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $0, none of the $75,000 is recognized.

146. On June 1, 2025, Nott Corp. loaned Horn $1,600,000 on a 12% note, payable in five annual installments of $320,000 beginning January 2, 2026. In connection with this loan, Horn was required to deposit $5,000 in a noninterest-bearing escrow account. The amount held in escrow is to be returned to Horn after all principal and interest payments have been made. Interest on the note is payable on the first day of each month beginning July 1, 2025. Horn made timely payments through November 1, 2025. On January 2, 2026, Nott received payment of the first principal installment plus all interest due. At December 31, 2025, Nott's interest receivable on the loan to Horn should be

a. $0.
b. $16,000.
c. $32,000.
d. $48,000.

Ans: c, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 4, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $1,600,000 × 12% × 2/12 = $32,000.

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147. Included in Allen Corp.'s balance sheet at June 30, 2026 is a 10%, $4,000,000 note payable. The note is dated October 1, 2024 and is payable in three equal annual payments of $2,000,000 plus interest. The first interest and principal payment was made on October 1, 2025. In Allen's June 30, 2026 balance sheet, what amount should be reported as accrued interest payable for this note?
a. $450,000
b. $300,000
c. $150,500
d. $100,000

Ans: b, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 4, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $4,000,000 × 9/12 × 10% = $300,000.

148. Colaw Co. pays all salaried employees on a biweekly basis. Overtime pay, however, is paid in the next biweekly period. Colaw accrues salaries expense only at its December 31 year-end. Data relating to salaries earned in December 2025 are as follows:

The last payroll was paid on 12/26/25, for the 2-weeks ended 12/26/25.
Overtime pay earned in the 2-weeks ended 12/26/25 was $25,000.
The remaining workdays in 2025 were December 29, 30, 31, on which days there was no overtime.
The recurring biweekly salaries total $450,000.

Assuming a five-day workweek, Colaw should record a liability at December 31, 2025 for accrued salaries of
a. $135,000.
b. $160,000.
c. $270,000.
d. $295,000.

Ans: b, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 4, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $25,000 + ($450,000 ÷ 10 × 3) = $160,000.

149. Tolan Corp.'s trademark was licensed to Eddy Co. for royalties of 15% of sales of the trademarked items. Royalties are payable semiannually on March 15 for sales in July through December of the prior year, and on September 15 for sales in January through June of the same year. Tolan received the following royalties from Eddy:

	March 15	September 15
2024	$10,000	$15,000
2025	12,000	19,000

Eddy estimated that sales of the trademarked items would total $60,000 for July through December 2025. In Tolan's 2025 income statement, the royalty revenue should be
a. $28,000.
b. $31,000.
c. $40,000.
d. $41,000.

Ans: a, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 4, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $19,000 + ($60,000 × 15%) = $28,000.

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150. At December 31, 2025, Sue's Boutique had 1,500 gift certificates outstanding, which had been sold to customers during 2025 for $60 each. Sue's operates on a gross profit of 60% of its sales. What amount of revenue for the 1,500 outstanding gift certificates should be deferred at December 31, 2025?
a. $0
b. $36,000
c. $54,000
d. $90,000

Ans: d, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: 1,500 × $60 = $90,000.

*151. Compared to the accrual basis of accounting, the cash basis of accounting overstates income by the net increase during the accounting period of the

	Accounts Receivable	Accrued Expenses Payable
a.	No	No
b.	No	Yes
c.	Yes	No
d.	Yes	Yes

Ans: b, LO: 6, Bloom: AN, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

*152. Gregg Corp. reported revenue of $1,650,000 in its accrual basis income statement for the year ended June 30, 2026. Additional information was as follows:

Accounts receivable June 30, 2025	$400,000
Accounts receivable June 30, 2026	530,000
Uncollectible accounts written off during the fiscal year	15,000

Under the cash basis, Gregg should report revenue of
a. $1,235,000.
b. $1,250,000.
c. $1,505,000.
d. $1,535,000.

Ans: c, LO: 6, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $1,650,000 + $400,000 – $530,000 – $15,000 = $1,505,000.

*153. Jim Yount, M.D., keeps his accounting records on a cash basis. In 2026, Dr. Yount collected $390,000 from his patients. At December 31, 2025, Dr. Yount had accounts receivable of $40,000. At December 31, 2026, Dr. Yount had accounts receivable of $70,000 and unearned revenue of $10,000. On the accrual basis, what was Dr. Yount's patient service revenue for 2026?
a. $350,000
b. $410,000
c. $420,000
d. $430,000

Ans: b, LO: 6, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $390,000 – $40,000 + $70,000 – $10,000 = $410,000.

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*154. The following information is available for Ace Company for 2025:

Disbursements for purchases	$1,560,000
Increase in trade accounts payable	100,000
Decrease in merchandise inventory	40,000

Cost of goods sold for 2025 was
a. $1,700,000.
b. $1,620,000.
c. $1,500,000.
d. $1,420,000.

Ans: a, LO: 6, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None
Solution: $1,560,000 + $100,000 + $40,000 = $1,700,000.

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BRIEF EXERCISES

BE. 2-155

In the space provided at the right, write the word or phrase that is defined or indicated.

1. Revenue and expense accounts. 1._____
2. An optional step in the accounting cycle. 2._____
3. A revenue collected, but not recognized. 3._____
4. A revenue recognized, but not collected. 4._____
5. Asset, liability, and equity accounts. 5._____
6. An expense paid, but not incurred. 6._____
7. An expense incurred, but not paid. 7._____

Ans: NA, LO: 3, 4 Bloom: K, Difficulty: Easy, Min: 7-10, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Solution 2-155

1. Nominal (temporary) accounts.
2. Reversing entries.
3. Unearned revenue.
4. Accrued revenue.
5. Real (permanent) accounts.
6. Prepaid expense.
7. Accrued expense.

BE. 2-156

Generally accepted accounting principles require the use of accruals and deferrals in the determination of income. How is income determined under the accrual basis of accounting? Include in your answer what constitutes an accrued item and a deferred (prepaid) item, and give appropriate examples of each.

Ans: NA, LO: 3, Bloom: C, Difficulty: Moderate, Min: 8-10, AACSB: None, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

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Solution 2-156

Accrual accounting recognizes and reports the effects of transactions and other events in the time periods to which they relate rather than only when cash is received or paid. Accrual accounting attempts to match revenues and the expenses associated with those revenues in order to determine net income for an accounting period.

An accrued item is an item of revenue or expense that has been recognized or incurred during the period but has not yet been collected or paid in cash. An example of an accrued revenue is rent for the last month of an accounting period that has been recognized by a landlord but not yet paid by the tenant. An example of an accrued expense is salaries incurred for the last week of an accounting period that are not payable until the subsequent accounting period.

A deferred (unearned or prepaid) item is an item of revenue or expense that has been received or paid in cash but has not yet been recognized or consumed. An example of a deferred revenue is unearned subscription revenue collected in advance of being recognized because the product has not yet been provided. An example of a deferred expense is an insurance premium paid at the end of an accounting period which will provide insurance coverage for the first six months of the subsequent period.

BE. 2-157

Provide clear, concise answers for the following.

1. What is the accrual basis of accounting?
2. What is an accrued expense?
3. What is accrued revenue?
4. What is a prepaid expense?
5. What is unearned revenue?

*6. State the rule that indicates which adjusting entries for prepaid and unearned items should be reversed.

Ans: NA, LO: 3, 6, 7, Bloom: K, Difficulty: Easy, Min: 5-7, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Solution 2-157

1. The accrual basis of accounting recognizes revenue when the performance obligation is satisfied and recognizes expenses in the period incurred.
2. An accrued expense is an expense that is incurred but not paid in cash or recorded.
3. An accrued revenue is a revenue for services performed but not yet received in cash or recorded.
4. A prepaid expense is an expense paid in cash and recorded as an asset before it is used or consumed.
5. Unearned revenues are received in cash and recorded as liabilities before services are performed.

*6. All deferrals for which a company debited or credited the original cash transaction to an expense or revenue account should be reversed.

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EXERCISES

Ex. 2-158

Reed Co. wishes to enter receipts and payments in such a manner that adjustments at the end of the period will not require reversing entries at the beginning of the next period. Record the following transactions in the indicated manner and give the adjusting entry on December 31, 2025. (Two entries for each part.)

1. An insurance policy for two years was acquired on April 1, 2025 for $24,000.
2. Rent of $15,000 for six months for a portion of the building was received on November 1, 2025.

Ans: NA, LO: 2, 3, Bloom: AP, Difficulty: Moderate, Min: 6, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Solution 2-158

1.	Prepaid Insurance	24,000	
	Cash		24,000
	Insurance Expense (24,000 X 9/24)	9,000	
	Prepaid Insurance		9,000
2.	Cash	15,000	
	Unearned Rent Revenue		15,000
	Unearned Rent Revenue (15,000 X 2/6)	5,000	
	Rent Revenue		5,000

Ex. 2-159

The following information relates to the Wallstrom Company at the end of 2025. The accounting period is the calendar year.

1. Employees are paid every Friday for the five-day week ending on that day. Salaries amount to $4,000 per week. The accounting period ends on a Tuesday.
2. A note for $5,000 was received from a customer in a sales transaction on April 1, 2025. The note matures in one year and bears 8% interest.
3. On September 1, 2025, Wallstrom borrowed $10,000 cash by signing a note payable due in one year at 6% interest.

Instructions

Using the information given above, prepare the necessary adjusting entries at December 31, 2025.

Ans: NA, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 6, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

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Solution 2-159

1.	Salaries and Wages Expense	1,600	
	Salaries and Wages Payable		1,600
	($4,000 ÷ 5 = $800); ($800 × 2 = $1,600 accrued salaries)		
2.	Interest Receivable	300	
	Interest Revenue		300
	($5,000 × 8% × 9/12 = $300 accrued interest)		
3.	Interest Expense	200	
	Interest Payable		200
	($10,000 × 6% × 4/12 = $200 accrued interest)		

Ex. 2-160

The following information relates to the Morganstern Magazine Company at the end of 2025. The accounting period is the calendar year.

1. An insurance premium of $6,000 was paid on March 1, 2025, and was charged to Prepaid Insurance. The premium covers a 24-month period beginning March 1, 2025.
2. On June 1, 2025, cash of $54,000 was received from subscribers (customers) for a 36-month subscription period beginning on that date. The receipt was recorded by a debit to Cash and a credit to Unearned Subscription Revenue.
3. The Supplies account showed a balance of $5,000 at the beginning of 2025. Supplies costing $16,000 were purchased during 2025 and debited to the asset account. Supplies of $3,000 were on hand at December 31, 2025.

Instructions

Using the information given above, prepare the necessary adjusting entries at December 31, 2025.

Ans: NA, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 6, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Solution 2-160

1.	Insurance Expense	2,500	
	Prepaid Insurance		2,500
	($6,000 × 10/24 = $2,500 expired cost)		
2.	Unearned Subscription Revenue	10,500	
	Subscription Revenue		10,500
	($54,000 × 7/36 = $10,500 earned revenue)		
3.	Supplies Expense	18,000	
	Supplies		18,000
	($5,000 + $16,000 - $3,000 = $18,000 supplies consumed)		

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Ex. 2-161

A partial adjusted trial balance of West Company at January 31, 2026 shows the following.

WEST COMPANY
Adjusted Trial Balance
January 31, 2026

	Debit	Credit
Supplies	$2,800	
Prepaid Insurance	9,600	
Salaries and Wages Payable		$3,200
Unearned Revenue		3,000
Supplies Expense	3,800	
Insurance Expense	1,600	
Salaries and Wages Expense	7,200	
Service Revenue		8,000

Instructions

Answer the following questions, assuming the year begins January 1.

(a) If the amount in Supplies Expense is the January 31 adjusting entry, and $3,400 of supplies was purchased in January, what was the balance in Supplies on January 1?
(b) If the amount in Insurance Expense is the January 31 adjusting entry, and the original insurance premium was for one year, what was the total premium and when was the policy purchased?
(c) If $10,000 of salaries was paid in January, what was the balance in Salaries and Wages. Payable at December 31, 2025?
(d) If $6,400 was received in January for services performed in January, what was the balance in Unearned Revenue at December 31, 2025?

Ans: NA, LO: 3, Bloom: AN, Difficulty: Difficult, Min: 10-15, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Solution 2-161

(a)	Ending balance of supplies	$2,800	
	Add: Adjusting entry	3,800	
	Deduct: Purchases	3,400	
	Beginning balance of supplies	$3,200	
(b)	Total prepaid insurance	$19,200	(1, 600 × 12)
	Amount used (6 × $1,600)	9,600	
	Present balance	$ 9,600	

The policy was purchased 6 months ago (August 1, 2025)

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Solution 2-161 (Con't)

(c) The entry in January to record salary expense was:

Salaries and Wages Expense	7,200	
Salaries and Wages Payable	2,800	
Cash		10,000

The beginning balance is calculated as follows:

Ending balance of salaries and wages payable	$3,200
Plus: Reduction of salaries and wages payable	2,800
Beginning balance of salaries and wages payable	$6,000

(d) Service revenue	$8,000
Less: Cash received	6,400
Unearned revenue reduced	$1,600

Ending unearned revenue January 31, 2026	$3,000
Plus: Unearned revenue reduced	1,600
Beginning unearned revenue December 31, 2025	$4,600

Ex 2-162

AC Doyle Corporation prepared the following adjusting journal entries for the year ended December 31, 2025:

Unearned Rent Revenue	12,000	
Rent Revenue		12,000
Interest Expense	4,400	
Interest Payable		4,400
Insurance Expense	5,000	
Prepaid Insurance		5,000

Additional Information

1. The rent that AC Doyle charges for its one building is $72,000 a year. The rent is collected in advance.
2. AC Doyle borrowed $80,000 on February 1, 2025. Principal and Interest are due February 1st, 2026. This is Doyle's only interest-bearing note.
3. AC Doyle bought a 1-year insurance policy on September 1.

Answer these questions:

1. At the beginning of which month was the rent collected for the current one-year period?
2. What is the interest rate on the note payable?
3. How much did AC Doyle pay for the insurance policy?

Ans: NA, LO: 3, Bloom: AN, Difficulty: Difficult, Min: 10, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

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Solution 2-162

1. The payment for the next 1 year period was made at the beginning of November. $72,000 per year / 12 months = $6,000 in rent revenue recognized each month. The adjusting entry would be for November and December (2 X $6,000 = $12,000).
2. Face value of Note X Annual interest rate X Time the note is outstanding = Interest
   $80,000 X Rate X 11/12 = $4,400 {4,400 X (12/11)}/80,000 = .06 or 6%
3. Doyle paid $15,000 for the policy. The amount of the policy expired for 4 months is $5,000.
   $5,000 = Policy amount X 4/12
   $5,000 X (12/4) = Policy amount = $15,000

Ex. 2-163

The adjusting data for Strasberg Inc. listed below are available on December 31, the end of the annual period:

1. Interest has accrued on a $20,000, 6% note payable, issued on May 1.
2. On September 1, Rent Revenue was credited for $3,000, representing revenue from a sub-rental for a 6-month period beginning on that date.
3. Purchase of supplies for $1,500 during the year was recorded in the Supplies Expense account. On December 31, supplies of $500 are on hand.

Instructions

Prepare the following in general journal form:
(a) The adjusting entry for each item.
*(b)The reversing entry for each item where appropriate.

Ans: NA, LO: 3, 7, Bloom: AP, Difficulty: Moderate, Min: 6, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Solution 2-163

(a) Adjusting Entries:

1.	Interest Expense ($20,000 × 6% × 8/12)	800	
	Interest Payable		800
2.	Rent Revenue ($3,000 × 2/6)	1,000	
	Unearned Rent Revenue		1,000
3.	Supplies	500	
	Supplies Expense		500

*(b)Reversing Entries:

1.	Interest Payable	800	
	Interest Expense		800
2.	Unearned Rent Revenue	1,000	
	Rent Revenue		1,000
3.	Supplies Expense	500	
	Supplies		500

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Ex. 2-164

Present, in journal form, the adjustments that would be made on July 31, 2026, the end of the fiscal year, for each of the following.

1. The supplies inventory on August 1, 2025 was $9,350. Supplies costing $24,150 were acquired during the year and charged to the supplies inventory. A count on July 31, 2026 indicated supplies on hand of $8,810.
2. On April 30, a ten-month, 6% note for $30,000 was received from a customer.

*3. On May 1, $20,000 was collected as rent for one year and a nominal account was credited.

Ans: NA, LO: 3, 7, Bloom: AP, Difficulty: Moderate, Min: 6, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Solution 2-164

1.	Supplies Expense ($9,350 + $24,150 - $8,810)	24,690	
	Supplies		24,690
2.	Interest Receivable ($30,000 X 6% X 3/12)	450	
	Interest Revenue		450
*3.	Rent Revenue {$20,000 – ($20,000 X 3/12)}	15,000	
	Unearned Rent Revenue		15,000

Ex. 2-165

The following data relate to the accounts of Edmiston Company:

a. Unpaid salaries and wages at year-end amount to $750.
b. Edmiston Company owns bonds of another corporation that pay annual interest of $800. These bonds were purchased on April 1, 2025, and the next interest payment will be received on April 1, 2026.
c. A two-year insurance policy was purchased on June 1, 2025. The $1,200 insurance premium was paid on that date and was debited to Prepaid Insurance.
*d. Service Revenue was credited for $900 on June 1, 2025. The amount represents a one-year advance payment for services to be performed by Edminston Company through May 31, 2026.
e. The Supplies account shows a balance of $2,500 on December 31, 2025. A physical count of the supplies on hand at this date reveals a total of $1,000 available.

Instructions

Prepare the necessary adjusting journal entries indicated by each item for the year ended December 31, 2025.

Ans: NA, LO: 3, 7, Bloom: AP, Difficulty: Moderate, Min: 6, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

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Solution 2-165

a.	Salaries and Wages Expense	750	
	Salaries and Wages Payable		750
b.	Interest Receivable ($800 × 9/12)	600	
	Interest Revenue		600
c.	Insurance Expense ($1,200 × 7/24)	350	
	Prepaid Insurance		350
*d.	Service Revenue	375	
	Unearned Service Revenue ($900 × 5/12)		375
e.	Supplies Expense ($2,500 − $1,000)	1,500	
	Supplies		1,500

Ex. 2-166

The adjusted trial balance of Ryan Financial Planners appears below. Using the information from the adjusted trial balance, you are to prepare for the month ending December 31, 2025:

1. an income statement.
2. a retained earnings statement.
3. a balance sheet.

RYAN FINANCIAL PLANNERS
Adjusted Trial Balance
December 31, 2025

	Debit	Credit
Cash	$ 3,900	
Accounts Receivable	2,200	
Supplies	1,800	
Equipment	16,000	
Accumulated Depreciation—Equipment		$ 4,000
Accounts Payable		3,800
Unearned Service Revenue		5,000
Common Stock		10,000
Retained Earnings		4,400
Dividends	2,000	
Service Revenue		4,700
Supplies Expense	600	
Depreciation Expense	2,500	
Rent Expense	2,900	
	$31,900	$31,900

Ans: NA, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 10-15, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

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Solution 2-166

1.

RYAN FINANCIAL PLANNERS
Income Statement
For the Month Ended December 31, 2025

Revenues		
Service revenue		$ 4,700
Expenses		
Rent expense	$2,900	
Depreciation expense	2,500	
Supplies expense	600	
Total expenses		6,000
Net loss		$(1,300)

2.

RYAN FINANCIAL PLANNERS
Retained Earnings Statement
For the Month Ended December 31, 2025

Retained earnings, December 1		$4,400
Less: Net loss	$1,300	
Dividends	2,000	3,300
Retained earnings, December 31		$1,100

3.

RYAN FINANCIAL PLANNERS
Balance Sheet
December 31, 2025

Assets		
Cash		$ 3,900
Accounts receivable		2,200
Supplies		1,800
Equipment	$16,000	
Less: Accumulated depreciation—equipment	4,000	12,000
Total assets		$19,900
Liabilities and Stockholders' Equity		
Liabilities		
Accounts payable	$ 3,800	
Unearned service revenue	5,000	
Total liabilities		$ 8,800
Stockholders' Equity		
Common stock	10,000	
Retained earnings	1,100	11,100
Total liabilities and stockholders' equity		$19,900

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Ex 2-167

The adjusted trial balance of Dana Accounting Services appears below. Using the information from the adjusted trial balance, you are to prepare for the year ending December 31, 2025:

1. Closing Entries
2. Post – closing Trial Balance

DANA ACCOUNTING SERVICES
Adjusted Trial Balance
December 31, 2025

	Debit	Credit
Cash	$ 6,400	
Accounts Receivable	5,600	
Supplies	800	
Equipment	12,000	
Accumulated Depreciation—Equipment		$ 1,600
Accounts Payable		2,200
Unearned Service Revenue		700
Common Stock		8,000
Retained Earnings		7,400
Dividends	7,450	
Service Revenue		18,700
Salaries and Wages Expense	1,900	
Supplies Expense	650	
Depreciation Expense	1,500	
Rent Expense	2,300	
	$38,600	$38,600

Ans: NA, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 12-17, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Solution Ex 2-167

1. Closing Entries:

Sales Revenue	18,700	
Income Summary		18,700
To close revenue to Income Summary		
Income Summary	6,350	
Rent Expense		2,300
Salaries and Wages Expense		1,900
Depreciation Expense		1,500
Supplies Expense		650
To close expenses to Income Summary		
Income Summary	12,350	
Retained Earnings		12,350
To close Income Summary to Retained Earnings		
Retained Earnings	7,450	
Dividends		7,450
To close Dividends to Retained Earnings		

Intermediate Accounting 18th edition Kieso Test Bank

Solution Ex 2-167 (Con't)

2. Post-Closing Trial Balance

DANA ACCOUNTING SERVICES
Adjusted Trial Balance
December 31, 2025

	Debit	Credit
Cash	$ 6,400	
Accounts Receivable	5,600	
Supplies	800	
Equipment	12,000	
Accumulated Depreciation—Equipment		$ 1,600
Accounts Payable		2,200
Unearned Service Revenue		700
Common Stock		8,000
Retained Earnings		12,300
	$24,800	$24,800

Commented [LS1]: Compositor – reduce length of line.

Ex 2-168

The adjusted trial balance of Spock Fashion Retailers Inc. appears below. Using the information from the adjusted trial balance, you are to prepare for the year ending December 31, 2025:

1. an income statement.
2. a retained earnings statement.
3. a balance sheet.

SPOCK FASHION RETAILERS, INC.
Adjusted Trial Balance
December 31, 2025

	Debit	Credit
Cash	$ 6,500	
Accounts Receivable	4,800	
Inventory	78,800	
Prepaid Insurance	1,400	
Equipment	106,000	
Accumulated Depreciation—Equipment		$ 14,000
Notes Payable		10,500
Accounts Payable		8,800
Salaries and Wages Payable		4,200
Property Taxes Payable		1,100
Common Stock		10,000
Retained Earnings		74,400
Dividends	33,200	
Sales Revenue		380,700
COGS	228,000	
Depreciation Expense	3,500	
Salaries and Wages Expense (selling $25,500 / general $10,400)	35,900	
Insurance Expense	900	
Advertising Expense	1,200	
Telephone and Internet Expense	600	
Property Tax Expense	2,900	
	$503,700	$503,700

Ans: NA, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 20, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Intermediate Accounting 18th edition Kieso Test Bank

Solution Ex. 2-168

1.

SPOCK FASHION RETAILERS INC.
Income Statement
.For the Year Ended December 31, 2025

Sales revenue		$380,700
Cost of goods sold		228,000
Gross Profit on Sales		152,700
Selling Expenses		
Salaries and Wages Expense	$25,500	
Advertising expense	1,200	
Total selling expenses	26,700	
Administrative Expenses		
Salaries and Wages Expenses	10,400	
Depreciation expense	3,500	
Property Tax expense	2,900	
Insurance Expense	900	
Telephone and Internet expense	600	
Total Administrative expense	18,300	
Total expenses		45,000
Net Income		$107,700

2.

SPOCK FASHION RETAILERS INC.
Retained Earnings Statement
For the Year Ended December 31, 2025

Retained earnings, January 1		$ 74,400
Add: Net Income	$107,700	
Less: Dividends	33,200	74,500
Retained earnings, December 31		$148,900

3.

SPOCK FASHION RETAILERS INC.
Balance Sheet
December 31, 2025

Assets

Cash		$ 6,500
Accounts receivable		4,800
Inventory		78,800
Prepaid Insruance		1,400
Equipment	$106,000	
Less: Accumulated depreciation—equipment	14,000	92,000
Total assets		$183,500

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Solution Ex. 2-168 (Con't)

Liabilities and Stockholders' Equity

Liabilities		
Notes payble	$ 10,500	
Accounts payable	8,800	
Salaries and wages payable	4,200	
Property taxes payable	1,100	
Total liabilities		$ 24,600
Stockholders' Equity		
Common stock	10,000	
Retained earnings	148,900	158,900
Total liabilities and stockholders' equity		$183,500

Ex 2-169

The adjusted trial balance of Spock Fashion Retailers Inc. appears below. Using the information from the adjusted trial balance prepare the closing entries for the year ending December 31st, 2025.

Spock Fashion Retailers Inc.
Adjusted Trial Balance
December 31, 2025

	Debit	Credit
Cash	$ 6,500	
Accounts Receivable	4,800	
Inventory	78,800	
Prepaid Insurance	1,400	
Equipment	106,000	
Accumulated Depreciation—Equipment		$ 14,000
Notes Payable		10,500
Accounts Payable		8,800
Salaries and Wages Payable		4,200
Property Taxes Payable		1,100
Common Stock		10,000
Retained Earnings		74,400
Dividends	33,200	
Sales Revenue		380,700
COGS	228,000	
Depreciation Expense	3,500	
Salaries and Wages Expense (selling 25,500 / general 10,400)	35,900	
Insurance Expense	900	
Advertising Expense	1,200	
Telephone and Internet Expense	600	
Property Tax Expense	2,900	
	$503,700	$503,700

Ans: NA, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 10-15, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Commented [LS2]: Compositor- extend lines above one space each.

Intermediate Accounting 18th edition Kieso Test Bank

Solution Ex 2-169

Closing Entries:		
Sales Revenue	380,700	
Income Summary		380,700
To close revenue to Income Summary		
Income Summary	273,000	
Cost of Goods Sold		228,000
Salaries and Wages Expense		35,900
Depreciation Expense		3,500
Property Tax Expense		2,900
Advertising Expense		1,200
Insurance Expense		900
Telephone and Internet Expense		600
To close expenses to Income Summary		
Income Summary	107,700	
Retained Earnings		107,700
To close Income Summary to Retained Earnings		
Retained Earnings	33,200	
Dividends		33,200
To close Dividends to Retained Earnings		

***Ex. 2-170**

Contrast the cash basis of accounting with the accrual basis of accounting.

Ans: NA, LO: 6, Bloom: AN, Difficulty: Moderate, Min: 8-10, AACSB: Reflective Thinking, AICPA BC: Crit. Think., AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

***Solution 2-170**

The essential difference between the cash basis and the accrual basis of accounting relates to the timing of the recognition of revenues and expenses. Under the cash basis of accounting, the effects of transactions and other events are recognized and reported only when cash is received or paid. Under the accrual basis of accounting, these effects are recognized and reported in the time periods to which they relate, regardless of the time of the receipt or payment of cash. Because no attempt is made under the cash basis of accounting to match revenues and the expenses associated with those revenues, cash basis financial statements are not generally accepted accounting principles compliant.

***Ex. 2-171**

Sales salaries paid during 2025 were $90,000. Advances to salesmen were $1,100 on January 1, 2025, and $800 on December 31, 2025. Sales salaries accrued were $1,360 on January 1, 2025, and $1,880 on December 31, 2025. Show the computation of sales salaries on an accrual basis for 2025.

Ans: NA, LO: 6, Bloom: AP, Difficulty: Moderate, Min: 4, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Intermediate Accounting 18th edition Kieso Test Bank

***Solution 2-171**

$90,000 + $1,100 – $800 – $1,360 + $1,880 = $90,820.

***Ex. 2-172**

The records for Todd Inc. showed the following for 2025:

	Jan. 1	Dec. 31
Accrued expenses	$1,300	$2,150
Prepaid expenses	720	870

Cash paid during the year for expenses, $51,000

Show the computation of the amount of expense that should be reported on the income statement.

Ans: NA, LO: 6, Bloom: AP, Difficulty: Moderate, Min: 4, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

***Solution 2-172**

$51,000 – $1,300 + $2,150 + $720 – $870 = $51,700.

***Ex. 2-173**

The records for Kiley Company showed the following for 2025:

	Jan. 1	Dec. 31
Unearned revenue	$1,100	$2,160
Accrued revenue	1,260	920

Cash collected during the year for revenue, $75,000

Show the computation of the amount of revenue that should be reported on the income statement.

Ans: NA, LO: 6, Bloom: AP, Difficulty: Moderate, Min: 4, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

***Solution 2-173**

$75,000 + $1,100 – $2,160 – $1,260 + $920 = $73,600.

***Ex. 2-174**

Revenue on the income statement was $140,800. Accounts receivable were $3,500 on January 1 and $3,540 on December 31. Unearned revenue was $1,050 on January 1 and $1,670 on December 31.

Show the computation of revenue for the year on a cash basis.

Ans: NA, LO: 6, Bloom: AP, Difficulty: Moderate, Min: 4, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Intermediate Accounting 18th edition Kieso Test Bank

***Solution 2-174**

$140,800 + $3,500 – $3,540 – $1,050 + $1,670 = $141,380.

PROBLEMS

Pr. 2-175

Selected amounts from Trent Company's trial balance of 12/31/25 appear below:

1.	Accounts Payable	$ 160,000
2.	Accounts Receivable	150,000
3.	Accumulated Depreciation—Equipment	200,000
4.	Allowance for Doubtful Accounts	20,000
5.	Bonds Payable	500,000
6.	Cash	150,000
7.	Common Stock	60,000
8.	Equipment	870,000
9.	Prepaid Insurance	30,000
10.	Interest Expense	10,000
11.	Inventory	300,000
12.	Notes Payable (due 6/1/26)	200,000
13.	Prepaid Rent	240,000
14.	Retained Earnings	818,000
15.	Salaries and Wages Expense	328,000

(All of the above accounts have their standard or normal debit or credit balance.)

Part A. Prepare the adjusting journal entries at year-end, December 31, 2025, based on the following supplemental information.

a. The equipment has a useful life of 15 years with no salvage value. (Straight-line method being used.)
b. Interest accrued on the bonds payable is $15,000 as of 12/31/25.
c. Prepaid insurance at 12/31/25 is $22,000.
d. The rent payment of $240,000 covered the six months from November 30, 2025 through May 31, 2026.
e. Salaries and wages earned but unpaid at 12/31/25, $22,000.

Part B. Indicate the proper balance sheet classification of each of the 15 numbered accounts in the 12/31/25 trial balance *before adjustments* by placing appropriate numbers after each of the following classifications. If the account title would appear on the income statement, **do not** put the number in any of the classifications.

a. Current assets
b. Property, plant, and equipment
c. Current liabilities
d. Long-term liabilities
e. Stockholders' equity

Ans: NA, LO: 3, 4, Bloom: AP, Difficulty: Moderate, Min: 15-20, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Intermediate Accounting 18th edition Kieso Test Bank

Solution 2-175

Part A.

a.	Depreciation Expense ($870,000 – 0) ÷ 15	58,000	
	Accumulated Depreciation—Equipment		58,000
b.	Interest Expense	15,000	
	Interest Payable		15,000
c.	Insurance Expense	8,000	
	Prepaid Insurance ($30,000 - $22,000)		8,000
d.	Rent Expense ($240,000 ÷ 6)	40,000	
	Prepaid Rent		40,000
e.	Salaries and Wages Expense	22,000	
	Salaries and Wages Payable		22,000

Part B.

a. Current assets—2, 4, 6, 9, 11, 13
b. Property, plant, and equipment—3, 8
c. Current liabilities—1, 12
d. Long-term liabilities—5
e. Stockholders' equity—7, 14

Pr. 2-176

Data relating to the balances of various accounts affected by adjusting or closing entries appear below. (The entries which caused the changes in the balances are not given.) You are asked to supply the missing journal entries which would logically account for the changes in the account balances.

1. Interest receivable at 1/1/25 was $1,000. During 2025 cash received from debtors for interest on outstanding notes receivable amounted to $5,000. The 2025 income statement reported interest revenue of $8,400. You are to provide the missing adjusting entry that must have been made, assuming reversing entries are not made.

2. Unearned rent at 1/1/25 was $5,300 and at 12/31/25 was $8,000. The records indicate cash receipts from rental sources during 2025 amounted to $55,000, all of which was credited to the Unearned Rent Revenue account. You are to prepare the missing adjusting entry.

3. Accumulated depreciation—equipment at 1/1/25 was $230,000. At 12/31/25, the balance of the account was $280,000. In 2025, one piece of equipment was sold. The equipment had an original cost of $60,000 and was 3/4 depreciated when sold. You are to prepare the missing adjusting entry.

4. Allowance for doubtful accounts on 1/1/25 was $50,000. The balance in the allowance account on 12/31/25 after making the annual adjusting entry was $65,000 and during 2025 bad debts written off amounted to $30,000. You are to provide the missing adjusting entry.

Commented [LS3]: Compositor needs to fix spacing.

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Pr. 2-176 (Con't)

5. Prepaid rent at 1/1/25 was $29,000. During 2025 rent payments of $130,000 were made and charged to "rent expense." The 2025 income statement shows as a general expense the item "rent expense" for $145,000. You are to prepare the missing adjusting entry that must have been made, assuming reversing entries are not made.

6. Retained earnings at 1/1/25 was $130,000 and at 12/31/25 it was $190,000. During 2025, cash dividends of $50,000 were paid and a stock dividend of $40,000 was issued. Both dividends were properly charged to retained earnings. You are to provide the missing closing entry.

Ans: NA, LO: 3, Bloom: AN, Difficulty: Difficult, Min: 18-20, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Solution 2-176

1.	Interest Receivable		4,400	
	Interest Revenue			4,400
	Interest revenue per books	$8,400		
	Interest revenue received related to 2025 ($5,000 – $1,000)	(4,000)		
	Interest accrued	$4,400		
2.	Unearned Rent Revenue		52,300	
	Rent Revenue			52,300
	Cash receipts	$55,000		
	Beginning balance	5,300		
	Ending balance	(8,000)		
	Rent revenue	$52,300		
3.	Depreciation Expense		95,000	
	Accumulated Depreciation—Equipment			95,000
	Ending balance	$280,000		
	Beginning balance	(230,000)		
	Difference	50,000		
	Write-off at time of sale 3/4 × $60,000	45,000		
		$ 95,000		
4.	Bad Debt Expense		45,000	
	Allowance for Doubtful Accounts			45,000
	Ending balance	$65,000		
	Beginning balance	(50,000)		
	Difference	15,000		
	Written off	30,000		
		$45,000		
5.	Rent Expense		15,000	
	Prepaid Rent			15,000
	Rent expense	$145,000		
	Cash paid	(130,000)		
	Reduction in prepaid rent account	$ 15,000		

Intermediate Accounting 18th edition Kieso Test Bank

Solution 2-176 (Con't)

6. Income Summary			150,000	
Retained Earnings				150,000
Ending balance		$190,000		
Beginning balance		(130,000)		
Difference		60,000		
Cash dividends	$50,000			
Stock dividends	40,000	90,000		
		$150,000		

***Pr. 2-177**

The following trial balance was taken from the books of Fisk Corporation on December 31, 2025.

Account	Debit	Credit
Cash	$ 9,000	
Accounts Receivable	40,000	
Notes Receivable	10,000	
Allowance for Doubtful Accounts		$ 1,800
Inventory	34,000	
Prepaid Insurance	4,800	
Equipment	100,000	
Accumulated Depreciation--Equip.		15,000
Accounts Payable		10,800
Common Stock		44,000
Retained Earnings		55,000
Sales Revenue		260,000
Cost of Goods Sold	126,000	
Salaries and Wages Expense	50,000	
Rent Expense	12,800	
Totals	$386,600	$386,600

At year-end, the following items have not yet been recorded.

a. Insurance expired during the year, $2,000.
b. Estimated bad debts, $2,600.
c. Depreciation on equipment, 10% per year on original cost.
d. Interest at 6% is receivable on the note for one full year.
*e. Rent paid in advance at December 31, $5,400 (originally charged to expense).
f. Accrued salaries and wages at December 31, $5,800.

Instructions

(a) Prepare the necessary adjusting entries.
(b) Prepare the necessary closing entries.

Ans: NA, LO: 3, 4, 7, Bloom: AP, Difficulty: Difficult, Min: 18-20, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Intermediate Accounting 18th edition Kieso Test Bank

Solution 2-177

(a) Adjusting Entries

a.	Insurance Expense	2,000	
	Prepaid Insurance		2,000
b.	Bad Debt Expense	2,600	
	Allowance for Doubtful Accounts		2,600
c.	Depreciation Expense (100,000 x 10%)	10,000	
	Accumulated Depreciation--Equip.		10,000
d.	Interest Receivable (10,000 x 6%)	600	
	Interest Revenue		600
*e.	Prepaid Rent	5,400	
	Rent Expense		5,400
f.	Salaries and Wages Expense	5,800	
	Salaries and Wages Payable		5,800

(b) Closing Entries

Sales	260,000	
Interest Revenue	600	
Income Summary		260,600
Income Summary	203,800	
Salaries and Wages Expense (50,000 + 5,800)		55,800
Rent Expense (12,800 – 5,400)		7,400
Depreciation Expense		10,000
Bad Debt Expense		2,600
Insurance Expense		2,000
Cost of Goods Sold		126,000
Income Summary ($260,600 – $203,800)	56,800	
Retained Earnings		56,800

Intermediate Accounting 18th edition Kieso Test Bank

***Pr. 2-178**

Yates Company's records provide the following information concerning certain account balances and changes in these account balances during the current year. Transaction information is missing from each item below.

Instructions

Prepare the entry to record the missing information for each account. (Consider each independently.)

1. Accounts Receivable: Jan. 1, balance $41,000, Dec. 31, balance $55,000, uncollectible accounts written off during the year, $6,000; accounts receivable collected during the year, $159,000. Prepare the entry to record sales revenue.
2. Allowance for Doubtful Accounts: Jan. 1, balance $4,000, Dec. 31, balance $7,500, uncollectible accounts written off during the year, $20,000. Prepare the entry to record bad debt expense.
3. Accounts Payable: Jan. 1, balance $25,000, Dec. 31, balance $54,000, purchases on account for the year, $150,000. Prepare the entry to record payments on account.
4. Interest Receivable: Jan. 1 accrued, $3,000, Dec. 31 accrued, $2,100, recognized for the year, $45,000. Prepare the entry to record cash interest received.

Ans: NA, LO: 6, Bloom: AN, Difficulty: Difficult, Min: 20, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

***Solution 2-178**

1.

Ending balance	$ 55,000		Ending balance	$ 55,000
Less: Beginning balance	41,000		Plus: Rec. collected	159,000
Difference	14,000		Write-offs	6,000
Uncollectible accounts	6,000	OR		220,000
Receivables collected	159,000		Less: Beginning balance	41,000
Sales revenue for period	$179,000		Sales revenue for period	$179,000

Accounts Receivable	179,000	
Sales Revenue		179,000

2.

Ending balance	$ 7,500		Ending balance	$ 7,500
Less: Beginning balance	4,000		Plus: Write-off	20,000
Difference	3,500	OR		27,500
Write-off	20,000		Less: Beginning balance	4,000
Adjusting entry	$23,500		Adjusting entry	$23,500

Bad Debt Expense	23,500	
Allowance for Doubtful Accounts		23,500

Intermediate Accounting 18th edition Kieso Test Bank

***Solution 2-178** (Con't)

3.	Ending balance	$ 54,000		Beginning balance		$ 25,000
	Less: Beginning balance	25,000		Plus: Purchases		150,000
	Difference	29,000	OR			175,000
	Purchases	150,000		Less: Ending balance		54,000
	Payments	$121,000		Payments		$ 121,000

Accounts Payable		121,000	
Cash			121,000

4.	Revenue Recognized	$45,000		Beginning balance		$ 3,000
	Less: Dec. 31 accrual	(2,100)		Plus: Revenue recognized		45,000
	Plus: Jan. 1 accrual	3,000	OR			48,000
	Cash received	$45,900		Less: Ending balance		2,100
				Cash received		$45,900

Cash	45,900	
Interest Receivable		45,900
(This entry assumes that the $45,000 interest recognized was first recorded as a receivable.)		

Intermediate Accounting 18th edition Kieso Test Bank

***Pr. 2-179**

Grier & Associates maintains its records on the cash basis. You have been engaged to convert its cash basis income statement to the accrual basis. The cash basis income statement, along with additional information, follows:

Grier & Associates
Income Statement (Cash Basis)
For the Year Ended December 31, 2025

Cash receipts from customers		$425,000
Cash payments:		
Salaries and wages	$170,000	
Income taxes	65,000	
Insurance	40,000	
Interest	25,000	300,000
Net income		$125,000

Additional information:

	Balances at 12/31	
	2025	2024
Accounts receivable	$50,000	$30,000
Salaries and wages payable	10,000	20,000
Income taxes payable	24,000	19,000
Prepaid insurance	8,000	4,000
Accumulated depreciation	95,000	80,000
Interest payable	3,000	9,000

No plant assets were sold during 2025.

Ans: NA, LO: 6, Bloom: AN, Difficulty: Moderate, Min: 15, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

***Solution 2-179**

Grier & Associates
Income Statement (Accrual Basis)
For the Year Ended December 31, 2025

Revenue ($425,000 + $50,000 – $30,000)		$445,000
Expenses		
Salaries and wages ($170,000 + $10,000 – $20,000)	$160,000	
Income taxes ($65,000 + $24,000 – $19,000)	70,000	
Insurance ($40,000 + $4,000 – $8,000)	36,000	
Depreciation ($95,000 – $80,000)	15,000	
Interest ($25,000 + $3,000 – $9,000)	19,000	
Total expenses		300,000
Net Income		$145,000

Intermediate Accounting 18th edition Kieso Test Bank

***Pr. 2-180**

The following information is available for Renn Corporation's first year of operations:

Payment for merchandise purchases	$315,000
Ending merchandise inventory	135,000
Accounts payable (balance at end of year)	60,000
Collections from customers	280,000

The balance in accounts payable relates only to merchandise purchases. All merchandise items were marked to sell at 30% above cost. What should be the ending balance in accounts receivable, assuming all accounts are deemed collectible?

Ans: NA, LO: 6, Bloom: AN, Difficulty: Difficult, Min: 10-15, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

***Solution 2-180**

Since this is the first year of operations and there were $280,000 of accounts receivable collected, one must compute total sales to determine the ending balance in accounts receivable. Cost of goods sold is $240,000 assuming the accounts payable are for inventory (the $315,000 constitutes only payments made for purchases). Since the markup is 30% on cost, the sales are $312,000 ($240,000 × 130%). Sales of $312,000 less collections of $280,000 results in an ending accounts receivable balance of $32,000 as calculated below.

Cash purchases	$315,000
A/P balance	60,000
Total purchases	375,000
Less: Ending inventory	135,000
Cost of goods sold	240,000
	× 130%
Sales	312,000
Less: collections	280,000
Ending A/R	$ 32,000

Intermediate Accounting 18th edition Kieso Test Bank

***Pr. 2-181**

The trial balance of Winsor Corporation is reproduced below. The following information below is relevant to the preparation of adjusting entries needed to both properly match revenues and expenses for the period and reflect the proper balances in the real and nominal accounts.

Instructions

As the accountant for Winsor Corporation, you are to prepare adjusting entries based on the following data, enter the adjustments on the worksheet, and complete the additional columns for the income statement and balance sheet. Carefully key your adjustments and label all items. (Due to time constraints, an adjusted trial balance is not required.) Round all computations to the nearest dollar.

(a) Winsor determined that one percent of sales will become uncollectible.

(b) Depreciation is computed using the straight-line method, with a ten-year life and $5,000 salvage value.

(c) Salesmen are paid commissions of 15% of sales. Commissions on sales for December have not been paid.

(d) The note was issued on October 1, bearing interest at 8%, due Feb. 1, 2026.

(e) A physical inventory of supplies indicated $440 of supplies currently in stock.

(f) Provisions of a lease contract specify payments must be made one month in advance, with monthly payments at $800/mo. This provision has been complied with as of Dec. 31, 2025.

Winsor Corporation
Work Sheet
For the Year Ended December 31, 2025

	Trial Balance		Adjustments		Income Statement		Balance Sheet	
Accounts	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	12,400							
Equity Invest.	14,050							
Accounts Rec.	30,000							
Allow. for D. A.		420						
Inventory	16,800							
Supplies	1,040							
Equipment	65,000							
Accum. Depr.-Equip.		9,500						
Accounts Payable		4,400						
Notes Payable		10,000						
Common Stock		40,000						
Ret. Earnings		29,690						
Sales Revenue		360,000						
Cost of Goods Sold	245,520							
Salaries and Wages Exp.	20,800							
Sales Comm. Exp.	39,000							
Rent Expense	7,200							
Misc. Expense	2,200							
Totals	454,010	454,010						

Ans: NA, LO: 8, Bloom: AP, Difficulty: Moderate, Min: 30-35, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

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***Solution 2-181**

Winsor Corporation
Work Sheet
For the Year Ended December 31, 2025

	Trial Balance		Adjustments		Income Statement		Balance Sheet	
Accounts	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	12,400						12,400	
Equity Invest.	14,050						14,050	
Accounts Rec.	30,000						30,000	
Allow. for D. A.		420		(a) 3,600				4,020
Inventory	16,800						16,800	
Supplies	1,040			(e) 600			440	
Equipment	65,000						65,000	
Accum. Depr.-Eq.		9,500		(b) 6,000				15,500
Accounts Payable		4,400						4,400
Notes Payable		10,000						10,000
Common Stock		40,000						40,000
Ret. Earnings		29,690						29,690
Sales Revenue		360,000				360,000		
Cost of Goods Sold	245,520				245,520			
Salaries and Wages Exp.	20,800				20,800			
Sales Comm. Exp.	39,000		(c) 15,000		54,000			
Rent Expense	7,200			(f) 800	6,400			
Misc. Expense	2,200				2,200			
Totals	454,010	454,010						
Bad Debt Exp.			(a) 3,600		3,600			
Depr. Exp.			(b) 6,000		6,000			
Sales Com. Pay.				(c) 15,000				15,000
Interest Expense			(d) 200		200			
Interest Payable				(d) 200				200
Supplies Expense			(e) 600		600			
Prepaid Rent			(f) 800				800	
Totals			26,200	26,200	339,320	360,000	139,490	118,810
Net Income					20,680			20,680
Totals					360,000	360,000	139,490	139,490

Adjusting entries and explanations

(a) Bad Debt Expense ($360,000 x 1%)	3,600	
Allowance for Doubtful Accounts		3,600
(b) Depreciation Expense	6,000	
Accumulated Depreciation—Equipment		6,000
($65,000 – $5,000 is $60,000. One-tenth of $60,000 is $6,000.)		
(c) Sales Commission Expense	15,000	
Sales Commission Payable		15,000
(15% of sales is 15% × $360,000, which is $54,000. The balance in the Sales Commission Expense account is $39,000 before adjustment, indicating that $15,000 of commissions are accrued but unpaid.)		

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***Solution 2-181** (Con't)

(d) Interest Expense	200	
Interest Payable		200
($10,000 × .08 × 3/12 = $200)		
(e) Supplies Expense	600	
Supplies		600
(The balance of $1,040 in the Supplies account before adjustment less the correct ending balance of $440 is $600.)		
(f) Prepaid Rent	800	
Rent Expense		800
(Since the trial balance contains no account for prepaid rent, the $800 lease payment has apparently been debited to Rent Expense. An account must be set up for the Prepaid Rent.)		

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IFRS QUESTIONS

True / False:

1. As rules for accounting for specific events sometimes differ across countries, the double-entry accounting system is difficult to implement as the basis of the worldwide accounting system.

Ans: F, LO: 9, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS

2. The IASB requires companies to adhere to the Sarbanes-Oxley (SOX) rules in order to compete with U.S. reporting.

Ans: F, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS

3. The way transactions are analyzed for GAAP and IFRS is the same.

Ans: T, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS

4. European companies that follow IFRS tend to focus more on fair value than their U.S. counterparts who favor historical cost.

Ans: T, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS

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Multiple Choice:

5. Monfreur Co. follows IFRS standards and is a non-U.S. company. Monfreur Co. likely has no requirement to
   a. use double-entry accounting.
   b. worry about fraud.
   c. have an independent auditor attest to the effectiveness of its internal controls.
   d. value its assets in using any particular methodology.

Ans: c, LO: 9, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS

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